

2015 REGISTRATION DOCUMENT

including
the Integrated
Report

the Annual Financial
Report

the Corporate
Governance and
Sustainability Report



Laser scanner

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SAFE HARBOR STATEMENT

IR Information from the Integrated Report is clearly identified in the table of contents by the IR symbol

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

2015

Registration Document

INCLUDING

- THE INTEGRATED REPORT
- THE ANNUAL FINANCIAL REPORT
- THE CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT 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 the reduction of CO₂ emissions and to the development of intuitive driving.

In 2015, the Group generated sales of 14.5 billion euros and invested over 10% of its original equipment sales in Research and Development.

82,800

employees

134

plants

35

development centers

17

research centers

30

countries



Laser scanner

Valeo's ultra-precise laser scanner technology detects moving and stationary obstacles in order to prevent collisions.



The French version of this Registration Document was filed with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 25, 2016, 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, 2014, and the Statutory Auditors' special report on related-party agreements in respect to 2014 included in the Registration Document filed with the AMF on March 27, 2015, under number D.15-0220.
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, 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.

Interview

Jacques Aschenbroich IR

Chief Executive Officer

Chairman and Chief Executive Officer since February 18, 2016



What were the highlights for Valeo in 2015?

J. A. First of all, I would like to thank the Valeo teams for their commitment and professionalism. Our excellent results in 2015 are due to the hard work carried out over the past few years to strengthen the diversification of our customer portfolio, our products' technological positioning and the geographic alignment of our businesses.

Original equipment sales accelerated throughout 2015 and outperformed the market in all world regions, despite market volatility in some of our geographies, once again demonstrating the solidity of our growth model. This growth resulted in a 22% increase in our operating margin⁽¹⁾ to 7.7% of sales, as well as a 30% increase in net income⁽²⁾ and a 73% increase in free cash flow.

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 406.

(2) Attributable to the Group.

“ Once again, our excellent results in 2015 demonstrate the solidity of our growth model. [...] Our order intake of 20.1 billion euros in 2015 confirms that we are on track to achieve our medium-term objectives, presented at our Investor Day in London in March 2015. ”

Thanks to our continued innovation push and the trust of our customers, we once again demonstrated our capacity to grow faster than the market, outperforming global automotive production by 6 percentage points.

Our order intake increased by 15% to a record high of 20.1 billion euros, reflecting the commercial success of our technologies for CO₂ emissions reduction and intuitive driving.

Based on these results, at the next Shareholders' Meeting, shareholders will be asked to vote on the payment of a dividend of 3 euros per share, an increase of 36% compared with the dividend paid in respect of 2014.

Lastly, 2015 was marked by the announcement of two strategic acquisitions by the Group. peiker will allow us to develop our technological expertise in connected cars, while the acquisition of Spheros will see us extend our thermal management activities to the dynamic and profitable bus market.

What are your expectations for 2016 and what is your medium-term outlook for the Group?

J. A. Based on the assumption that global automotive production grows by 2.5%, we expect another year of strong sales growth, with market-beating performances in the main production regions, including in China. In 2016, this growth should once again allow us to slightly improve our operating margin⁽¹⁾, despite an expected increase in net Research and Development expenditure which is required for the Group's future growth.

Our order intake of 20.1 billion euros in 2015 confirms that we are on track to achieve our medium-term objectives, presented at our Investor Day in London in March 2015.

March 24, 2016

⁽¹⁾ Including share in net earnings of equity-accounted companies, see Financial Glossary, page 406.

PRESENTATION OF VALEO AND ITS BUSINESSES

1

20.1

billion euros
Order intake



14%

Sales growth



1.3

billion euros
Gross Research
and Development
expenditure



7.7%

Operating
margin



1.1 THE VALEO INTEGRATED REPORT IR

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The Valeo Integrated Report

Valeo has voluntarily adopted integrated reporting to present its business model. From the vantage point of Group strategy, the report provides an overview of the mechanisms through which its financial and non-financial performance, governance and outlook within its eco-system contribute to short-, medium- and long-term value creation. It addresses all of the Group's different stakeholders, namely employees, the financial community, customers, suppliers, institutional and non-governmental organizations (NGOs), and other local players.

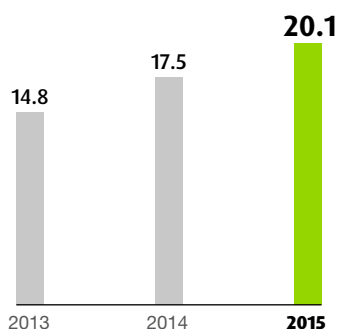
The Integrated Report is included in the Registration Document and is also available on the Valeo website.

1.1 The Valeo Integrated Report IR

1.1.1 Key figures in 2015

Order intake⁽¹⁾

In billions of euros



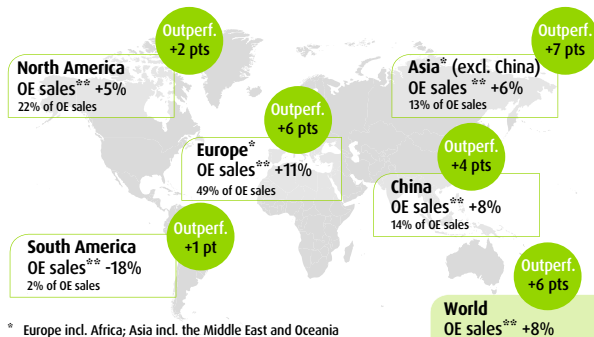
- › Order intake⁽¹⁾ is driven by:
- innovative products and systems⁽²⁾ (37% of order intake); and
 - accelerated expansion in high-growth potential countries (especially in Asia and emerging countries).

Geographic positioning

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

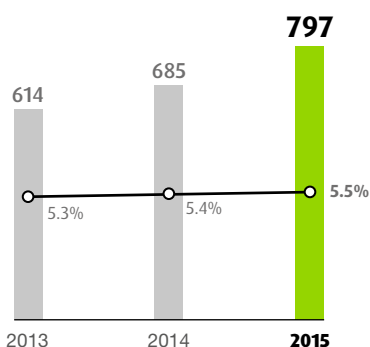
As a % of original equipment sales

Like for like (constant Group structure and exchange rates)



Net Research and Development expenditure

In millions of euros and as a % of sales

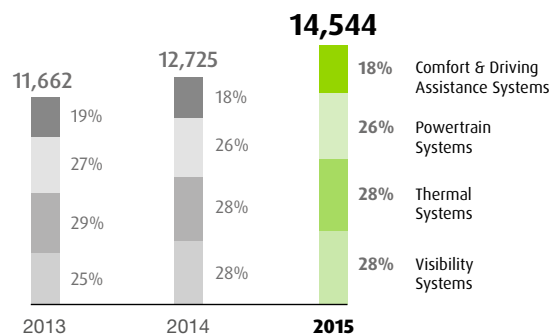


- › In 2015, gross Research and Development expenditure exceeded 1.3 billion euros, or more than 10% of original equipment sales.

Sales

Total sales and sales by Business Group

In millions of euros and as a % of sales



Sales by distribution network

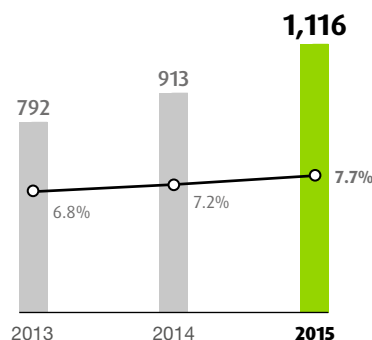
As a % of sales



Operating margin

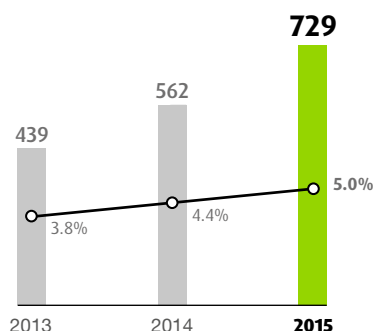
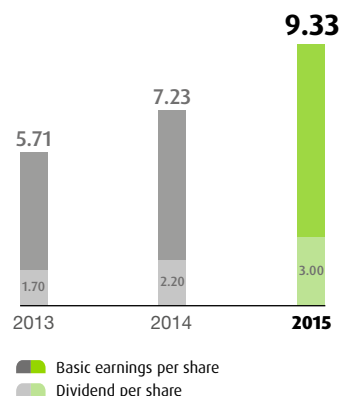
Including share in net earnings of equity-accounted companies⁽¹⁾

In millions of euros and as a % of sales

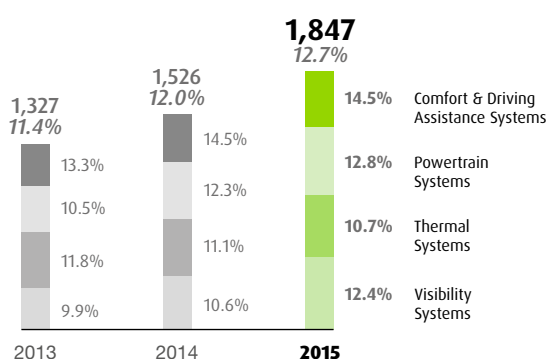
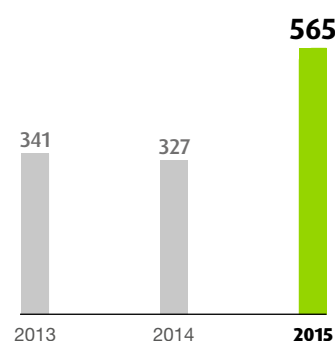
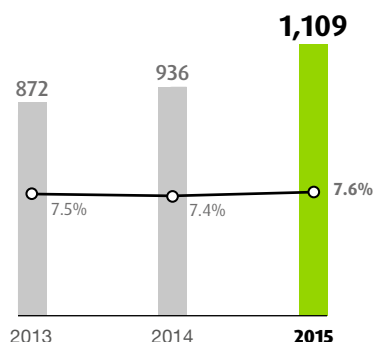
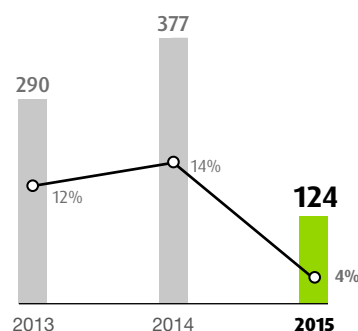


(1) See Financial Glossary, page 406.

(2) Products and technologies in series production for less than three years.

Net attributable income*In millions of euros and as a % of sales***Basic earnings per share and dividend per share***In euros*

- » A 2015 dividend of 3 euros, up 36% compared with 2014, will be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015. It represents a payout ratio of 32%.

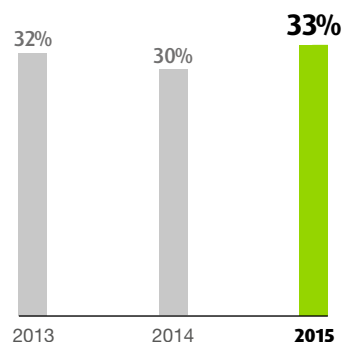
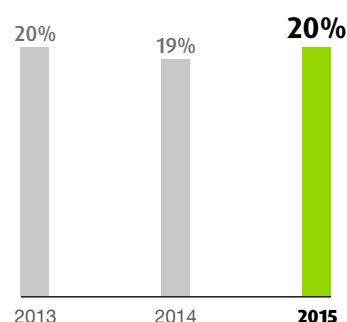
Cash flow and financial structure**Total EBITDA⁽¹⁾ and EBITDA by Business Group***In millions of euros and as a % of sales***Free cash flow⁽¹⁾***In millions of euros***Investment flows***In millions of euros and as a % of sales**Investments in property, plant and equipment and intangible assets⁽³⁾***Net debt⁽²⁾***In millions of euros and as a % of consolidated stockholders' equity, excluding non-controlling interests*

(1) See Financial Glossary, page 406.

(2) Application of the new definition of net debt, see Financial Glossary, page 406.

(3) Investments in intangible assets mainly comprise capitalized development costs.

Other profitability indicators

ROCE (Return on Capital Employed)⁽¹⁾⁽²⁾ROA (Return on Assets)⁽¹⁾⁽²⁾

Non-financial indicators

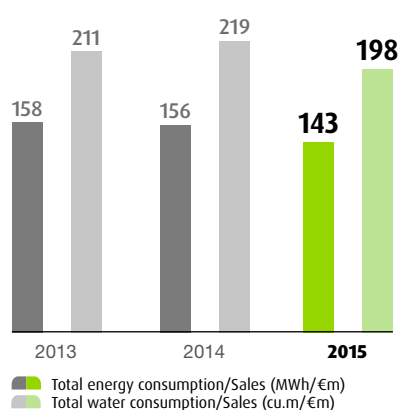
Corporate governance

- The Board of Directors met on **nine** occasions in 2015, i.e., three times as many meetings as the minimum stipulated in the internal procedures, with a **93%** average effective attendance rate.
- The directors held their annual **strategy seminar** at two industrial sites in France.
- 83% of the Board's 12 directors are independent.
- **33%** of members of the Board of Directors are women. If the Shareholders' Meeting approves the appointment of two new female directors, this percentage will increase to 43%.

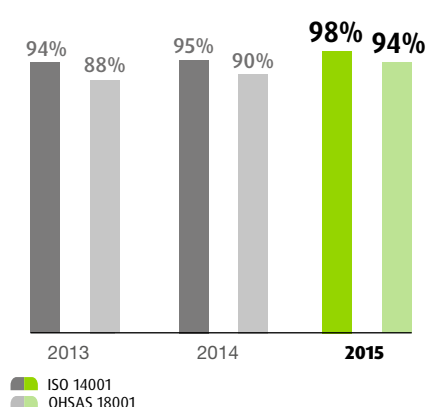
Breakdown of total headcount by geographic area



Energy and water consumption



Percentage of plants certified ISO 14001 and OHSAS 18001



(1) See Financial Glossary, page 406.

(2) Application of the new definition of net debt, see Financial Glossary, page 406.

1.1.2 Valeo model

Valeo is an automotive supplier, partner to all automakers worldwide. As a leader of its sector in a growing global auto market, Valeo's strategy focuses on two key areas (i) innovative technologies related to CO₂ emissions reduction and intuitive driving, and (ii) expansion in high-growth potential countries (especially in Asia and emerging countries).

Value creation

Our strengths



Customers

- Balanced customer portfolio and geographic alignment
- Global aftermarket presence
- Partner to all automakers



Employees

- 82,800 people in 30 countries⁽¹⁾
- 1,484,824 training hours



Product development

- 11,620 engineers⁽¹⁾
- 1.3 billion gross R&D expenditure⁽²⁾
- Eco-design



Quality performance

- Customer return rate of 4.2 parts per million products delivered
- Total Quality mindset



Global production system

- 134 plants⁽¹⁾ in 29 countries
- Standardized industrial and logistics methodology and tools



Supplier base

- 95% of Valeo's direct purchases are handled by 1,186 suppliers⁽¹⁾
- Supplier integration process
- Valeo Business Partners Code of Conduct⁽³⁾



Environment

- 98% of sites certified ISO 14001⁽¹⁾



Investment policy

- Adapted to a rapidly expanding business
- CAPEX⁽⁴⁾ representing 5.2% of sales⁽²⁾



Solid financial position

- Rated "Investment Grade" by Moody's and Standard & Poor's
- Gearing at 4%⁽¹⁾



Market trends

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

Creation of sustainable value 2015

CUSTOMERS



Automakers

- Order intake up 15% to 20.1 billion euros⁽²⁾
- 2,500 customer projects managed

SUSTAINABLE DEVELOPMENT STAKEHOLDERS



Employees

- Well-Being at Work program
- Top employer in 22 countries



Innovation

- Innovative products⁽⁵⁾ account for 37% of all order intake
- 1,406 patents filed
- Top 100 Global Innovator (Reuters)



Commitment to corporate citizenship

- Plants' initiatives



Environmental eco-efficiency

- 46% reduction in direct energy consumption/Sales (MWh/€m) over 7 years⁽⁶⁾
- 28% reduction in water consumption/Sales (cu.m/€m) over 7 years⁽⁶⁾

FINANCIAL COMMUNITY



Financial performance

- Operating margin up 7.7%⁽²⁾
- Net debt at 0.1 times EBITDA⁽¹⁾
- Free cash flow/EBITDA ratio of 31%⁽²⁾



Shareholders

- ROCE OF 33%⁽¹⁾
- Dividend payout ratio of 32%⁽⁷⁾
- 5-year total shareholder return (TSR) of 28.4%⁽⁸⁾

(1) At December 31, 2015.

(2) In 2015.

(3) Raising supplier awareness of compliance and ethics issues.

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

(5) Products and technologies in series production for less than three years.

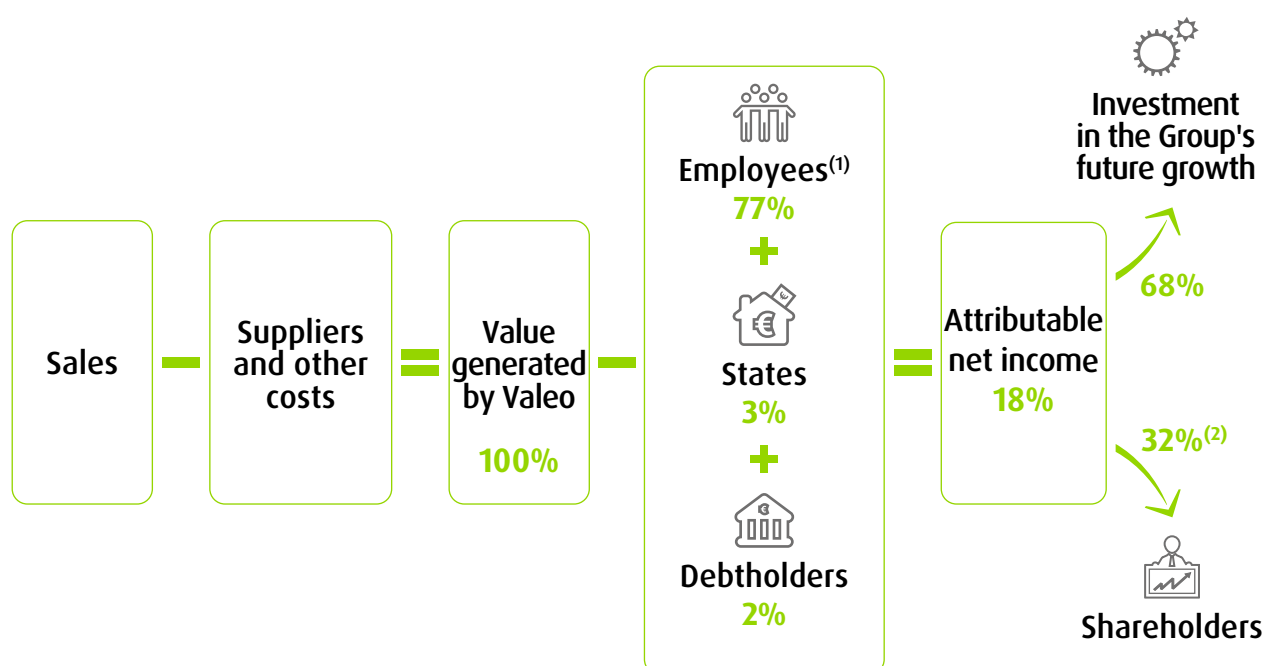
(6) 2008-2015.

(7) At the 2016 Annual Shareholders' Meeting, Valeo will recommend paying a dividend of 3 euros per share, up 36% on 2014, representing a payout ratio of 32%.

(8) 2011-2015.

Breakdown of value

The following flow chart breaks down the value generated by the Group for its stakeholders in 2015.



(1) Including personnel expenses and employee benefits.

(2) Payout ratio to be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015.

1.1.3 Market trends

The automotive market is growing. Automotive production rose 2% year on year, buoyed by the upturn in the European market (up 5%) and continued expansion in North America (up 3%) and Asia (up 1%), supported by strong momentum in China (up 4%).

Major technological and regional developments are taking place within the global automotive industry, confirming the validity of Valeo's strategic focuses.

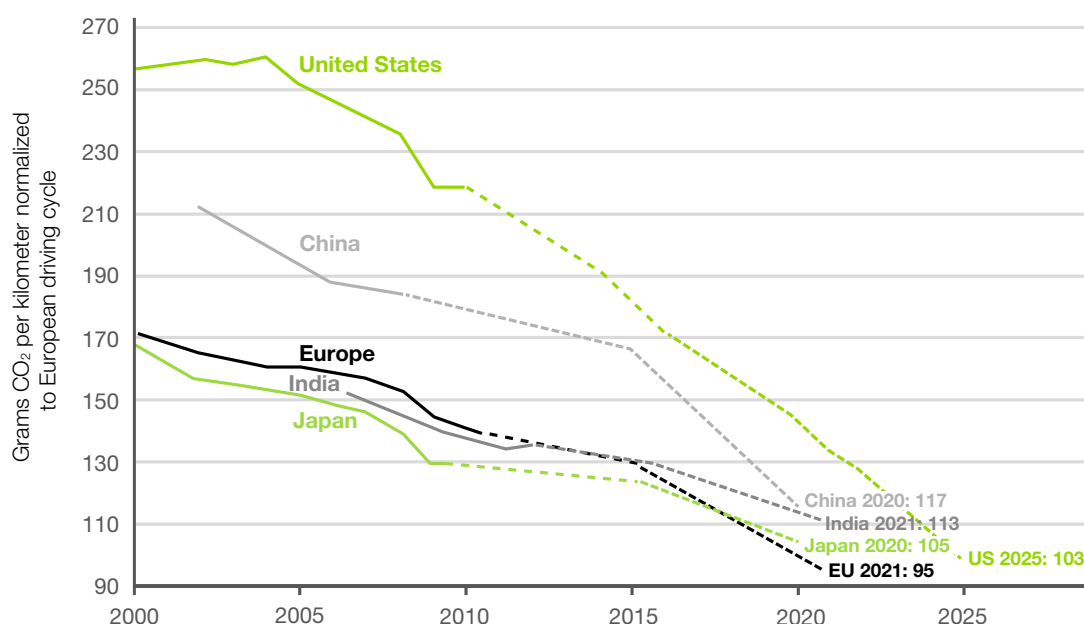
CO₂ emissions reduction and intuitive driving

Technological progress in CO₂ emissions reduction is one of the main drivers of growth on the automotive market, and meets the needs expressed by consumers.

Politically and socially speaking, the issues differ significantly depending on the region (awareness of global warming, the need to reduce fuel consumption, and the move towards energy independence), yet the impact on public policies remains the same, namely that the transportation industry, which represents a quarter of all global CO₂ emissions, must find solutions to reduce consumption of oil-based products. As a result, ever more stringent and converging regulations have been implemented all over the globe, including in Japan and Europe, the United States, China and India. Technological 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



Above the fact that cutting CO₂ emissions is a regulatory constraint, reducing fuel consumption is a decisive factor for consumers, who are also looking for greater reliability, technology that offers improved visibility and a wide selection of standard features. Each year, Valeo conducts consumer surveys in order to develop an in-depth understanding of its key markets, including Europe, North America and Asia (China in particular). These analyses enable Valeo to remain one step ahead of demand in these markets and adapt to local preferences.

In 2015, for example, Valeo conducted a consumer survey in partnership with a European automaker with the aim of gaining a greater understanding of country-specific preferences in terms of automotive equipment. As part of the survey, a representative sample of 1,560 consumers in France and 1,770 consumers in Germany were asked about their expectations concerning automotive innovation.

The findings showed that German consumers are more attracted to technology than their French counterparts. German consumers were also found to be more attached to their vehicles than French drivers and reported to spend around 30% more on optional features. In both countries, respondents placed the greatest importance on features designed to improve fuel consumption, visibility, safety and comfort. Of the two nationalities, Germans were prepared

to spend considerably more on features offering improved visibility and assisted parking. They also showed a particular interest in optional features that improve comfort in winter. On the other hand, French respondents were found to appreciate optional features that improve cabin air quality. Buyers of premium-brand vehicles in both France and Germany placed a priority on performance, style, brand image, technology and connected services.

Geographical expansion in high-growth potential countries, especially in Asia and emerging countries.

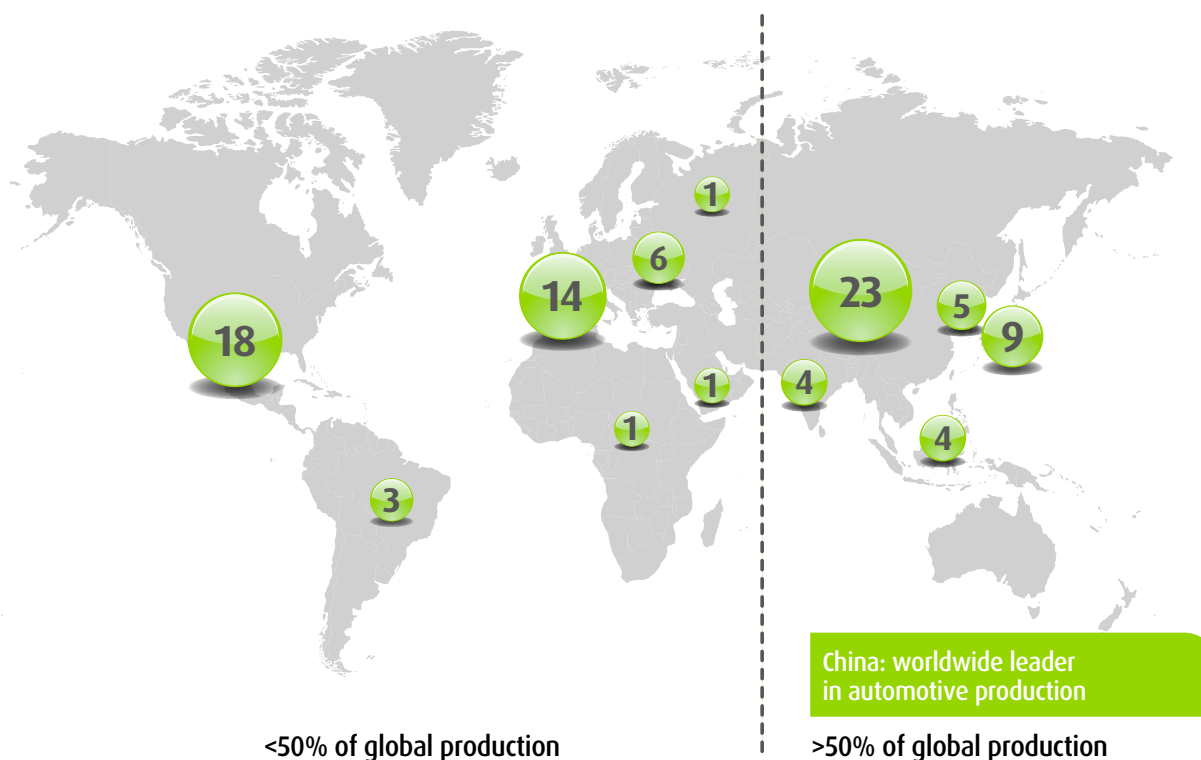
The second underlying market trend is the shift in global automotive production from the western world to Asia, which has represented over 50%⁽¹⁾ of vehicle production since 2012. With 23 million vehicles⁽¹⁾ produced in 2015, representing 27% of global automotive production, China is the world's biggest producer of automobiles.

South-East Asia and India confirmed their strong medium-term growth potential and, in light of the economic growth outlook and low levels of car ownership in these regions, this trend is set to continue over the coming years.

(1) Source: LMC.

Regional breakdown of automotive production in 2015

World automotive production, in millions of vehicles⁽¹⁾



Total quality, innovation and presence across all continents

Above and beyond these shifts in the market, the fundamentals of the automotive industry remain focused on quality, service, innovation, and the organization of the automotive industry into global platforms. With this in mind, automotive suppliers are developing the necessary means to:

- provide total quality for products and services in order to support automakers in the development of new technologies and applications;
- strengthen Research and Development resources across all continents in order to help automakers develop technical solutions that meet the specific needs of local consumers;
- drive new ideas in the area of Research and Development. Automotive suppliers have been responsible for the development of new technologies for many years now, and according to the European Association of Automotive Suppliers (CLEPA), they deliver 75% of a vehicle's value-added. Many marketing drives for vehicles focus on technologies developed by automotive suppliers, such as Stop-Start systems, smart lighting and automatic parking;
- build a worldwide industrial footprint that enables the same products to be delivered to identical standards of quality and reliability across the world.

(1) Source: LMC.

1.1.4 A growth strategy focused on innovative technologies and geographical expansion in high-growth potential regions —

1

Two strategic focuses

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

- its market leading position and sustained Research and Development efforts focused on CO₂ emissions reduction and intuitive driving; and
- strengthening its presence in high-growth potential countries, especially in Asia and emerging countries.

CO₂ emissions reduction and intuitive driving

The purpose of most technological developments is to:

- reduce fuel consumption by increasing the efficiency of internal combustion engines, electrifying powertrains, making a vehicle's different functions more energy efficient and reducing component weight;
- develop intuitive driving (particularly in autonomous vehicles).

Accordingly, in the area of CO₂ emissions reduction:

- 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 is also working on mild-hybrid technology (48 V), for which orders have already been placed by Asian and European automakers;
- 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 begin production in 2016;

- Valeo offers solutions that help optimize vehicle thermal management systems by increasing the efficiency of internal combustion engines while reducing the energy needed to ensure passenger comfort as well as diminishing harmful engine emissions. The air intake module makes it possible, for example, to produce turbocharged engines that are more compact and less polluting;
- Valeo produces 100% LED headlamps, 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.

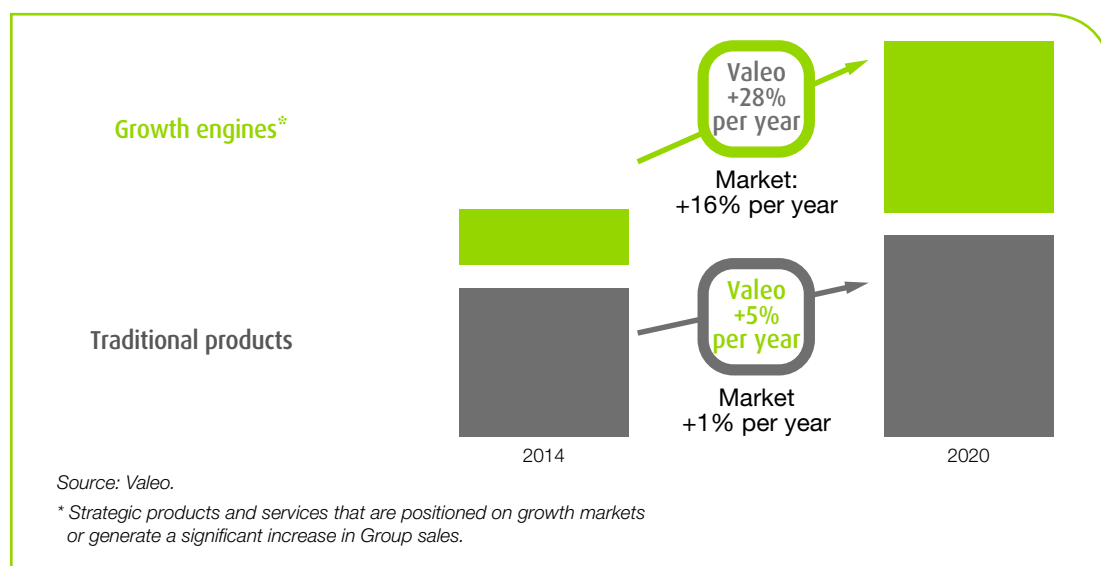
And in the area of developing intuitive driving:

- Valeo's driving assistance systems offer drivers a range of smart technologies that make it possible to improve vehicle safety and comfort. These include detection of obstacles and other vehicles, fully automated parking, systems that provide an aerial view around the vehicle, a camera system that replaces conventional rearview mirrors and smart, anti-glare glasses.
- The ever increasing complexity of vehicles has also spurred a need to provide end users with more intuitive human-machine interfaces and enhance interaction between the vehicle, the driver and the surrounding environment. With the advent of the autonomous vehicle, new interfaces are also needed to facilitate the transitions between automatic and manual driving modes. By way of illustration, the Group has offered motorists the opportunity to experience highly automated driving in real traffic conditions on board a Cruise4U® demonstration vehicle.

Valeo's main technological developments are described in Chapter 4, section 4.2.2 "Solutions that contribute to CO₂ emissions reduction and to autonomous and intuitive driving", on pages 154 to 156.

Valeo's growth is driven above all by innovative, very high-growth products⁽¹⁾ (growth of approximately 28% per year between 2014 and 2020).

(1) Growth engines are strategic products and services that are positioned on growth markets or generate a significant increase in our sales.



Geographic positioning in high-growth potential 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 potential regions – particularly in China, the world's largest market – while continuing to grow in mature regions such as 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. Since 2014, China has been the Group's largest country by headcount⁽¹⁾.

In 2015, Europe accounted for 49% of original equipment sales, with Asia accounting for 27% and China accounting for 14%. By 2020, Asia should account for more than a third of Valeo's original equipment sales, with China accounting for over 20% and Europe accounting for around 40%.

Strategic plan

Driven by strong growth in order intake⁽²⁾ following the success of its innovations (more than one-third of the order intake⁽²⁾ over the past few years is for innovative technologies⁽³⁾), the Group is aiming to accelerate organic growth, improve profitability and increase free cash flow⁽²⁾.

Accelerating organic growth

Leveraging the high level of its order intake⁽²⁾ over the past few years, Valeo confirms its objective to achieve average annual organic growth 5 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⁽⁴⁾ in 2017 and would exceed 20 billion euros⁽⁴⁾ by 2020.

Improving operating margin

The Group intends to leverage the growth in sales to improve its operating margin⁽²⁾ and profitability. Accordingly, Valeo has set a target for operating margin⁽²⁾ of between 8% and 9% for 2020. Operating margin⁽²⁾ for 2017 is expected to be in the region of 8%.

Increasing free cash flow

After five years of strong growth in production capacity, particularly in Asia and emerging countries, Valeo is aiming to increase its free cash flow and thereby improve its free cash flow⁽²⁾/EBITDA⁽²⁾ ratio to around 28% in 2017 and to more than 30% by 2020.

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

(2) See Financial Glossary, page 406.

(3) Products and technologies in series production for less than three years.

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

2015 results – medium-term plan ahead of schedule

Despite market volatility in some of its geographies, in 2015 Valeo demonstrated that it is capable of growing faster than the market, and its profitability and free cash flow put it ahead of the schedule set out in the medium-term plan presented at the Investor Day on March 16, 2015 (see Chapter 5, section 5.1 “Analysis of 2015 consolidated results”, pages 252 to 262).

Growth

Valeo's sales growth was more than 6 percentage points higher than the market, 1 point above the average medium-term objective set for the period 2015-2020.

In 2015, order intake⁽¹⁾ once again reached a record level, at 20.1 billion euros, up 15% on 2014 as reported and up 11% on a like-for-like basis (constant Group structure and

exchange rates). This performance confirms the Group's potential to achieve the average organic growth target of 8% over the period 2015-2020, as set out in the medium-term plan.

Profitability

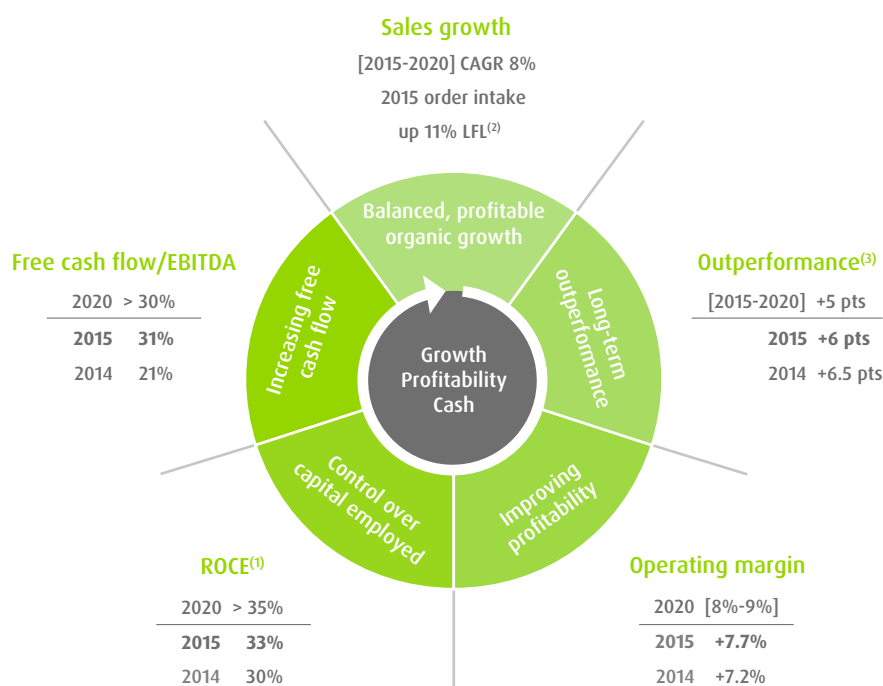
Valeo's operating margin⁽¹⁾ came in at 7.7% in 2015, confirming that the Group is on course to meet its objective of operating margin⁽¹⁾ between 8% and 9% by 2020.

Return on capital employed

Valeo achieved a return on capital employed⁽¹⁾ of 33% in 2015, in line with its medium-term objective of ROCE⁽¹⁾ above 35% by 2020.

Free cash flow

Valeo's free cash flow to EBITDA⁽¹⁾ ratio came in at 31% in 2015, above its medium-term objective of more than 30% by 2020.



(1) See Financial Glossary, page 406.

(2) Constant Group structure and exchange rates.

(3) Of original equipment sales compared to the market.

The Group's objectives for 2016 are set out in Chapter 5, section 5.3 “Trends and outlook”, page 263.

(1) See Financial Glossary, page 406.

1.1.5 Valeo's strengths and resources that support sustainable growth

Operational excellence in support of strategy

Valeo's corporate culture is built on excellence in operations, 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 maintain its competitive edge over other automotive suppliers and become automakers' preferred partner, Valeo must continue to offer innovative technology and ensure total customer satisfaction in terms of quality, costs and delivery. To this end, Valeo has developed the 5 Axes methodology, which is strictly applied by all sites.

The 5 Axes

The 5 Axes system is designed to ensure total customer satisfaction with the aim of achieving sustainable, profitable growth. The 5 Axes cover all working processes that have a direct impact on customer satisfaction.

A roadmap is drawn up for each process, to be followed by the employees and entities concerned with its implementation and is based on the Group's commitment to operational excellence and continuous improvement. Regular audits are carried out to ensure that the roadmaps are being correctly applied while indicators measure the achievement of objectives associated with each process.

- **Involvement of Personnel:** Operational excellence cannot be achieved without the ongoing commitment of all of the Group's employees. Valeo therefore implements processes aimed at creating a safe working environment that fosters employee well-being, and at enabling each employee to understand their role in the Company's development, feel recognized, enjoy working with their colleagues, believe in what they do and be proud of the company they work for.
- **Product Development:** In order to satisfy its customers, Valeo must demonstrate its capacity to constantly offer innovative yet affordable technologies and launch new products with flawless quality, delivery and cost. This requires forming (i) highly qualified Research and Development teams within an optimal organizational structure that combines professional skills and product expertise with first-rate methodology aimed at ensuring product robustness and competitiveness, and (ii) project teams with the best-in-class project management tools at their disposal.

- **Total Quality:** Customer satisfaction also requires providing products and services of uncompromising quality. This requires (i) a thorough understanding of the customer's strategy as well as their expectations in general and for each specific product and service, and (ii) the application of the Group's best-in-class quality methodology and adaptation to the customer's culture.
- **Valeo Production System (VPS):** The Valeo Production System is a set of methods and tools designed to support the Group's industrial strategy. They include controlling growth, improving performance and implementing state-of-the-art production processes, all within a working environment that promotes quality, performance and employee motivation.
- **Supplier Integration:** In order to deliver the highest quality products and services while remaining competitive, Valeo has set up a supplier base integrating the most innovative and efficient suppliers. The strict application of methods and processes is required to ensure that the supplier base complies with the highest standards, to integrate suppliers in the development of new products and to monitor their performance in terms of cost, quality, delivery and risk management.



Balanced customer portfolio

In original equipment, Valeo is a partner to the world's leading automakers. The Group's customer portfolio was balanced in 2015 with German automakers representing 30% of original equipment sales, Asian automakers 26%, US automakers 24% and French automakers 15%. Valeo's order intake was up 15% year on year to 20.1 billion euros in 2015, reflecting the commercial success of its innovations and technologies for CO₂ emissions and intuitive driving. In 2015, Valeo's Research and Development teams managed nearly 2,500 customer projects – a direct result of the Group's extensive presence in all automotive markets worldwide.

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.

Employees – “Involvement of Personnel”

At the end of 2015, Valeo had 82,800 employees in 30 countries, compared with 54,000 employees at the end of 2010. The Human Resources Department prepares and accompanies the Group's growth, through a dynamic hiring policy – especially in high-growth potential 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 the countries where it operates. 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 47,000 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 (1,484,824 hours' training given in 2015). This policy is based on the Group's values and promotes well-being at work as well as work-life balance among its employees.

Thanks to its commitment to this approach, Valeo was certified as a 2015 Top Employer in 22 countries (compared with 18 countries in 2014), recognizing the excellence of its services in support of employees, particularly through talent and career management. Valeo's labor-related performance is set out in Chapter 4, section 4.4 “Valeo and its employees”, page 189 to 219.

A sustained innovation effort – “Product development”

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 – one that is ever more intuitive, autonomous, connected and environmentally friendly. In 2015, gross Research and Development expenditure exceeded 1.3 billion euros, up 16% compared with 2014.

Aside from research centers – most of which are located in France, Germany, Ireland and Japan – and development centers, 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 2015, this was recognized with a place in the Thomson Reuters list of Top 100 Global Innovators. Innovative products⁽¹⁾ accounted for 37% of all order intake in 2015.

In a spirit of open innovation, Valeo forms partnerships and strengthens its ties with communities of innovative entrepreneurs and start-ups with a view to acquiring technological building blocks. In 2015, for example, Valeo acquired a stake in Cathay Capital, a cross-border investment vehicle active across France, China and the United States and dedicated to venture capital financing for innovative start-ups.

Valeo protects its innovations with an active patent filing policy: 1,406 patents were filed in 2015, a 27% increase on 2014.

Valeo's Research and Development process is detailed in Chapter 4, section 4.2 “Research and Development at Valeo: from megatrends to innovation”, page 150 to 164.

A demanding quality approach – “Total Quality”

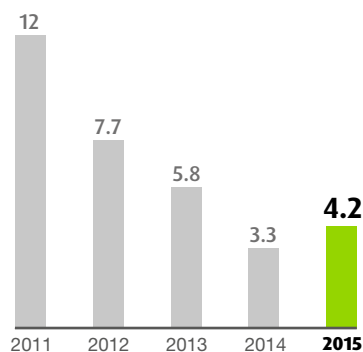
At Valeo, Total Quality is a state of mind. In order to meet customer expectations, total quality is required throughout the Group and from its suppliers (see Chapter 1, section 1.2.3 “Quality”, pages 30 to 31 and Chapter 4, section 4.5.1 “Total quality and product safety”, pages 220 to 221).

(1) Products and technologies in series production for less than three years.

At end-December 2015, the Group recorded a level of customer returns of less than 4.2 parts per million products delivered.

Customer returns per million products delivered

3-month average



A global footprint – “Valeo Production System”

In 2015, Valeo had 134 plants in 29 countries.

Based on standardized industrial and logistics methodology and tools, the Valeo Production System is acknowledged throughout the industry for its efficiency in quality and cost management.

In order to satisfy customer expectations in terms of quality and productivity, 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.

The Group's Industrial function is described in Chapter 1, section 1.2.3 “Industrial and Logistics”, page 30.

A base of integrated suppliers – “Supplier Integration”

Valeo's business is based on a value creation model with a high capital turnover, made possible thanks to the close integration of suppliers into the value chain and the constant trade-off between in-house production and the purchasing of submodules. Key factors in the make-or-buy decision include the strategic importance of the component and the return on capital employed.

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 through the Valeo Business Partners Code of Conduct. The process for integrating suppliers is presented in Chapter 4, section 4.5.3 “Application of sustainable development principles in purchasing processes”, page 223 to 227.

In 2015, manufacturing procurement represented 59% of the Group's sales. 95% percent of Valeo's direct purchases are handled by 1,186 suppliers.

A sustainable and strategic commitment to the environment

For more than ten years now, Valeo has set out its environmental commitments in its Environmental Charter, which covers every stage of a plant's life cycle. In order to ensure a high level of environmental safety and prevent pollution, Valeo has created operational directives based on the most stringent global standards. 98% percent of its plants were certified ISO 14001 at December 31, 2015.

Since 2008, Valeo has led three 3-year plans designed to improve environmental performance in terms of water, energy, VOC and CO₂ emissions, waste, and packaging. As a result, the Group has made significant reductions, particularly in terms of water and energy consumption, which are down by 46% and 28% respectively as a proportion of sales since 2008.

Further details of Valeo's environmental performance can be found in Chapter 4, section 4.3 “Environmental management and performance of Valeo's sites”, page 165 to 188.

Investments to support organic growth

Valeo's investment policy has been adapted in response to the Group's strong growth. In 2015, investment expenditure (excluding capitalized Research and Development expenditure), came to 761 million euros, representing 5.2% of sales.

Manufacturing investments were primarily directed towards high-growth potential countries.

In parallel, Valeo continues to strengthen its existing plants.

Valeo has sufficient cash flow to finance its investments. The Group generated 565 million euros in cash flow (after investments in property, plant and equipment and intangible assets) in 2015.

Improved profitability and a solid financial position

The Group improved its profitability in 2015 to achieve an operating margin of 7.7% and a ROCE of 33%. The consolidated financial statements are presented in Chapter 5, section 5.4, pages 264 to 337.

Thanks to an increase in its free cash flow⁽¹⁾/EBITDA⁽¹⁾ ratio from 21% in 2014 to 31% in 2015, Valeo's net debt⁽¹⁾ fell to 124 million euros, representing less than 0.1 times EBITDA⁽¹⁾ and 4% of stockholders' equity (gearing ratio). Accordingly, Valeo is rated “investment grade” by ratings agencies Moody's and

(1) See Financial Glossary, page 406.

Standard & Poor's. Its strong balance sheet allows the Group to finance organic growth, seize external growth opportunities in its strategic areas, and pay dividends.

Valeo's investments and financial position are discussed in Chapter 5, section 5.1.4 "Cash flow and financial position", pages 259 to 262.

The overall total shareholder return (TSR), which measures share profitability over the period from 2011 to 2015 and includes dividends received and capital gains made in said period, came in at 284%. Share capital and ownership structure are discussed in further detail in Chapter 6, "Share capital and ownership structure", pages 367 to 388.

Dividend

At the 2016 Annual Shareholders' Meeting, Valeo will recommend paying a dividend of 3 euros per share, up 36% on the dividend paid in 2015, representing a payout ratio of 32%.

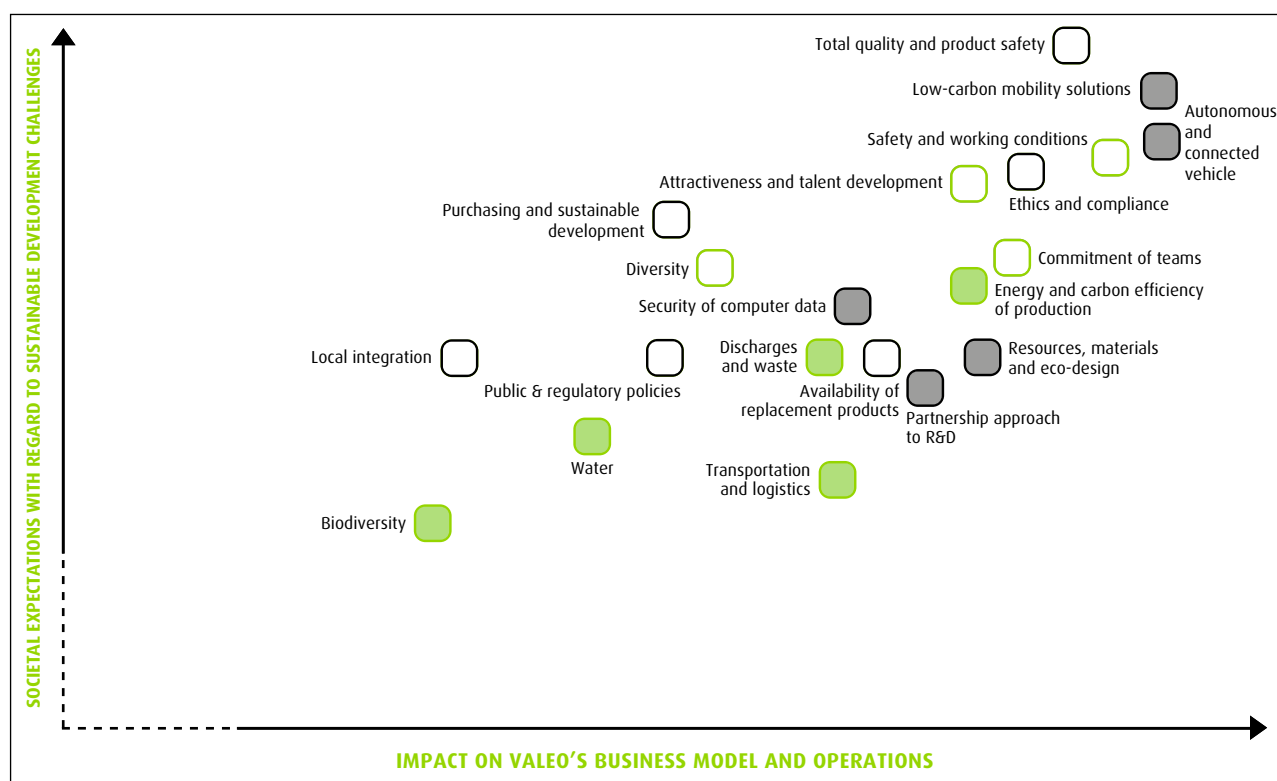
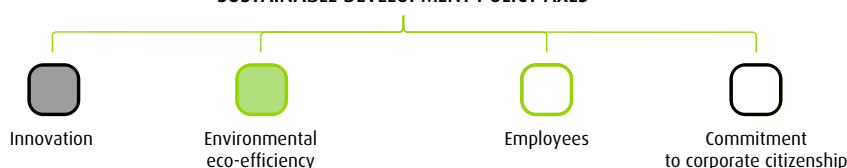
1.1.6 Sustainable development challenges for the Group and its stakeholders

In 2015, Valeo rolled out a materiality matrix with the aim of improving the quality and relevance of the process by which its strategic, operational and sustainable development objectives are measured. The matrix presents the main sustainable development challenges for the Group in view of its business model and its stakeholders' expectations (employees,

automaker customers, research partners, suppliers, financial community, etc.). The Group closely monitors these challenges on a permanent basis using action plans and key indicators, which are set out in Chapter 4 on Sustainable Development, pages 141 to 250.

MATERIALITY MATRIX PLOTTING VALEO'S SUSTAINABLE DEVELOPMENT CHALLENGES

SUSTAINABLE DEVELOPMENT POLICY AXES



1.1.7 Strong governance

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 (subsequently the Chairman and Chief Executive Officer), as well as the Operations Committee, comprising 14 Functional and Operational Directors. Valeo's governance structure (described in Chapter 3, "Corporate Governance", pages 75 to 139) 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 sustainable growth.

The Board of Directors in support of the Group's strategy

Operation of the Board of Directors

The principal role of the Board of Directors is to determine Valeo's business strategies and ensure that they are implemented effectively. The Board of Directors has set up three committees – the Audit & Risks Committee, the Appointment, Compensation & Governance Committee and the Strategy Committee – in order to enhance its operating procedures and provide assistance with preparing its decisions by issuing recommendations and opinions. It also organizes an annual strategy seminar for Board members.

The Board of Directors' 12 members have different backgrounds and enable the Group to benefit from their experience and skills in a variety of fields relating to economics, manufacturing and finance. Currently, 33% of the Board's members are women. This will rise to 40% if the next Shareholders' Meeting approves the appointment of two new women directors, as proposed by the Board of Directors at its meeting on November 11, 2015. Seventy-five percent of the Board's members are under 70

and 83% are considered independent according to both the criteria set out in the internal procedures and the AFEP-MEDEF Code to which Valeo refers.

An internal assessment of the Board of Directors' operation was conducted at end-2015. It highlighted the directors' highly positive view of the Company's governance as well as the continuous improvement of the Board's work and that of its Committees after applying the recommendations issued during the last external assessment, and the quality of the annual strategy seminar.

Pascal Colombani, Chairman of the Board of Directors, has reached the age limit set out in the articles of association of Valeo and has indicated to the Board of Directors that it would be the appropriate time for him to step down from his position, in view of a change of governance. At a meeting held on February 18, 2016, the Board of Directors unanimously decided to elect Jacques Aschenbroich, Chief Executive Officer, as Chairman of the Board of Directors. Jacques Aschenbroich thus becomes Chairman of the Board of Directors and Chief Executive Officer and Pascal Colombani remains a director of Valeo.

The Board of Directors unanimously decided to appoint Georges Pauget as Lead Director with the broadest powers to carry out his duties. Georges Pauget is an independent director, the Chairman of the Appointment, Compensation & Governance Committee and a member of the Strategy Committee.

Lastly, Pascal Colombani, who has been appointed as Honorary Chairman of Valeo, will assist the Chairman of the Board of Directors and Chief Executive Officer and the Lead Director until May 26, 2016, the date of the next general shareholders meeting, to manage the governance transition and to prepare for this meeting.

Summary of the composition of the Board of Directors at March 24, 2016

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	Rate of attendance at Board Meetings (Director present)	Page
Pascal Colombani	70	No	2				2007	2019	9	100%	84
Jacques Aschenbroich	61	No	1				2009	2019	7	100%	85
G�rard Blanc	73	Yes	1			●	2007	2017	9	100%	86
Daniel Camus	63	Yes	2	(Chair) ●			2006	2018	10	100%	87
J�r�me Contamine	58	Yes	0			(Chair) ●	2006	2018	10	78%	88
C. Maury Devine ⁽¹⁾	65	Yes	3		●		2015	2017	1	80%	89
Sophie Dutordoir	53	Yes	1		●		2013	2017	3	89%	90
Michel de Fabiani	70	Yes ⁽²⁾	1	●	●		2009	2019	7	100%	91
No�lle Lenoir	67	Yes	1	●			2010	2018	6	89%	93
Thierry Moulonguet	65	Yes	1	●		●	2011	2016	5	89%	94
Georges Pauget	68	Yes	3		(Chair) ●	●	2007	2016	9	100%	95
Ulrike Steinhorst	64	Yes	1		●	●	2011	2016	5	89%	96
Number of meetings				5	6	3				9	99
Average attendance rate				100%	96%	100%				93%	99

(1) Since she was appointed on April 23, 2015.

(2) At the Board of Directors' meeting of November 11, 2015, Michel de Fabiani was considered independent.

For further information, see Chapter 3, section 3.2 "Composition of the Board of Directors, and preparation and organization of its work", pages 80 to 117.

The three Committees created by the Board

Audit & Risks Committee	Appointment, Compensation & Governance Committee	Strategy Committee
4 independent members out of 4 ⁽¹⁾	5 independent members out of 5 ⁽¹⁾	5 independent members out of 5
5 meetings	6 meetings	3 meetings
100% attendance rate	96% attendance rate	100% attendance rate
Review the parent company and consolidated financial statements, quarterly and half-yearly information, and half-year reports	Study and make recommendations concerning the compensation paid to executive corporate officers, the aggregate amount of attendance fees and their allocation as well as the allocation of stock options, free shares and performance shares	Issue opinions and recommendations on the Group's key strategies, market trend information, research developments, competition benchmarking and the resulting medium- and long-term outlook for the business
- Regularly review the risk mapping of the Group's main risks - Monitor the Group's risk management and compliance system along with its internal control system to ensure their effectiveness	- Prepare the composition of the governing bodies, by making recommendations regarding the appointment of executive corporate officers, directors and Committee members - Draw up a succession plan for corporate officers in order to propose solutions in the event of an unforeseen vacancy	Issue opinions and recommendations on the analysis of the Group's development projects, particularly external growth transactions, equity investments and other assets, and any investments or borrowings in excess of 50 million euros per transaction
- Guarantee the independence of the Statutory Auditors - Supervise the procedure for selecting or renewing statutory audit engagements	- Examine the independence of each director - Select new directors for appointment	
- Remain informed of the Group's financial position and of the main thrusts of the Group's financial strategy - Review external communications prior to their publication	- Assess and update corporate governance rules - Review the CSR and safety policies	
Pages 102 to 105	Pages 105 to 107	Pages 107 to 108

(1) At the Board of Directors' meeting of November 11, 2015, Michel de Fabiani was considered independent.

The Operations Committee implements the Group's strategy

Role of the Operations Committee

Under the authority of the Chief Executive Officer (subsequently the Chairman and Chief Executive Officer), Valeo's Operations Committee meets once a month and comprises 15 members. Its role is to review operational management, coordinate projects and implement the Group's strategy. The Committee is responsible for ensuring that the Group meets its objectives and adheres to the continuous improvement process through the 5 Axes methodology.

The Operations Committee (described in Chapter 3, section 3.1 "Corporate governance bodies", pages 78 to 79) reflects the Group's organizational structure:

- based on the four Business Groups, the Valeo Service Activity (see Chapter 1, section 1.3 "Businesses", pages 36 to 58), and the National Directorates;
- supported by the functional networks (see Chapter 1, section 1.2.3 "Presentation of the functional networks", pages 28 to 35).

Composition of the Operations Committee at March 24, 2016

Name	Position	Position held since
Jacques Aschenbroich	Chairman and Chief Executive Officer	2009
Geoffrey Bouquot	Vice-President, Corporate Strategy and External Relations	2016
Fabienne de Brébisson	Vice-President, Communications	2011
Robert Charvier	Chief Financial Officer	2010
Catherine Delhaye	Chief Ethics and Compliance Officer	2012
Antoine Doutriaux	President, Thermal Systems Business Group	2014
Xavier Dupont	President, Powertrain Systems Business Group	2015
Eric Antoine Fredette	General Counsel	2015
Bruno Guillemet	Senior Vice-President, Human Resources	2015
Maurizio Martinelli	President, Visibility Systems Business Group	2014
Axel Maschka	Senior Vice-President, Sales & Business Development	2014
Christophe Périllat	Chief Operating Officer	2011
Eric Schuler	President, Valeo Service Activity	2016
Jean-François Tarabbia	Senior Vice-President, Research & Development and Product Marketing	2013
Marc Vrecko	President, Comfort & Driving Assistance Systems Business Group	2011
Pages 78 to 79		

Risk management

Risk management procedures are coordinated by a Risk Committee made up of nine permanent members: the Chief Financial Officer; the Group Risk Insurance Environment Director; the Group Accounting Director; the Group Internal Audit and Control Director; the Vice-President, Corporate Strategy and

External Relations; the Chief Ethics and Compliance Officer; the Senior Vice-President, Human Resources; and the General Counsel, chaired by the Chief Operating Officer. This Risk Committee met six times in 2015 and is mainly tasked with reviewing the risk identification process and overseeing the dynamic management of risk.

Main risks (AFR)

Operational risks	Environmental and industrial risks	Legal risks	Financial risks
■ Risks associated with the automotive equipment industry	■ Environmental risks	■ Intellectual property risks (patents and trademarks)	■ Liquidity risk
■ Risks related to new product development	■ Industrial risks	■ Risks related to sales of products and services	■ Commodity risk
■ Supplier failure risk	■ Natural disaster risks	■ Risks of failure to comply with the Code of Ethics or the law	■ Foreign currency risk
■ Geopolitical risks		■ Claims, litigation, and governmental, legal and arbitration proceedings	■ Interest rate risk
■ IT systems failure risk			■ Banking counterparty risk
			■ Equity risk
			■ Customer credit risk
Pages 62 to 64	Pages 65 to 66	Pages 66 to 69	Pages 69 to 73

For further information on the Group's main risks, see Chapter 2, "Risk Factors", pages 61 to 74.

Adhering to ethics and compliance principles

One objective

In support of its 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 values and 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 rules. 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, in addition to the Group's Code of Ethics.

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, compliance is everybody's business.

A dedicated organizational structure

Reporting directly to the Chief Executive Officer (subsequently the Chairman and 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 (subsequently the Chairman and 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, Research and Development, Human Resources, Finance, Legal, and Internal Audit and 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 job, 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

Valeo's Ethics and Compliance program is founded on its Code of Ethics, which was first implemented in 1997, updated in 2004, extensively reviewed in 2014 and rolled out again in 2015. While firstly concentrating on the fight against corruption and antitrust practices, the program is gradually being extended to all of the principles contained in the Code of Ethics, in particular data protection and manufacturing ethics.

Comprehensive yet also specific, the program sets out general values, 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 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 free awareness-raising e-learning courses. Also, a Business Partners Code of Conduct was introduced at the end of 2014 and has now been distributed to all relevant stakeholders. It sets out all of the principles, values and commitments declared by Valeo in its Code of Ethics so that its partners know precisely what is expected of them.

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 copy of Valeo's Code of Ethics and a handbook reiterating the most important rules and principles. In their first month, new engineers and managers are also invited to attend a training session on the fundamentals of fighting against corruption and antitrust practices. 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 and avoid the risks involved, and, if necessary, contact the right people to make the right decisions.

In 2015, 20,987 employees – 99% 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, 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 Internal Audit and Control Department to conduct internal control operations or inquiries.

Outlook

In 2016, Valeo will focus primarily on (i) ensuring that its new information systems and image and media charters are properly incorporated into the Group's operations, (ii) rolling out new training on business integrity and ethics, and (iii) continuing to conduct training on the fight against corruption and antitrust practices, which has been offered since 2012.

Valeo has made compliance a top priority and expects everyone's unfailing commitment to compliance, which is a guarantee of sustainable growth and profitability. The Compliance Program is described in more detail in Chapter 4, section 4.5.2 "Ethics and compliance", pages 221 to 223.

1.2 Presentation of Valeo

1.2.1 History and development of the Group

1923 – 1990: The Group's beginnings

The Group's story begins in 1923, with the incorporation of Société Anonyme Française du Ferodo. The Company started by distributing, then manufacturing, brake linings under license from the British company Ferodo Ltd. In 1932, the year it was first listed on the Paris Stock Exchange, it began manufacturing clutches.

The decades following World War II were a period of industrial expansion and diversification:

- heating and air conditioning systems in 1962 following the merger with SOFICA (Société de Fabrication Industrielle de Chauffage et d'Aération), which were reinforced by the acquisition of Chausson's heat exchanger business in 1987;
- electrical systems with the acquisition of S.E.V. Marchal (1970-1971), Cibié-Paris-Rhône (1977-1978), Ducellier (1984), and Neiman with its Paul Journée subsidiary (1987).

This period also included the Company's first move into international markets starting with Europe: Spain (1963), Italy (1964), Germany (early 1970s).

In 1980, the Company adopted the name Valeo, a Latin word meaning "I am well", with a view to uniting the various brands under a single name and furthering its international development: Brazil (1974), United States (as of 1980), Tunisia (1984), Turkey, South Korea (1988), Mexico, United Kingdom (1989).

1990 – 2009: A new company culture and new international horizons

In the 1990s, the Company deployed "5 Axes", its new company culture, and its forward-looking strategy based on a sustained innovation effort with the opening of new research centers in France specialized in electronics, lighting systems and clutches. Valeo also launched operations in Asia – China (1994), India (1997), Japan (2000) – and Eastern Europe – Czech Republic and Poland (1995), Hungary (2000), Romania (2002), Slovakia (2004), Russia (2008).

The 1998 acquisition of the Electrical Systems activity of ITT Industries, with its production plants in Germany, the United States and Mexico and its expertise in electronics and sensors (parking assistance systems), marked the beginning of the shift towards technology-driven solutions in the 2000s.

In 2001, the Company launched a new technological innovation program focusing on driver assistance features, powertrain system efficiency and enhanced comfort. The program is supported through the following initiatives:

- technological partnerships:
 - International Rectifier (power electronics),
 - Ricardo (mild-hybrid vehicle prototype),
 - Raytheon (radar-based detection systems),
 - Iteris (lane departure warning system);
- and acquisitions:
 - Connaught Electronics Ltd (onboard cameras).

Since 2009: An innovative, fast-growing tech company

In 2009, Pascal Colombani and Jacques Aschenbroich were appointed Chairman of the Board of Directors and Chief Executive Officer, respectively. They implemented a new strategy structured around two main drivers: innovation, with technologies focused on reducing CO₂ emissions and developing intuitive driving, and geographical expansion in Asia and emerging countries. This new strategy involved putting in place a new organizational structure, to improve profitability and efficiency as the Group's markets and customers became increasingly global, incorporating four new Business Groups (Comfort & Driving Assistance Systems, Powertrain Systems, Thermal Systems and Visibility Systems) and Valeo Service.

This strategy paid off. Valeo's sales growth outpaced that of automotive production across all the main automotive production regions, and order intake attained record levels, with more than one-third involving innovations (products and technologies in series production for less than three years) that have established Valeo's positioning as a technology company specializing in connected and autonomous vehicles. In 2014, Valeo returned to the CAC 40, Euronext Paris' benchmark index.

Its innovation strategy is underpinned by:

- research and technology partnerships with:
 - Safran (aerospace, defense, security) – driving assistance and autonomous vehicles (2013),
 - Fujitsu Ten – active safety systems (2013),
 - LeddarTech – detection and ranging solutions for active safety (2014),
 - Mobileye – microprocessors, computer vision algorithms and laser scanner technology (2015);
- acquisitions:
 - Niles – interior controls (2011),
 - the VTES (Variable Torque Enhancement Systems) activity of CPT – electric superchargers (2012),
 - Eltek Electric Vehicles – on-board chargers for hybrid and electric vehicles (2013),
 - Valeo Sylvania – acquisition of the interest of OSRAM GmbH (2014),
 - peiker – on-board telematics and connectivity (2016),
 - Spheros – air conditioning systems for buses (2016);
- investments in technology start-ups:
 - Aledia – development of 3D LED technology (2015);
- investments in venture capital funds:
 - Cathay Capital – investments in innovative start-ups (2015).

1.2.2 Description and structure

Group profile

Valeo is an automotive supplier that partners all automakers worldwide. 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.

In 2015, the Group generated sales of €14.5 billion and invested over 10% of its original equipment sales in Research and Development. Valeo has 134 plants, 17 research centers, 35 development centers, 15 distribution platforms and employs 82,800 people in 30 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.

Valeo has also formed 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.

Valeo's tax policy

Valeo's tax policy is aligned with the Group's strategy to create value for its shareholders, customers, employees and local communities whilst maintaining its reputation and complying with laws and regulations applicable in the countries in which it carries out and is growing its business activities.

The tax policy adopted by Valeo and its subsidiaries reflects the Group's ethical rules and its responsible approach to taxation. It is based on the following three principles:

Giving priority to operations

Valeo's tax policy is based on accepting all the tax consequences that arise as a result of the Group's operations. Accordingly, Valeo does not use tax optimization strategies if such strategies do not meet its operating requirements. Efficient tax planning and structuring is implemented provided it is in accordance with the law, supports a genuine business activity and is not artificial.

Consequently, the Group has not set up any entity within a particular territory for the sole purpose of benefiting from favorable tax arrangements.

The same principle underpins the Group's transfer pricing policy, which takes into account the operating environment in which transactions are carried out, the location of intangible assets (know-how, Research and Development, patents, etc.), relevant functions and economic circumstances.

The Group's tax policy complies with the principles defined by the OECD (Organisation for Economic Co-operation and Development) with respect to declaring income where the value is actually created.

Applying tax regulations fairly

The Group adheres strictly to tax regulations and ensures that it complies with local tax laws, international treaties and guidelines drawn up by international organizations. While all of these regulations must be complied with, the Group should not overpay tax as a result.

The Group takes a proactive but fair approach in its tax management and if necessary seeks the advice of external consultants, particularly when legislation is open to interpretation.

Developing strong professional relationships with the tax authorities and carrying out operations in full transparency are vital to ensuring the fair application of tax regulations.

Ensuring tax costs are correctly calculated

The Group seeks to ensure that tax costs are correctly calculated by using reliable data, documenting tax positions, training local teams, drawing on the advice of external consultants and cooperating with local tax authorities in full transparency.

Valeo ensures that the tax liability recorded in its financial statements has been correctly estimated. To do this, a reporting process has been put in place to provide the Group with the information required to evaluate the tax situation and costs of its subsidiaries.

Specific training is provided to ensure that the Group's tax policy is correctly implemented by those concerned.

The documenting of transactions is also important in ensuring accuracy, by enabling the Group to substantiate the various operations that give rise to tax consequences. In addition, the options put forward by external consultants are documented in order for them to be validated.

If it is legally possible to do so and does not result in the Group's tax liability being unfairly increased, Valeo favors reaching a compromise with the tax authorities to resolve disputes as this minimizes the uncertain consequences of litigation.

Group structure

The Group's operational structure is based on four Business Groups, Valeo Service 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 Research and Development 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 automakers with original equipment spares and the independent aftermarket with replacement parts.

See section 1.3 "Businesses", pages 36 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 **Internal Audit and 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 all 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, on global, national, local, and plant levels;
- the **Finance Department** oversees management control, accounting, financial reporting, financing activities and cash management, taxation, investor relations, strategic operations, information systems and risk insurance 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 and 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** supports the Group's international development by implementing a global policy in accordance with the characteristics of each local employment market, centering on labor relations, career development, training and skills development 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 Sustainable Development and Public Affairs Department, which is responsible for implementing and monitoring the Group's sustainable development policy and for relations with external stakeholders.

1.2.3 Presentation of the functional networks

Human Resources

The main responsibilities of Human Resources are adapting to change by anticipating and managing skills, recruitment, compensation and mobility, by coordinating labor relations with labor organizations and, more generally, by developing the involvement of personnel and ensuring compliance with the Group's Values.

The Human Resources Department supports the Group's international development with 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 internal communication.

These various actions help to foster and strengthen the sense of belonging to the Valeo Group 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 is the top priority of the Group's Human Resources policy and a core part of the Group's values and its strategy.

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, gender, culture) placed

under the responsibility of a director or a member of the Human Resources Department, which coordinates a global team to raise employee awareness and promote best practices.

Employee development

The three major constituents of the Valeo employee development strategy are (i) external recruitment, which includes developing the employer brand and 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, and particularly in fast-growing markets and emerging countries, as well as in areas relating to CO₂ emissions reduction and intuitive driving, is a key ingredient for the Group's success. Skilled teams ensure that 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 was held again in 2015 and a third edition is scheduled for 2016. 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 personal 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 and maintains its competitive edge so that it can motivate and retain talent. It also adapts practices by offering appropriate compensation packages 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 talent.

Labor relations

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

Valeo's labor-related performance is set out in Chapter 4, section 4.4 "Valeo and its employees", page 189 to 219 and section 4.7.3, "Summary of labor-related indicators" on page 247.

Operations

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 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 efficient 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 coordinate communication with suppliers between the various Product Groups and implement a consistent supplier selection policy, 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 efficiencies, as well as ensuring the re-sourcing needed to maintain the Group's competitiveness, particularly as regards the productivity gains that it must grant 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. Any supplier that fails to respect these rules of conduct may be sanctioned.

In 2015, Valeo continued its activities to raise supplier awareness of compliance and ethics issues by implementing the Valeo Business Partners Code of Conduct. The purpose of this document is to set out what the Company expects from its partners while offering them compliance and ethics guidance in dealing with all aspects of operations.

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 integrating them into Group 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 multiple supply sources and the 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 supplier default. There were no significant production stoppages at Valeo plants or at those of its customers in 2015.

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 systems are a crucial part of the Group's industrial focus.

To support the success of its operations and its strong growth, Valeo has set three priorities for its industrial strategy: controlling growth, improving industrial performance and deploying the plant of the future.

Controlling growth first involves strictly applying standardized industrial and logistics methodologies and tools. These are based on a set of robust and cost-effective standards that enable the Group to steer its industrial projects and operations. They are taught through local training and personal development programs provided by expert teams, with 8,000 individuals taking part in these programs in 2015. Additionally, 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, mainly those relating to safety and quality. The Industrial function of each Product Group is responsible for defining standards for industrial processes and making sure they are strictly applied at each plant. Synergies are developed between sites to ensure that standards are being adopted effectively. For example, analyses are run to compare plant performance, and a support program was set up in which "Mother Plants" partner new activities or existing activities facing growth-related challenges, known as "Daughter Plants". The Industrial function of each Product Group also applies a lean model to managing industrial capacity to support growth while controlling investment expenditure.

The continuous improvement of industrial performance helps to boost the Group's profitability. The application of the Valeo Production System tools and methodologies generated more than 70 million euros in savings in 2015, while the ongoing efforts in favor of optimization and the centralization of storage and transport logistics costs saved the Group an additional 25 million euros. The Logistics function continues to develop and strictly apply just-in-time production and supply principles in order to manage stocks and guarantee customer satisfaction.

The Industrial and Logistics function places top priority on developing and deploying the plant of the future within the Group. Digitizing logistics and production management processes will advance the application of just-in-time principles and work towards the Group's paperless plant target. New robotization technology is accelerating automation plans with the introduction of collaborative robots and automated guided vehicles at all plants.

Quality

Total Quality is defined as the ability of products and services to meet the needs, whether expressed or not, of end customers and automakers throughout the product life cycle. This approach lays the groundwork for profitable, long-term development in today's automotive industry, which is rapidly expanding and undergoing massive technological change.

Every day, Valeo employees across all positions and departments aim to deliver robust, right-first-time products and services that meet the highest quality standards.

The Quality network's specific roles are to:

- represent the customer within the organization, ensuring that their expectations are expressed and understood adequately by all those involved at every stage of the product life cycle;
- implement the quality policy and tools needed to meet the targets within a continuous improvement process.

At the Group, quality is structured and managed in line with four pillars:

- the 5 Axes system focused on customer satisfaction. This is the cement that binds Valeo's corporate culture. Three new Total Quality roadmaps were developed in 2015 to achieve excellence in understanding customer expectations during the development and mass production life of a product and in measuring progress regularly through satisfaction surveys. The Quality network is responsible for providing managers with the 5 Axes framework and related tools, monitoring implementation at each entity, conducting site audits and continuously improving the system;
- the Quick Response Quality Control culture. QRQC is a method of coaching in problem-solving tools in which every incident is factually documented by resident quality engineers who systematically compare good parts with defective parts and check the relevance of standards (QRQC step 1). Response time, clarity of communication and approval of each step in the problem-solving process are monitored in real time in the shared Valeo Incident Management (VIM) system. A notification system provides managers with visibility and helps them provide teams with the necessary support. Each problem is associated with at least one lesson learned to guarantee that standards are continuously improved. This takeaway point is shared throughout the Group to step up progress (QRQC step 2). Lastly, QRQC step 3 is designed to make every manager a certified QRQC instructor who can in turn pass this culture on to their teams;

■ state-of-the-art methodologies and standards systematically integrated within a continuous improvement process in the following areas:

- product/process development (generic FMECA – Failure mode, effects and criticality analysis, the RAISE (Robustness Accountability Innovation Standardization Expertise) process for setting standards),
- project coordination (review process by technical committee),
- supplier integration (StEDE – Standards Existence, Deployment and Enforcement, CCLs – Commodity Control Lists),
- production quality management (Standard Inspection Plan),
- monitoring guaranteed performance (advance detection of guarantee notifications).

The Quality network is in place at the Group's shared expertise center, GEEDS. At this center, it develops the expertise required for existing and fast-growing competences such as electronics, software development and calculating predictive reliability. The Quality network supports the Group's rapid growth by training new employees worldwide. The Quality Academy provides all new hires with an adapted training program;

■ a structural organization by customer, supplier, region and Product Line:

- every customer is represented in the Group by a "Champion" who continuously summarizes and reports on Valeo's global performance in line with the customer's measurement method, coordinates progress plans and provides Valeo employees with training modules on each customer's individual work methods, also known as the Customer Way. The Group has a network of resident engineers who continually analyze the performance of products delivered by Valeo on assembly lines or under warranty,
- in 2015, over 550 partner suppliers, grouped by commodity and by region benefited from programs designed to improve their efficiency. These programs – Group Priority Supplier (GPS) and Preventive Suppliers Program (PSP) – are implemented in close collaboration with Purchasing. The central Supplier Relationship Management (SRM) platform recaps each supplier's performance and the initial and regular approval of initial samples. At site level, supplier quality assurance teams handle incidents and capitalize on the lessons learned in strict compliance with the QRQC culture,

■ within a given region, the Quality Department fully integrates local requirements while ensuring consistent Group performance worldwide and recruiting the best local talent,

■ for the Product Lines, the Quality Department maintains the robust development of products and processes through design approval (design reviews, approval plans), the rollout of standard inspection plans based on generic FMECAs of products and processes, which are continually supplemented with customer feedback approved by Technical Committee experts.

In 2015, Valeo received a record number of nearly 60 awards from customers, i.e., 47% more than in 2014. The quality standard was set with a rate of customer returns at 4.2 parts per million products delivered. Given the current context of strong growth and innovation, this performance reflects the Group's ability to control its expansion.

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.

Automaker customers

In 2015, 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 where business continues to progress with local automakers.

The share of original equipment sales generated by US customers (including Chrysler) rose to 24%. French customers (excluding Nissan) accounted for 15% of original equipment sales, down 1 percentage point on 2015.

Valeo has a diversified customer base, with the two largest customers accounting for 32% 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 2015 was 20.1 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 intuitive driving, as well as on developing sales in high-growth potential markets.

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. Its global structure is organized by customer 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 one International Development Director in each of 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.

The Sales & Business Development function works to continue improving the commercial organization of the Group with a view to better meeting customer expectations and forging local and global partnerships with automakers, in line with the Group's objective of profitable, global growth.

Research and Development

The main role of the function comprising Research, Development, Product Marketing and Intellectual Property is to position Valeo among the most innovative automotive suppliers in its businesses, which all contribute to reducing emissions, in particular of CO₂, or to developing intuitive driving.

The Group spent 1.3 billion euros working towards this goal in 2015. That comes to more than 10% of its original equipment sales, 16% more in absolute terms than in 2014. About 11,620 employees worked at 17 research centers and 35 development centers worldwide. Innovation is central to the organization, and the Group's innovative products⁽¹⁾ accounted for 37% of order intake in 2015. To boost its innovation capacity, the Group set up a structure to coordinate its open innovation program with a network of universities and laboratories and a venture capital fund to gain easier access to start-ups and industry partners. This structure has also developed methods and resources to foster innovative ideas. In 2015, 1,406 patents were filed, a 27% increase on 2014.

The organizational structure of Research and Development is optimized to meet two priorities: (i) efficient product development through the Group's agility, flexibility, responsiveness and close customer relations, and (ii) guaranteed state-of-the-art development in all its technical areas of expertise. The four Business Groups – Comfort & Driving Assistance Systems, Powertrain Systems, Thermal Systems and Visibility Systems – each have their own Research and Development structure that works closely with their customers and their decision-making centers. The Group's centralized Research and Development operations focus on driving innovation to meet the Group's strategic goals, guaranteeing first-rate product development and generating all potential synergies.

Valeo conducts marketing studies to anticipate the needs of customers and vehicle users. The Group shares its findings with a number of its customers. The studies led in 2015 offered insight into the impact of consumer electronics on the automotive industry and into expectations for autonomous cars, fuel consumption and emissions reduction.

⁽¹⁾ Products and technologies in series production for less than three years.

In light of the diversity of its projects and the growing complexity of the technology applied to its products, Valeo invested heavily in project management in 2015 to better address customer expectations while ensuring premium quality in product development.

Valeo's Research and Development process is detailed in Chapter 4, section 4.2 "Research and Development at Valeo: from megatrends to innovation", page 150 to 164.

Finance

The Finance Department comprises the following functions: management control, reporting, accounting, financing, cash management, taxation, investor relations (network described in Chapter 6, section 6.2 "Investor relations", page 370), 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;
- producing tools to support decision-making;
- ensuring that the Group controls financial risks;
- presenting detailed, up-to-date and relevant information on the Group's financial situation, the performance of its activities and its economic environment.

Management Control

Alongside the Finance Department, 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 documentation used in responding to tenders launched by automakers. He assists with the monthly accounts closing and provides analyses of performance, risks and opportunities using both financial and key operating 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, Regional Operations, 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

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. The Group currently has 20 Shared Services Centers worldwide.

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.

The notes to the consolidated financial statements were revised for the 2013 registration document. These revisions were extended to the 2014 and 2015 financial statements with a view to improving the transparency, relevance and readability of the financial information reported by the Group.

Financing and Treasury

The Financing and Treasury Department develops and implements the Group's finance, cash management and financial risk management strategy. It guarantees the security and optimization of cash flows.

The Financing and Treasury Department is structured into two sub-departments:

- the Cash Management Department, which 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 Services 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;
- the front office of the Valeo Internal Bank, which oversees banking relations and activities, identifies and centralizes the management of market risks (essentially liquidity, commodity, foreign currency and interest rate risk). The financing, investment and risk hedging strategies are reviewed monthly by the Group's Finance Department.

Taxation

The Taxation Department's two main responsibilities are to ensure that all sites worldwide apply national and international tax regulations fairly and to manage tax risks, audits and disputes.

The Taxation Department is divided into three functions:

- a functional team at Group level in charge of cross-business projects, taxation on intercompany transactions and the management of major risks;
- an operational team of tax specialists working with the four Business Groups;
- local teams at the National Directorates of each country comprised of tax officers who act as the representatives of the local Finance Departments and guarantee that transactions comply with local regulations.

Information Systems

The Group's IT Department is tasked with defining and implementing efficient, innovative solutions that address all of the Group's business needs. It is structured into five Functional Departments and five Continental Departments.

The five Functional Departments define Group standards for IT systems and infrastructure as follows:

- the Enterprise Management Systems Department safeguards the integrity of the central IT system, provides reporting and business intelligence tools and underpins Valeo's growth by developing standardized solutions for Production, Logistics, Quality and Purchasing;
- the Research and Development IT Systems Department supports innovation in Valeo products. Through its expertise centers, it implements standard solutions used in product design and simulation, life cycle management for mechatronic products and onboard software, as well as planning, resource management and project reporting tools;
- the Office Systems Department defines communication and collaboration services available to all Group computer-equipped employees. It works to continuously boost both individual and collective efficiency to improve administrative productivity;
- the Infrastructure Department is responsible for the security and performance of all information systems. It produces resilient standards for information and telecommunications networks, hardware and software for workstations and servers. It defines and monitors IT security policies through a network of experts in each country,
- the Valeo Service IT Department is in charge of the information system designed specifically for managing a distribution activity. It also covers the deployment of Valeo standards.

The five Continental Departments oversee the measures taken to roll out and support adherence to standards at Business Group level. These departments, which work closely with operational staff, contribute to defining needs and are responsible for the implementation of solutions and services at Group sites. They are organized into a network of Shared Services Centers (SSC), usually one per country. Specialized functional analysts provide systems support for the IT managers at each site.

Risk Insurance Environment

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 structure comprising a Group Health, Safety, Security and Environment (HSE) manager and a network of HSE managers in the Business Groups, sites and in all countries in which Valeo operates. The Risk Management Committee, whose members are the Group HSE manager and the Business Group and Valeo Service HSE managers, the Risk Insurance Environment 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 could impact Valeo's business are set out in Chapter 2, section 2.1.2 "Environmental and industrial risks", pages 65 to 66.

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 packaging 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 Research and Development 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 98% of plants were ISO 14001 certified by end-2015.** Valeo requires all of its plants to be certified.

Since 2007, Valeo has been setting three-year performance objectives as part of its Environmental Action Plan. The current action plan came to a close at end-2015. The Group has set new targets for reducing its environmental footprint for 2016-2020.

For more information on the Group's environmental policy and a comprehensive list of its environmental indicators, see Chapter 4, section 4.3 "Environmental management and performance of Valeo's sites", pages 165 to 188.

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, rigorous training, feedback through the QRQC approach applied to health and safety at work, and an OHSAS 18001 certification process for all plants.

At end-2015, 94% of plants were OHSAS 18001 certified. Like the ISO system, this health and safety management system is based on continuous improvement.

Communications Department

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, 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 films that boost the Group's image and for safeguarding the brand's integrity, durability and strength;
- **Events**, which is tasked with organizing trade shows, product launches and customer site visits, for example, and with producing any other event organized at the initiative of the Group's various departments.

All of Valeo's communications professionals in the Communications Department 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.

1.2.4 Industrial resources and real estate portfolio

Geographic footprint at December 31, 2015

	Plants	Research centers	Development centers	Distribution platforms	Number of employees
WESTERN EUROPE					
Belgium/Netherlands, France, Germany, Ireland, Italy, Norway, Spain, United Kingdom	39	12	10	5	24,861
CENTRAL AND EASTERN EUROPE					
Czech Republic, Hungary, Poland, Romania, Russia, Turkey	15	-	6	3	14,657
NORTH AMERICA					
Canada, Mexico, United States	17	1	4	2	12,631
SOUTH AMERICA					
Argentina, Brazil	5	-	3	2	2,265
ASIA					
China, India, Indonesia, Japan, Malaysia, South Korea, Thailand	51	4	11	3	25,574
AFRICA					
Egypt, Morocco, South Africa, Tunisia	7	-	1	-	2,812
TOTAL	134	17	35	15	82,800

At December 31, 2015, the net carrying amount of the Group's real estate portfolio (land and buildings) was 639 million euros (see Chapter 5, section 5.4.6, Note 6.3 to the consolidated financial statements, page 302). 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 1,530 million euros at December 31, 2015, 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 302).

Environmental constraints result from the regulations applicable in this area to all Group establishments (see Chapter 1, section 1.2.3 "Risk Insurance Environment", pages 34 to 35, Chapter 2, section 2.1.2 "Environmental and industrial risks", pages 65 to 66 and Chapter 4, section 4.3 "Environmental management and performance of Valeo's sites", pages 165 to 219).

1.3 Businesses

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

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

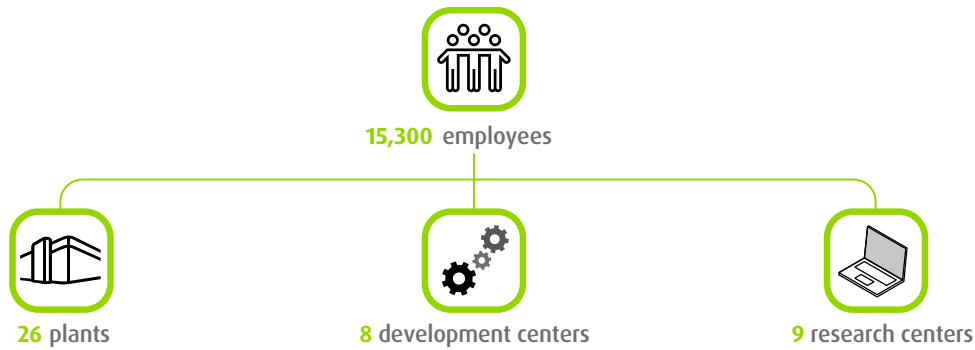
plus the Valeo Service Activity.

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

Section 1.1.1 "Sales" of this chapter on page 6 presents sales data by Business Group.

1.3.1 Comfort & Driving Assistance Systems

- Sales: **2.7** billion euros, or **18%** of Group sales
Original equipment sales up by **13%** like for like
- EBITDA⁽¹⁾: **394** million euros, or **14.5%** of sales
- Net Research and Development expenditure: **254** million euros



Highlights and key growth drivers

- Continued substantial order intake in China.
- Ongoing strengthening of Business Group teams in North America and Asia (China, Japan, Korea).
- Intensifying strategic focus on intuitive driving, with development of a unique portfolio of solutions and products based on detection, connection and interface systems.
- Highly positive impressions from user tests (in the United States, Germany and France) and simulator tests (with Fraunhofer) of the Valeo Mobius™ solution, which provides user support geared towards the coming phases in automated driving.
- Acquisition of peiker, a leading specialist in on-board telematics, and cooperation with Capgemini on a connected mobility solution using the Valeo InBlue® system. With these two developments, Valeo will be strengthening its leadership in the field of autonomous, connected vehicles.

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 enhancement. 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 Controls;
- Interior Electronics.

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 infrared laser scanner 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:

- parking assistance features (including obstacle detection alert) using ultrasonic sensors;
- cameras, with the 360Vue® multi-camera system monitoring the immediate vicinity of the vehicle to give maximum visibility in critical conditions such as at blind crossings or when leaving a parking lot. The 360Vue® 3D system gives a panoramic three-dimensional view of the vehicle's immediate environment;

(1) See Financial Glossary, page 406.

- automated parking features. The Park4U® parking assistance system, sales of which top 10 million units to date, now boasts a new remote parking function, for controlling parking maneuvers from outside the vehicle;
- rain/light/humidity detection feature, using infrared sensors;
- lane departure warning, road sign detection, high/low-beam autoswitching and emergency braking features, using front cameras, a key component of driving automation;
- 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;
- infrared laser scanner, for detecting objects around the vehicle, classifying them and calculating their trajectories, a major advance in vehicle automation. This technology opens the way to advanced features for emergency braking in urban environments, driving in congested traffic, and automatic parking. Valeo will be the first automotive supplier to launch this technology in series production for automotive applications, in 2017.

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 perceived quality, innovative, robustly designed solutions for premium markets as well as for emerging and mass markets.

Solutions include:

- driver and passenger interface systems (human-machine interfaces), ranging from simple switches to touch screens. These interfaces interact with air conditioning systems and multimedia applications and are ergonomically designed for ease of use while ensuring optimal safety;
- head-up displays, which show information within the driver's field of vision;
- top column modules, which represent the electronic communication hub between the safety features and the central electronics system of the cabin;
- intelligent steering-wheel controls, for intuitive interaction especially adapted to manual and automated driving phases, and transition between them;
- 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 applications such as car sharing services and remote parking systems.

2015 highlights

Commercial successes

Comfort & Driving Assistance Systems continued to grow in 2015. The geographical breakdown of order intake – 40% Europe, 33% Asia and 27% America – protects long-term global growth.

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

- Valeo's 360Vue® multi-camera system consolidated its global leadership in 2015, with an all-time record world order intake from various automakers;
- a major contract with a global automaker on a new generation of economical radars marks an important step forward and opens the way to future cooperation on autonomous driving developments;
- Valeo stepped up its coverage in bi-directional keys, winning an order from a premium automaker that will involve extending the technology across the product range;
- in 2015, Valeo also booked an initial order from one of the world's leading automakers for a new camera system that supplements the conventional rearview mirror (Sightstream® level 1). Valeo is also developing a new camera system that replaces traditional wing mirrors (Sightstream® level 3);
- an initial contract for intelligent steering wheel controls with integrated electronics opens the way to solutions very close to the Valeo Mobius™ cockpit concept;
- the contract with a European automaker for a head-up display system is a confirmation of Valeo's leading position in human-machine interfaces and bolsters its offering of solutions that improve driver visibility and safety;
- an initial contract was signed with a European automaker on a new smartphone-compatible PEPS (Passive Entry Passive Start) system using Bluetooth® and NFC (Near Field Communication) technologies.

Product launches

- high-performance ultrasonic sensor (on Tesla Model X);
- remote parking system with ultrasonic sensor (on BMW 7 series);
- 360Vue® 3D system, on Volvo XC90 (following initial launch on Volkswagen Passat in 2014);
- new economical 24 GHz radar (for Hyundai Kia Motors);
- rain/light/humidity/sunlight sensor (for Audi and Tesla).

Events and technological focus

In 2015, Comfort & Driving Assistance Systems exhibited its latest innovations, on automated driving in particular, at major motor and technology shows throughout the world:

- Consumer Electronics Show (CES), Las Vegas, United States:
 - Valeo **Cruise4U®**, an autonomous vehicle prototype. This vehicle uses the Valeo SCALA™ laser scanner, which enables automated driving by offering a long detection range, wide field of vision and high precision;
 - Valeo **InBlue®**: Valeo has extended the capabilities of its passive entry systems to integrate new uses and behaviors related to the Internet of Things, typified by such devices as smartphones and smartwatches, including a smartwatch (the first of its kind) that allows drivers to lock, unlock and start their vehicles.
- Shanghai Motor Show, China: Valeo InBlue® made its first appearance on the Chinese market.
- IAA (Internationale Automobil Ausstellung), Frankfurt, Germany:
 - Valeo **Mobius 2™**: This second-generation cockpit features an instrument panel combining various technological innovations. It allows motorists to switch smoothly from automated to manual driving mode in complete safety, while offering a host of new services for drivers to use when the car is driving itself;
 - functional demonstration of the Valeo SCALA™ laser scanner;
 - second-generation Valeo InBlue®, for even greater connectivity. Now, in addition to Bluetooth®, drivers can use Valeo InBlue® over the cellular network to control their vehicle from wherever they are;
 - 360Vue® 3D, an intuitive and ergonomic system designed to help drivers maneuver their vehicles with greater accuracy by giving them a bird's eye view of their surroundings on the instrument panel screen. The 3D, 360-degree image ensures full visibility around the vehicle;
 - Sightstream®, a new camera system that replaces conventional rearview mirrors. This innovative technology not only sharpens the motorist's perception of driving conditions, thereby enhancing safety, but also reduces fuel

consumption by improving the vehicle's aerodynamics. At the same time, it opens up new vehicle design opportunities.

- 22nd ITS World Congress on intelligent transport, Bordeaux, France.

In addition to its latest innovations (Valeo Mobius™, Valeo InBlue®) for safer, more intuitive autonomous vehicles, and the Valeo SCALA™ laser scanner, an essential development for highly automated driving, Valeo also spent five days showing off its Valeo Cruise4U® autonomous vehicle. Cruise4U®, which drove in real-life traffic on the Bordeaux bypass for this event, now has more than 10,000 kilometers on the clock, including a journey of more than 4,000 km across France in November 2015, in real-life traffic, day and night, in automated driving mode.

- The Valeo Mobius™ cockpit won second prize in the Human-Machine Interface category at the we.CONECT conference in Berlin, Germany, an award that bears out the revolutionary reach of this concept.
- Opening of the extension to the Group's Research and Development Center in Bietigheim, Germany.

Partnerships and acquisitions

- **peiker**: following the technology cooperation agreement signed in February 2015, Valeo announced, in December, a project for acquiring this German group in order to broaden its range of automotive geolocation and mobile connectivity solutions.
- **Mobileye**: Valeo signed a technology cooperation agreement with Mobileye, the global leader in front-facing-camera-based driver assistance systems. Under the agreement, Valeo will design and industrialize a range of front-facing camera solutions and sensor fusion products using Mobileye's EyeQx 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 scanning.
- **Safran**: following the 2013 signature of a research partnership on driver assistance and autonomous vehicles, Safran and Valeo presented their latest technological developments in Paris in 2015, on four broad topics:
 - "People as the core focus", spotlighting Safran's facial recognition technologies applied to Valeo's automotive applications;
 - "Connectivity", reflecting the alliance of Valeo's secure connection systems with Safran's expertise in this field;
 - "See and navigate", focusing on the development of a sensor able to "see" under difficult conditions, and associated applications, such as Valeo's 360Vue® camera for military vehicles, and Safran's inertial navigation technologies applied to automobiles;

- “Robotization”, including the latest automated functions developed by the two companies for systems and vehicles. Valeo's experimental highly automated vehicle, Drive4U®, made its world premiere at the same time.

- **Capgemini:** Valeo signed a cooperation agreement for the development of an innovative intelligent mobility solution addressing company fleets and car hire companies. Under this agreement, Capgemini will be taking charge of IT integration for the Valeo InBlue® solution and developing a range of customized digital services to shorten the market release schedule. The resulting industrial solution will offer end users an enhanced and innovative customer experience while enabling fleet managers to implement smoother car-sharing and preventive management processes.

Collaborative projects

- In 2015, Valeo was awarded five public-sector projects: three run by the European Commission (Cloud-LSVA, Enable-S3, EDDEMA), one by the French Ministry of Ecology, Sustainable Development and Energy (Scoop@F DIRIF) and one by the Irish Research Council. These projects, which cover a broad spectrum of contributions (basic sensors for driving assistance, development and validation systems, functional applications, and human-factor research), concern all three Comfort & Driving Assistance Systems Product Groups and will be run at the sites of Bietigheim (Germany), Bobigny (France), Créteil (France), Prague (Czech Republic) and Tuam (Ireland).
- Work under the **Safran-Valeo cooperation** proceeded in 2015 on seven projects with jointly defined objectives and developments: driver monitoring, the AWARE all-weather vision sensor, adaptation of Valeo sensors for Sagem vehicles, vehicle robotization, sensors for aircraft taxiing, remote transaction security systems, and precise location of automated vehicles.
- Comfort & Driving Assistance Systems stepped up its involvement in the **Vedecom** energy transition institute by contributing four projects: delegated-driving vehicle, robust system design, acceptability of delegated driving, and new physical spaces for eco-mobility. Valeo provided sensors to the development teams. Special presentations of the Valeo Mobius™ cockpit have gone ahead at Vedecom, and a Valeo engineer is on full-time assignment to work on the data acquisition platform.

Market trends

The two main market trends in 2015 were:

- automakers and automotive suppliers are gathering speed in the race to develop autonomous vehicles. The autonomous vehicle now makes an appearance in automakers' road-maps. Real-time update capabilities, for HD maps for example, appear at the most advanced development stages, making the autonomous vehicle highly connected. Another highlight is the arrival of new players (such as Uber and Lyft), in addition to Google, with its talk of rapid release for highly automated taxis developed on the basis of ready-to-use technical solutions featured on existing vehicles. Usage patterns here differ widely from those applying to traditional players. On the administrative front, authorities in all regions are working to put together a legislative framework accommodating the arrival of autonomous vehicles. Progress is most advanced in the United States and the European Union. The advent of the autonomous vehicle also raises fresh challenges on issues such as detection strategies, control algorithms and driver-vehicle interaction. The Valeo Intuitive Driving strategy puts the Business Group in a good position to address these new challenges;
- governments and certification agencies (EuroNCAP in Europe and NHTSA in the United States) have tightened safety standards and ratings with a view to achieving very substantial reductions in the number of road accidents. This process is accelerating the deployment of active safety systems. Vehicles hoping to score five stars on the EuroNCAP safety rating must now be equipped with autonomous emergency braking, lane departure warning and speeding alert systems. Most of these systems use one or more front cameras and may be combined with other types of infrared sensor or radar.

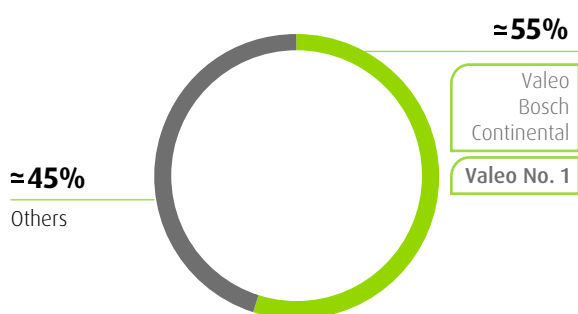
Valeo is responding to other market trends:

- the increasing importance of emerging countries is giving rise to new product expectations. Automakers in these countries want innovations that 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 first features proposed. Valeo is developing onboard systems that will help its customers to comply with future regulations;

- design and ergonomic expectations for human-machine interface systems have been redefined by the smartphone, with its range of applications and extensive customization capabilities. The real challenge facing automakers concerns a balance between the provision of new features (taking account of how they are actually used) and the need to ensure the safety of drivers, passengers and other road users. Ever-larger screen interfaces have become omnipresent, especially in central consoles, together with customizable screens for instrument panels;
- head-up display (HUD) units, which help drivers keep their eyes on the road, are highly appreciated, and are now appearing on mid-range or even entry-level vehicles in all regions;
- 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;
- use of on-board cameras is on the increase, 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);
- the connected vehicle increasingly interacts with the digital world and with data from the cloud in particular, opening prospects for new features and new economic models involving innovative mobility solutions for the vehicles of the future.

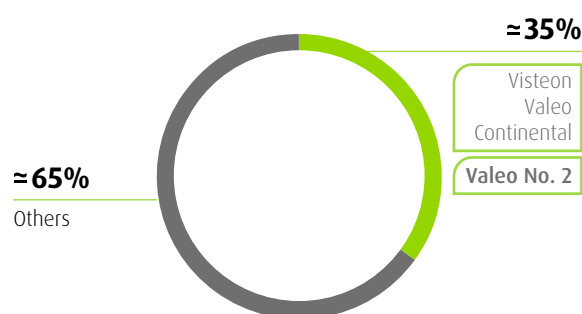
Main competitors on the driving assistance systems and interior controls market⁽¹⁾

Driving assistance systems



The market share of the three leaders increased compared to 2014.

Interior control systems



The integration of screens and head-up display units led to a change in the competitive environment.

Outlook

Major strategic acquisitions and partnerships in 2015 enable the Business Group to lengthen its technological lead and strengthen its unique offering on the autonomous and connected vehicle market, which promises very high growth. The Business Group is reinforcing its development and production teams for continued growth in Asia and North America with a development center in Asia and increased production capacities in America.

Intuitive Driving is a unique proposition in the automotive world, harnessing the Business Group's technological strengths in the three key areas of driving assistance systems for autonomous vehicles, connected vehicles and human-machine interfaces. Valeo's vehicle automation operations, which date to 2011, follow a rollout plan starting with low-speed automation (automation of parking maneuvers), then proceeding through to automation in congested traffic (Traffic Jam Chauffeur) and up to automation at high speeds (Highway Chauffeur).

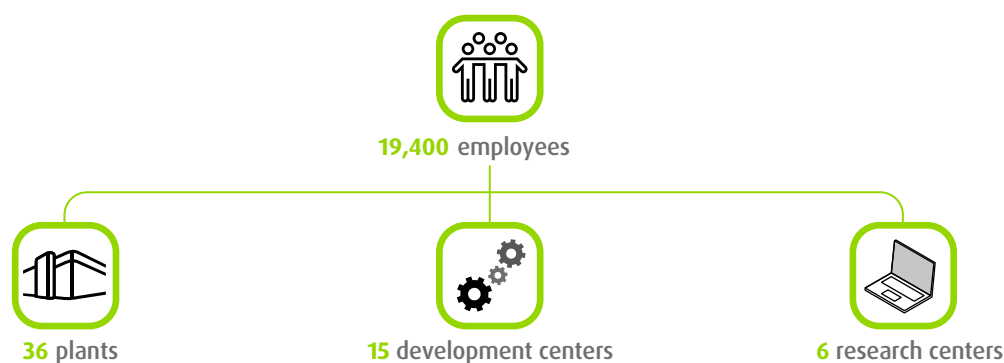
In 2016, Valeo will be releasing further breakthrough innovations (Remote Parking) and developing cost-optimized technological solutions for Traffic Jam Chauffeur and Highway Chauffeur, through integration of the human-machine interfaces and connectivity capabilities that are vital to the acceptance and performance of these highly innovative features.

Addressing the major development challenge of the connected vehicle, Valeo will be developing its offering by coupling its technological leadership with partnerships in the digital world, the aim being to offer vehicles that can be integrated into full-scale mobility solutions. Combining its own Research and Development investments with strategic partnerships and collaborative projects, the Comfort & Driving Assistance Systems Business Group offers a unique technological portfolio. It is a front-line player motivated by a unique vision of a new, intuitive, energy-efficient, cost-optimized vehicle consistent with tomorrow's mobility patterns: Valeo Intuitive Driving.

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

1.3.2 Powertrain Systems

- Sales: **3.8** billion euros, or **26%** of Group sales
Original equipment sales up by **8%** like for like
- EBITDA⁽¹⁾: **482** million euros, or **12.8%** of sales
- Net Research and Development expenditure: **167** million euros



Highlights

- Series production start-up for high-voltage inverter on Renault Zoé.
- Many orders for 48 V electric machines in Europe and China, putting Valeo in world number-one position on this product segment by 2020.
- Second order for electric supercharger.
- Start of expert phase for supply of full electric drivetrain (electric motor plus high-voltage power electronics).
- Substantial order intake for on-board battery chargers in Europe and China.

- Fresh orders for dual-clutch modules (wet and dry).
- Significant order intake for dual-mass flywheels with pendulum, for manual, automatic and dual-clutch transmissions.

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, while delivering unequalled driving pleasure.
- A reinforced 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 and pollutant emissions, without compromising on driving performance or pleasure. These innovations cover a complete product range, from optimization of internal combustion engines to varying levels of vehicle electrification, 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. 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 406.

- 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 12 V 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 plug-in-hybrid systems, for extended travel range in electric power mode, with the exact distance determined by battery size. The overall vehicle range is virtually unchanged compared to that of a conventional vehicle.

Valeo sells electric motors and hybrid and electric transmission modules up to 100 kW, with voltage from 300 V to 800 V.

Transmission Systems

The Transmission Systems Product Group develops and produces systems that transfer torque from the engine to the transmission, for light vehicles, commercial vehicles and trucks, on both the original equipment market and the aftermarket. These solutions incorporate innovative systems that dampen noise, vibrations and jolting:

- dual clutch systems comprising two clutches – one for even gears and one for odd gears – allowing the driver to change up and down with no torque interruption or jolting, with the comfort of automatic transmission and the dynamic response of manual transmission. Fuel consumption with a dual clutch system (dry or wet) is lower than with an automatic transmission and very close to that of a manual gearbox;
- optimized torque converters with a lock-up function, wide travel damper and an optimized hydraulic circuit, usually associated with the market for automatic and continuously variable transmissions. These converters 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, eClutch electro-hydraulic clutch actuators), flexible flywheels and dual-mass flywheels.

Combustion Engine Systems

This Product Group specializes in combustion engine management systems, particularly air circuit management (air intake and exhaust). These solutions are designed to reduce CO₂ and pollutant gas emissions 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 Bin 5 and 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 RPM 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.

Electronics

This Product Group designs and makes all the power and control electronics for the Powertrain Systems Business Group, for internal needs and directly for automakers:

- medium-power electronics, at voltages under 60 V (usually 12 V and 48 V): machine-integrated inverters and 12-48 V DC-to-DC voltage converters;
- high-power electronics, at voltages over 60 V (usually 300 V to 800 V): inverters and HV-12 V DC-to-DC converters;
- energy conversion electronics, at voltages over 60 V: on-board battery chargers;
- 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 electronic systems lighter and more compact, an essential factor, especially for hybrid and electric vehicles. Consequently, Valeo develops innovative power electronics solutions.

2015 highlights

On the whole, Valeo received very positive feedback in 2015 from all automakers on the Business Group's product roadmaps at various events organized by the Group.

Electrical Systems

- With its prime expertise in 12 V reversible machines (i-StARS), Valeo is a leading player in belt-driven starter generators, in 12 V and 48 V formats: significant order intake from premium and volume automakers for applications in Europe, Asia (China, India, Japan) and North America.
- Major orders in Asia and Europe for the new ranges of high-performance EG alternators. This machine, with integrated electronics, won the PACE Award (Premier Automotive Suppliers' Contribution to Excellence) in April 2015.
- Ongoing success of Stop-Start systems, with new orders for reinforced starters in Asia and North America.

Transmission Systems

- Orders for dual mass flywheels with pendulum for manual and wet dual-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 for hydraulic clutch actuators in Europe.
- Opening of a second Chinese plant in Shenyang to boost the Product Group's presence in this region.
- Orders for torque converters for automatic transmissions on rear-wheel-drive vehicles in North America and China.
- Extension of dual-mass flywheels with pendulum on gasoline and diesel engines, for manual and wet dual-clutch transmissions in Europe and China.
- Additional orders for wet dual-clutch systems in Europe.
- Growth on the trucks market in China.

Combustion Engine Systems

- Confirmed customer interest in electric supercharger, with second order.
- Recognition for Valeo's innovative capability, with electric supercharger shortlisted for the 2016 PACE Award.

- Recognition for Combustion Engine Systems air circuit expertise, with an order from a new customer for innovative exhaust gas recirculation management.

Electronics

- Initial order from a European customer for a dual inverter for full-hybrid, plug-in-hybrid and electric vehicles.
- Second order for on-board charger for hybrid and electric vehicles.
- Strong automaker interest in all high-voltage solutions for electric, hybrid and plug-in-hybrid vehicles.

Market trends

The market trends observed in previous years were confirmed in 2015, as regards the dual objective of reducing CO₂ emissions and fossil fuel consumption. There are three priorities here:

- 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.

These market trends and technological focuses apply to commercial vehicles and trucks, as well as passenger cars. Valeo is developing its offering and strengthening its positioning on the trucks market.

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.

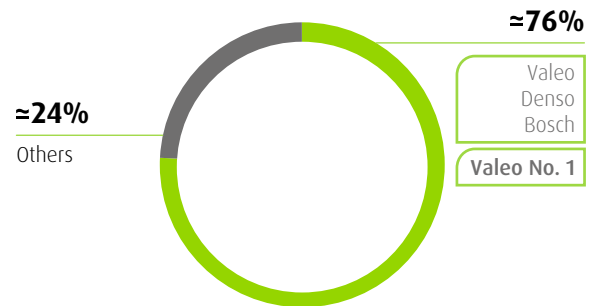
Main competitors on the transmission systems and electrical systems markets⁽¹⁾

Transmission systems



The market share of the three leaders remained stable compared to 2014.

Electrical systems



The market share of the three leaders rose slightly compared to 2014.

Outlook

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

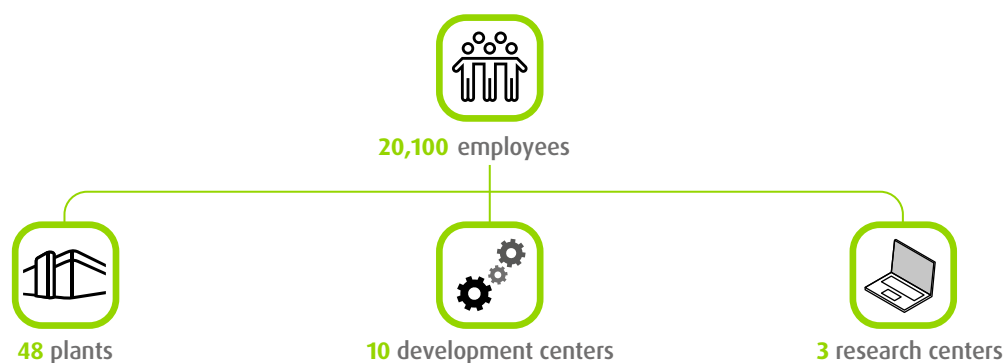
- developing powertrain systems that help to reduce CO₂ emissions in three ways: by downsizing engines, automating transmissions and electrifying the drivetrain;
- stepping up expansion in China and the United States.

The aftermarket is being buoyed by the growing number of vehicles on the road, particularly in emerging countries and especially in China and India, where growth will remain strong in 2016. The aftermarket activity is a major driver of profitable growth for the Business Group, which continues to win market share thanks to its expanded product range and strong distribution network.

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

1.3.3 Thermal Systems

- Sales: **4.1** billion euros, or **28%** of Group sales
Original equipment sales up by **3%** like for like
- EBITDA⁽¹⁾: **437** million euros, or **10.7%** of sales
- Net Research and Development expenditure: **148** million euros



Highlights

- Record order intake, especially in Asia and North America.
- Original equipment sales up 3%, outpacing automotive production by 1 percentage point.
- Deployment of ten new industrial plants and technical centers.
- Intensive automation of manufacturing processes.
- Launch of Thermal Systems business in India.

Key growth drivers

- Winning new customers and growing existing customer business.
- Innovations and technology portfolio, addressing:
 - lower CO₂ emissions
 - drivetrain electrification
 - in-vehicle comfort, health and well-being
- 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 comfort during all phases of vehicle use and for all types of powertrain.

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. They provide optimum comfort for vehicle occupants during all vehicle use phases, plus protection against pollutants and other harmful fine particles in the atmosphere.

Thermal Systems has four Product Groups:

- Thermal Climate Control
- Thermal Powertrain
- Thermal Compressor
- Thermal Front End

Thermal Climate Control

This Product Group mainly develops the systems and components required to provide all-season thermal comfort on all kinds of vehicle. To contribute to the thermal comfort and well-being of passengers, it offers efficient, compact, and energy-saving air conditioning and heating systems. It also offers solutions for protecting vehicle occupants against various forms of air pollution (allergens, fine particles, gas, etc.) and for personalizing the cabin with fragrance diffusion.

(1) See Financial Glossary, page 406.

Air conditioning systems are adapted to all types of powertrain: internal combustion, hybrid and electric.

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 air, usually filtered, throughout the vehicle cabin and regulates the air flow, temperature and humidity.

HVAC systems are tailored to each type of vehicle, ranging from simple heaters with mechanical manual controls to top-end automatic solutions with electronic control. The most sophisticated systems come with an additional electric heating module and a multi-zone function, for adjustment to individual passenger comfort and improved performance under extreme conditions.

The main components of an HVAC system are:

- heat exchangers (a radiator for heating the air and an evaporator for cooling it);
- a fan unit which blows the air through the exchangers;
- the control electronics;
- air distribution shutter systems.

An HVAC system may also include an additional electric heater module and a filter for stopping fine particles and neutralizing gases before they enter the cabin.

Examples:

With mounting awareness of the health risks of air pollution, demand for pollutant detection and air filtering functions is growing in Europe and Asia. Since 2014, Valeo has offered an extended range of cabin filters, including a very-high-performance model able to eliminate 90% of very fine particles (under 2.5 µm in diameter). The product offering also includes a filter with anti-allergenic properties, as well as a 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.

Powertrain optimization and the emergence of hybrid and electric drivetrains place new demands on HVAC systems:

- demand for additional electric heating, for comfort in winter. Valeo addresses all electric heating needs with a full range of high-performance heating resistances, with any degree of integrated control electronics;

- demand for uninterrupted cabin comfort when the engine is switched off, with Stop-Start and mild-hybrid drivetrains. Valeo offers a range of compact storage evaporators for performing this function in summer.

In all-electric vehicles, thermodynamic heating systems based on heat-pump principles minimize the need for power drawn from the batteries, thus providing passenger thermal comfort without affecting travel range. Various Japanese and German electric vehicles feature Valeo heat-pump solutions.

Refrigerants used in air conditioning systems comply with the latest environmental regulations. The Valeo range of air conditioning systems includes units using R1234yf and R744 (carbon dioxide).

Thermal Powertrain

This Product Group develops systems for optimally managing drivetrain thermal energy.

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

The systems and their components are designed for high performance, minimum weight and size, and optimum energy management.

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 (CAC) systems;
- exhaust gas recirculation (EGR) cooling systems;
- oil cooling systems (engine, transmission, etc.);
- air conditioning systems (condenser, evaporator and heater);
- systems for cooling batteries and power electronics in electric vehicles.

Examples include:

- UltimateCooling™ architecture, which involves a single heat transfer fluid, reduces the number of exchangers in the front end of the vehicle; better distribution within the engine compartment significantly improves the exchanger efficiency. Modular design means it is perfectly adapted to diverse types of powertrain;

- air intake systems are fixed directly onto the engine for optimal exchanger integration. Valeo equips many diesel and gasoline models on German, American 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 has been short-listed for the 2016 PACE awards (Premier Automotive Suppliers' Contribution to Excellence);
- the emergence of hybrid and electric drivetrains tightens requirements on temperature regulation, an essential factor in reliability and service life for high-voltage Li-ion batteries. Valeo addresses these needs with a full range of temperature regulation technologies. These range from air cooled modules, used on many vehicles on the Japanese, European and American markets, through to cold-plate solutions that achieve a more even battery cell temperature. Demand for this kind of system is growing, and Valeo fits several German plug-in-hybrid and electric vehicles with high-performance chillers and compact, high-exchange-coefficient water-glycol cold plates, integrated in the battery pack. Valeo has also developed refrigerant-based cold-plate solutions offering advantages such as high-performance cooling, simplified vehicle thermal architecture and weight savings of up to 30%. Series production of these solutions will begin in 2016.

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 for storage or conversion into usable energy create even more potential for growth.

Thermal Compressor

This Product Group designs and produces compressors for air conditioning systems. Compressors are a key component in these 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;
- 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.

Thermal Front End

This Product Group designs and assembles front end modules that are an integral part of the vehicle structure. Flexible worldwide production siting means they can be delivered direct to the automaker's assembly line.

The modules 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, lighting, 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. Components and modules are designed 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 across all vehicle segments.

The Product Group also develops electronically controlled air grille 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. These systems will equip several models on the American market in 2016.

2015 highlights

The Thermal Systems Business Group's consolidated sales for 2015 rose by 3% compared with 2014 (on a like-for-like basis), outpacing global automotive production by 1 percentage point. Growth in 2015 was driven primarily by sales in Asia and North America, with performance especially pronounced in the air conditioning and engine-cooling Product Lines.

New contracts with major automakers worldwide took the order book to an all-time high, most significantly in Europe, with major increases in orders from German automakers.

New technologies and innovations have enabled the Thermal Systems Business Group to seize growth opportunities in many areas:

- many orders came in from European, American and Chinese automakers in 2015 for charge air coolers (air-cooled and water-cooled modules). The trend toward water-cooled architectures is intensifying, and Valeo is pushing ahead with its product optimization plan here, covering weight reduction, power density, cost optimization and integration of new features;

- the next product concerned by the shift toward water-cooled architectures is the condenser, mainly on account of front end space saving. Thermal Systems confirmed its leadership on this new segment in 2015, with series production of a new water-cooled condenser for a German automaker, and bringing in a major order for its second-generation product, 30% lighter still than its predecessor;
- the Business Group stepped up operations on the market for battery cooling systems in 2015, with:
 - series-production start-up for its direct refrigerant-cooled technology, which brings 30% weight and cost savings compared to water-cooled systems,
 - a major order from a leading electric vehicle manufacturer in late 2015,
 - intensive development plans with many customers on future generations of electric vehicles, to optimize the size, performance and cost of solutions capable of cooling ever-larger battery surface areas;
- a Japanese automaker signed a very large contract for a front end module, and two new customers placed orders for electronically controlled air grille shutters, confirming the competitive performance and market adoption of this technology;
- air conditioning system refrigerants are diversifying. Following on from the R744 condenser, the Business Group brought in a second order for a HVAC system with R744 evaporator, from a German customer. This experience brings a competitive lead and opens new prospects for future electric vehicle markets, on which the R744 heat pump offers real advantages in terms of travel range;
- the Business Group's competitive performance in mechatronics was behind a large HVAC order placed by an American customer, and was confirmed by an order for 3 million additional heaters from a German customer, to equip all models on a global platform;
- Thermal Systems bolstered its position as a developer of full climate control systems, winning a whole-system order from a Japanese customer in 2015, covering compressor, HVAC, condenser, A/C lines and control panel.

The Business Group is taking advantage of the development of global platforms by international automakers to win new contracts in all regions, especially in Asia, Europe and North America.

Over the last three years, the Thermal Front End Product Group has grown from eight to twenty-two plants, for closer reach to three new customers (Asian and American).

Robotization and automation of production processes proceeds across the Thermal Systems Business Group, with all sites due to be equipped with robots and cobots (collaborative robots).

Market trends

The value of the Thermal Systems Business Group's addressable market is expected to grow by around 3.4% per year through to 2025, with value per vehicle also on the rise.

This trend is underpinned by three main market expectations, on lower emissions (CO₂ and NO_x), electrified drivetrains and improved cabin comfort, health and well-being.

Tougher regulations on CO₂ and NO_x boost the market for charge air coolers (CAC and WCAC), which is expected to double in value over the next ten years, and accelerate the adoption of front ends with electronically controlled air grille shutters, the market for which is expected to grow by 10% per year from 2020 to 2025.

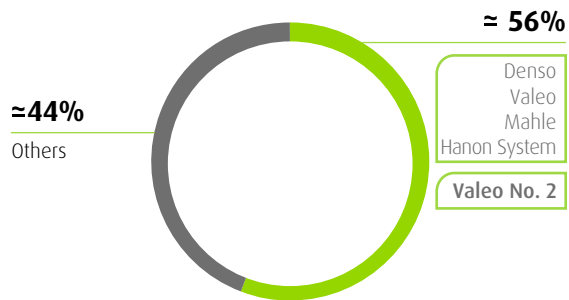
Drivetrain electrification is gathering momentum, with emergence of the 48 V standard for mild-hybrid vehicles and the forthcoming appearance of many all-electric vehicles with travel ranges up to 500 km. An eight-fold increase is expected in the market for electric climate control compressors by 2025, and a twelve-fold increase in that for thermal management systems for drive batteries. Electric vehicles also need additional electric heating systems, the market for which will grow six-fold in the next ten years. Many other components will need developing in response to take-up of the 48 V standard, and this again will tend to increase market value per vehicle.

In response to growing interest for in-vehicle comfort, health and well-being, the Thermal Systems Business Group has extended its offering of HVAC and air quality systems such as sensors, filters, active purification modules and fragrance diffusers. Market growth here is estimated at 6% per year through to 2025, driven to a large extent by demand in China in reaction to the harmful effects of air pollution.

The constraints inherent in any automotive product – on weight, size, energy efficiency, and compliance with new standards and regulations (on fluids, materials, voltages, etc.) – in themselves give rise to the development of innovative solutions better received on the market, such as brushless motors, components for R744 refrigerant (carbon dioxide) and more efficient, more compact heat exchangers with water-cooled condensers.

The average value per vehicle of thermal systems will rise with increasing drivetrain electrification, peaking with thermal management systems for fuel cells, a sector that receives strong state and industry support in Japan and South Korea.

Main competitors on the thermal systems market⁽¹⁾



In 2015, Halla Visteon became Hanon System and Mahle acquired Delphi's Thermal Systems division. The market is now dominated by four major players.

2016 outlook

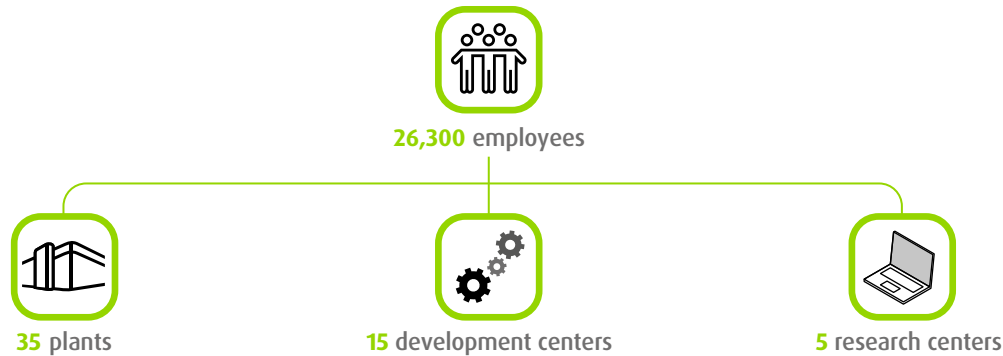
The Business Group will continue to pursue growth in all regions by focusing on its main strategic priorities:

- innovative developments in the areas of CO₂ emissions reduction, the electrification of powertrains, and enhancing in-vehicle comfort, health and well-being;
- new customer wins and expansion in high-growth markets, mainly in Asia;
- opening of six new industrial sites worldwide;
- further advances in production system robotization and automation.

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

1.3.4 Visibility Systems

- Sales: **4.2** billion euros, or **28%** of Group sales
Original equipment sales up by **9%** like for like
- EBITDA⁽¹⁾: **521** million euros, or **12.4%** of sales
- Net Research and Development expenditure: **216** million euros



Description of the Business Group

Highlights

- Valeo's modular LED solutions: a great success in Europe, North America and China.
- Steep rise in sales of electronic wiper motors in Europe, North America and China.
- Shift from traditional washer components (hood-mounted nozzles) to wiper-mounted nozzles (on arm or blade).
- Rollout of a dedicated electronics product line for lighting systems.

Key growth drivers

- Increasingly widespread use of internal and external LED lighting solutions.
- Glare-free high beam headlamps more widely available on popular European models.
- Growth of wiper systems with blade-integrated nozzles.
- Camera cleaning systems, which are being offered on more and more vehicles to ensure perfect image quality.

The Visibility Systems Business Group designs and produces efficient and innovative systems which support the driver and passengers in all weather, 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 and optical sensors, 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 406.

Lighting Systems

Valeo, and its alliance 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 began mass producing BeamAtic® PremiumLED lighting systems in late 2014. The range was extended in 2015 with the system appearing on series-production vehicles such as Volvo XC90 and Ford Edge (in Europe and China). These solutions offer the latest adaptive lighting innovations and ensure driver safety and comfort. New light sources such as laser diodes, set for market release very shortly, will be pushing back the limits of lighting systems to illuminate even farther ahead (up to 600 meters in front of the vehicle). Valeo is also developing rear lighting systems with directed and targeted inter-vehicle communication features, and systems that automatically adapt to driving conditions such as glare-free stop lamps and constant visibility fog lamps. The Group is working on cabin lighting that provides ergonomic, ambient solutions that are gesture-controlled;
- **stylish lighting solutions:** 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 is enhancing its offering of LED rear lighting solutions (MicroOptic®, SeeThrough, GraphicLight) with an even stronger style emphasis, and is preparing the ground for the forthcoming OLED (organic light-emitting diodes) surface light source. Inside the car, Valeo provides automakers with intuitive ambient lighting solutions;
- **economical lighting solutions:** Valeo always strives to make its innovations as widely available as possible. PeopLED™, the range of second-generation affordable LED lighting systems, is a perfect example. With performance superior to those of entry-level halogen lighting systems, enhanced comfort and robustness, and lower energy consumption, PeopLED™ solutions, on the market since 2012, will start appearing on entry-level models in 2016.

Wiper systems

An unobstructed view of the road is essential for road safety. This is becoming a crucially important issue with the development of automated cars and advanced driving assistance systems, and with the numerous cameras and lidars (laser detection systems) being fitted to vehicles. The Wiper Systems Product Group develops technologies that clean the windshield, the rear window and optical sensors, 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 under remote control (from a smartphone for example);
- 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 series-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 nozzles, AquaBlade® technology reduces fluid consumption as well as the size of the fluid tank. This contributes to keeping down the overall vehicle weight;
- systems for washing optical sensors (cameras, infrared cameras, lidars, etc.) to ensure an uninterrupted video flow, for safety and comfort.

2015 highlights

Lighting Systems

Market share for LED headlamps continued to rise steeply in 2015, on popular B- and C-segment vehicles as well as on top-end models.

With its cutting-edge expertise and modular LED solutions, Valeo continues worldwide rollout of its BiLED® module, on models including BMW X1 and Infiniti Q30 in Europe, Chevrolet Silverado in the United States, and DS 4S in China.

In the same vein, Valeo's distinctively styled PowerFullLED40® low- and high-beam lighting module, with low installation height (40 mm) and rectangular lens, was chosen by Renault for its upmarket models (Espace, Talisman and Mégane) and by Jaguar for its restyled XJ.

Aside from design considerations, smart headlamp performance fully reaps the benefits of LED technology. Several vehicles unveiled or released in 2015 (including the new Volvo XC90 and Ford Edge) use Valeo's BeamAtic® PremiumLED glare-free high-beam headlamp technologies.

In 2015, Valeo also released distinctively designed 100% LED rear light signatures on models including Jaguar XJ, Ferrari 488 GTB, Opel Astra SW, Renault Mégane and Volvo XC90.

Valeo secured major contracts with premium and volume automakers for upmarket internal lighting solutions, scheduled for production release in 2017, thus lending weight to the Group's ambitions to become a major player in this segment.

New products in the Valeo catalog include the MyBEAM range of 100% LED work lamps for trucks, agricultural vehicles and civil engineering machinery.

Given the growing importance of electronics in lighting products and systems, it was important for Valeo to open a dedicated product line addressing market challenges. With this new Product Line, launched in 2015, Valeo is aiming to develop a range of competitive new-generation control electronics. Worldwide development of dedicated production capacities for lighting system electronics will increase the Business Group's competitive performance and underpin its strategy as a leading player in lighting system electronics.

Wiper systems

Of the numerous systems brought to market in 2015, the following deserve special mention:

- the AquaBlade® wiper blade system and electronically controlled wiper motor for Tesla X in the United States;
- the wiper system for the Dongfeng Renault Kadjar/Ke Leijia in China;
- the electronic wiper system for the BMW 7 series in Europe;
- the electronic wiper system and new-generation blades for the new Ford Mustang in the United States.

These systems confirm the trend toward blade-integrated nozzles and electronic control for wiper motors.

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 models in Europe and China. Lastly, in bids for lighting for entry-level models, LED headlamps are very often preferred to halogen technology in Europe.

The equipment rate for 100% LED rear lighting is constantly progressing, largely because this technology enables automakers to offer an immediately identifiable light signature.

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. With the development of connected vehicles, followed by autonomous vehicles, product content will be expanding to accommodate new features over the years to come in areas such as vehicle-vehicle and vehicle-infrastructure communication.

Key growth drivers

The introduction of LED technology for headlamps and in-vehicle lighting as well as its increasingly widespread use for rear lighting are having an immediate impact on lighting system features. Conscious of the importance of style in consumer decision making, automakers are always more likely to invest in attractive, standout lighting features.

At present, LED headlamp technology is demanded by consumers, and ownership rates are way above what they were for vehicles equipped with xenon headlights. Indeed, certain vehicles – such as the Valeo-equipped Renault Espace – ship with Full LED headlamps as standard.

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 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 in all regions and all market segments, 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 that 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

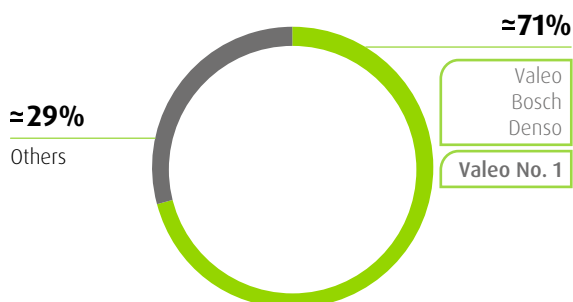
Vehicle cameras and other optical sensors are becoming increasingly commonplace with the rapid development of advanced driving assistance systems and the emergence of automated cars. These sensors need cleaning if they are

to output the quality video required for ensuring passenger safety, and the cleaning systems must meet tight constraints on component size, weight and fluid consumption. 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



The market share of the three leaders was down slightly compared to 2014.

Lighting systems



The market share of the three leaders remained stable compared to 2014.

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 is 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.

1.3.5 Aftermarket products and services

Description of the business

- 278 product categories
- 14 product lines for passenger cars
- 11 product lines for industrial vehicles
- more than 3,500 new products added in 2015
- 15 distribution platforms
- a footprint in 150 countries

Highlights

- Logistics performance prize awarded by Groupauto International to Valeo Service.
- Supplier of the Year Prize awarded by CAT (Car & Accessory Trader) magazine to Valeo Service UK.
- G-Logix prize awarded by Groupauto UK national distribution center to Valeo Service UK.

Key growth drivers

- New division opened in Mexico.
- Growth in Asia-Pacific region: 42% for China, 65% for India.
- Over 3,500 new product references released (including 800 for the Asia-Pacific region).
- Substantial expansion in the industrial vehicles market with new product ranges 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, marketing 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 3,500 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, with 16 sales divisions;
- **multi-channel:** expertise across all distribution channels specialized in business-to-business (traditional auto networks) and business-to-consumer (supermarkets, auto centers) together with a constantly growing presence on online 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.

2015 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

- Valeo Service launched close to 190 product references in its lighting systems range. These include ten truck-specific products (application for Renault Trucks model T).
- As a specialist in transmission systems, Valeo Service extended its dual mass flywheel offering, with 31 new products for the conventional system and 40 in alternative Kit 4P format bringing total range coverage to 74%.
- There are 30 new products available for switching systems. Valeo Service gives special attention to making spare parts available as soon as possible after new vehicle models are released.
- Sales in 2015 were boosted by a major communications focus on wiper systems.
 - German wiper blade specialists SWF ran their first TV advertising campaign in 2015, in the form of two ads (10 and 20 seconds). Over a three-week period the ads were aired 400 times on 12 German nationwide channels;

- In Italy, there was a radio advertising campaign for the Valeo Silencio® range of wiper blades, with two ads aired 800 times on six Italian nationwide channels over a seven-week period.
- Take-up of hybrid wiper blade technology in original equipment applications continues to rise. In 2015, Valeo Service extended this new technology for its aftermarket range of Valeo Silencio® wiper blades, under the HBlade® name. Across a concise range of ten products, the Silencio HBlade® range already covers more than 9 million vehicles in Europe.
- Valeo Service continued its drive to extend reach and broaden coverage in the commercial vehicles sector. Five of its nine online catalogs are dedicated to light commercial vehicles, and Valeo Service raised its profile at national and international shows in 2015.
- Under the Cibié® brand, Valeo Service launched a new aftermarket range of lighting accessories. The first product in the Cibié MyBEAM range uses Full LED technology, which gives excellent performance (1,500 lumens) with power consumption five times lower than halogen technology (17 W).
- Valeo Service released a new catalog of transmission systems for trucks. There are 100 new products for kits, components and re-manufactured parts, including 46 for original equipment applications compliant with the Euro 6 standard. The product range extension covers more than 3,000 additional vehicles, with a pronounced increase in coverage of Japanese vehicles. Valeo thus strengthens its offering on the commercial vehicle, truck and bus markets, with coverage of more than 13,000 applications and 70 automakers.
- Valeo's presence in emerging economies was a key factor in its growth during the year and helped to generate a 40% increase in new products available in Asian markets, for example.

Multi-region specialist

Under its development strategy, Valeo Service was more active at auto shows in 2015, exhibiting many product range extensions addressing local markets:

- The Automec show in Brazil was an opportunity for Valeo Service to reassert its presence on this important market, and above all to show off its very many product range extensions dedicated to the South America region with more than 400 new products in 2015, across all Product Lines.

- Valeo Service was at the AAPEX show in the United States with its new Valeo First All-in-One wiper blade range, along with more than 400 new products addressing North American markets.
- At the Moscow International Motor Show (MIMS) in Russia, the Valeo Service emphasis was on lighting systems (the Cibié Oscar® lighting accessories range) and hybrid-technology wiper blades.
- Valeo reasserted its leadership in re-manufactured parts at the ReMaTec show in Amsterdam (Netherlands), Europe's biggest renovation event. This also confirms Valeo's environmental commitment.

Valeo Service was more visible at European industrial vehicle trade shows in 2015:

- Valeo Service products showcased at the CVShow (Commercial Vehicle Show) in the United Kingdom included new arrivals to the line-up of clutches for heavy-duty trucks and in vehicle-specific catalogs (for Ford Transit this year).
- At the Agritechnica show in Hanover, Germany, the world's biggest agricultural machinery show, Valeo Service exhibited eight dedicated Product Lines, new products in its alternator and clutch ranges, and its new Cibié® lighting accessories.
- At the Solutrans show in France the focus was on new products, services such as the technical hotline (offering recommendations on additional parts and assistance on air conditioning diagnostics), training programs and the Valeo Club PL trucks community (with loyalty programs and dialog areas).

Multi-channel specialist

- Because multi-specialist capability requires rapid and relevant response to individual customers' needs, Valeo Service develops services matched to each different distribution channel, with sales-drive programs addressing dealer networks, wide-reaching support tools for repair centers, and tailored logistics services. Contact with BtoC customers is provided via websites and social networks, offering at-a-click access to services, catalogs, production specifications, FAQ sheets, etc.
- Valeo Service UK has launched a new, more comprehensive and more intuitive website, with integrated services, a full online catalog with more than 20,000 products, around 45 catalogs in PDF format (viewed on average 50,000 times per month), a product authentication system, and 3D Car, an intuitive product location feature.

- The German division launched its new website on SWF wiper blades. This is designed throughout with maximum customer satisfaction in mind; it includes customer advice, a web catalog, dealer location details and useful tips.
- Valeo Service considerably enhanced its web exposure in 2015. Improved visibility (with 16 Valeo channels, two brand channels and 98 new videos put up on YouTube in 2015) brought a 117% increase in the number of film views with respect to 2014. Many of the videos, such as the installation tutorials, provide genuinely useful service to customers.
- A music-themed sales-drive program – the Valeo Multi-specialist Tour – was launched in 2015 to provide customer support throughout the year. Program materials included a presentation kit for each of the Product Lines, plus a detailed schedule for the year. Customers' sales teams also received 20 specially developed Q&A sheets.
- Valeo Service won two awards for logistics performance, a key factor in production chain excellence.
 - Groupauto International awarded it the prize for the best logistics performance, (more than 45,000 products managed every day, to 108 countries worldwide);
 - Valeo Service UK followed through at national level by winning the G-Logix prize for best supplier of the year, awarded by the Groupauto national distribution center in the UK. This prize rewards the work of the Valeo Service UK teams in setting up a real-time online inventory and order query system, using the G-Net Online Trading platform.
- Valeo Service UK finished ahead of the five biggest names in the aftermarket sector to win one of its most prestigious national prizes: the CAT (Car & Accessory Trader) Magazine Supplier of the Year Award.
- There were two major Valeo Service initiatives on services in 2015:
 - Valeoscope, the technical review addressing repair specialists (with technical advice, technology spotlights, diagnostic assistance, best practices and replacement recommendations) was revamped in 2015, with issue No. 7, on lighting systems;
 - The Tech'Share program was launched, offering a flexible, comprehensive, efficient online training solution in the form of 45- to 60-minute webinars.
- Valeo Service extended its Customer Relationship Management (CRM) systems throughout its sales divisions. Teams in China, Thailand and Argentina now have access to full Valeo Service CRM capabilities; improved customer database management means they can track business closely day by day, offer customers dedicated promotional campaigns, and make better use of customer satisfaction metrics. Four additional divisions (United Kingdom, Turkey, Eastern Europe and Germany) now have access to the phone-integrated information system, for direct access to full customer data when taking incoming calls. This system is now available to eight divisions (these four plus France, Export, Spain and Italy).
- To meet the needs of modern distribution channels (superstores, auto centers and sales of spare parts online), Valeo Service continues to deploy upgraded packaging materials that offer an interactive service allowing users to identify and replace vehicle parts themselves: QR codes 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, window lifts and oil, air and gasoline filters, and they are gradually being made available for other product offerings.

Market trends

The 4% year-on-year increase in the number of vehicles on the road worldwide is sustained by the dynamic passenger car segment, while growth in commercial vehicles and trucks stands at around 3%. Growth is steepest in Asia (9%), though slightly less steep in 2015 than in 2014. The world balance is changing fast: with growth approaching 15%, there are now more than 120 million cars on the road in China, close to the number in the United States (estimated at 121 million, with growth below 1%); in India, the figure is 28 million, with steady growth of around 8%. We see similar growth figures in smaller countries such as Thailand (8%) and Indonesia (13%). The picture differs somewhat in more mature markets such as Japan (1% growth), Europe (1.5%), and the United States (under 1%)⁽¹⁾.

⁽¹⁾ Several different sources can be used to estimate the various national car populations. We use IHS 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.

Measured in value, the markets in which Valeo Service has a product offering grew by 2%, with air conditioning markets up by around 5%, driven largely by demand in emerging countries.

Consequently, with 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 is growing at an average of 3% to 4% per year, and is set to top 1.5 billion by 2020. The number will be highest in the Asia region, with more than 520 million vehicles⁽¹⁾.

Valeo seeks to capture more of this market potential through its four Business Groups – which supply Valeo Service – for which the aftermarket is 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 IHS 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.

1.4 Awards

In 2015, the Group enjoyed widespread recognition from its customers and partners for the quality of its products and services, attesting to its operational excellence.

1.4.1 Innovation rewarded

- In 2015, Valeo was named one of the 100 most innovative companies in the world in the Thomson Reuters list of Top 100 Global Innovators.
- Valeo won a PACE award in 2015 for its high-performance EG (Efficiency Generator) alternator.
- The magazine *Électroniques* awarded Valeo its *Electron d'or* (Golden Electron) prize for its InBlue™ intelligent key, and Valeo and Safran won an award for their Research and Development partnership.
- At the we.CONECT Car HMI Concepts & Systems 2015 congress in Berlin (Germany), Valeo won an award in the Most Innovative HMI System category, for Mobius™, its groundbreaking human-machine interface for level-3 autonomous cars.

1.4.2 Outstanding excellence

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

European customers

- PSA Peugeot Citroën's "Best Supplier Plants" in 2015 included the Comfort & Driving Assistance site in Tuam (Ireland), the Visibility Systems plant in Skawina (Poland), and the Powertrain Systems plant in Campinas (Brazil). Valeo was also awarded the Special Jury Prize in recognition of the long-term partnership between PSA Peugeot Citroën and the Valeo Comfort & Driving Assistance Systems Business Group. PSA Peugeot Citroën also praised the contribution made by suppliers, including Valeo, for its touch screen, to the success of the Citroën C4 Cactus, a car that earned many distinctions, including World Car Design of the Year. The Powertrain Systems site in Campinas (Brazil) also won the Best Plant Award 2015 in South America.
- The Comfort & Driving Assistance Systems site in Ben Arous (Tunisia) won the PSA Peugeot Citroën Best Supplier Award.
- The Valeo Group won the Volkswagen Group Award, which rewards the suppliers the Volkswagen group considers best in innovation, product quality, development capability, and long-term project management.
- Toyota Motor Europe gave the Powertrain Systems plant in Czechowice (Poland) an Achievement Award for its excellent quality results and a Certificate of Recognition for its project management.
- Toyota Motor Europe awarded a Certificate of Recognition to the Visibility Systems site in Mazamet (France).
- Toyota Motor Manufacturing UK gave Quality Awards to the Comfort & Driving Assistance Systems sites in Wemding (Germany) and Nevers (France), to the Thermal Systems site

in Rakovnik (Czech Republic), to the Powertrain Systems site in Czechowice (Poland), and to the Visibility Systems sites in Angers (France), Mazamet (France) and Timisoara (Romania).

- Jaguar Land Rover ranked Valeo a Premier League Supplier.
- Groupauto International awarded Valeo Service its logistics performance prize.
- Valeo Service UK was named G-Logix Supplier of the Year by Groupauto in the UK, and Supplier of the Year 2015 by CAT (Car & Accessory Trader) magazine, the authoritative automotive aftermarket publication.
- The Visibility Systems Foshan SP site (China) earned a Volvo Trucks Supplier Quality Improvement Award.
- The Powertrain Systems site in Saint Quentin-Fallavier (France) earned a Volvo Cars Quality Excellence Award.
- The Comfort & Driving Assistance Systems site in Wemding (Germany) earned a DAF PACCAR Quality Award.

US customers

- Several Visibility Systems sites won awards from Ford: Ford Q1 Golden Award for the Foshan SP site (China); Ford Q1 Silver Award for the Hainaut site (Belgium); Ford Q1 Award for the Bursa (Turkey), Querétaro, (Mexico), and Wuhan (China) sites.
- Toyota Motor Engineering & Manufacturing North America awarded a Certificate of Achievement to Valeo Wiper Systems North America (Visibility Systems).
- Nexteer Automotive gave the Comfort & Driving Assistance Systems Rio Bravo (Mexico) site its 2014 Supplier Perfect Quality Award.
- Nissan Mexico awarded a Zero Defects Year prize to the Visibility Systems site in Querétaro (Mexico).

Asian customers

- Dongfeng Peugeot Citroën gave its Excellent Supplier Award to the Visibility Systems site in Wuhan (China).
- Shanghai General Motors gave a Lean Logistics Award to the Powertrain Systems site in Nanjing (China).
- General Motors China gave Supplier Excellence Awards to the Visibility Systems Wuhan and Foshan SP sites (China).
- Ssangyong Motor Company gave its 2015 Best Supplier Award to the Powertrain Systems Pyeong Hwa site (South Korea).
- Toyota Kirloskar Motor Ltd. gave a Zero PPM Award to the Powertrain Systems site in Pune (India).
- Toyota gave a Quality Award to the Visibility Systems site in Juarez (Mexico).
- Toyota gave a Special Recognition Award to the Powertrain Systems site in Campinas (Brazil).
- The Powertrain Systems site in Czechowice (Poland) won a Nissan Regional Quality Award.
- The Powertrain Systems Thermal Front End site in Guangzhou (China) won a Nissan China Regional Quality Award 2015. It also received a Quality Award from Nissan Dongfeng Motor Co. Ltd.
- Nissan gave a Best Cooperation Award to the Comfort & Driving Assistance Systems site in Chonburi (Thailand).
- Jiangling Motors Co. gave a Quality Improvement Award to the Visibility Systems site in Wenling (China).
- Chery gave its Best Product Development Cooperation Award to the Thermal Systems site in Shashi (China).
- FAW-Volkswagen gave an "A" ranking to the Visibility Systems site in Shenyang (China).
- FAW-Volkswagen gave a Supplier Quality Improvement Award to the Comfort & Driving Assistance Systems site in Shenzhen (China).
- Jatco awarded its Best Regional Performance prize to Valeo Unisia Transmissions (Japan), Powertrain Systems.
- Geely gave a Quality Award to the Visibility Systems site in Wenling (China).
- In South Korea, Valeo Electrical Systems Kyong Ju was awarded the Prime Minister's Prize at the 22nd Business Innovation Awards ceremony run by the Korean Chamber of Commerce and Industry, under the aegis of the Korean Ministry of Trade, Industry and Energy.
- The Visibility Systems site in Wuhu (China) received a Quality Award and a Development Award from JAC Motors.

- A Quality Award was given by Great Wall to the Visibility Systems site at Wenling (China).
- Mazda gave a Good Quality Performance Award to the Visibility Systems Foshan SP site (China).
- The Powertrain Systems site in Nanjing (China) received an Excellent Engineering Development Award from Shanghai Automotive Gear Works.

The Group also received other awards for operational excellence

- In its list of Top 100 Best-Performing CEOs in the World, the prestigious Harvard Business Review ranked Valeo Chief Executive Officer Jacques Aschenbroich 14th worldwide (and first in France).
- In 2015, Valeo was awarded Top Employers certification in a total of 22 countries, with first-time certification in Egypt, the Netherlands, Russia and Tunisia. This label attests to the excellence of a company's human resources management. Of the 58 companies evaluated by the Top Employers Institute in France, Valeo ranked second, largely by virtue of its careers management competence.
- Valeo is one of the 19 French companies listed in the Euronext 2015 Low Carbon 100 Europe index, ranking first in the European automotive sector.
- Valeo was named Investor of the Year in the Czech Republic.
- The Society of Women Engineers in Detroit (United States) named Valeo as Outstanding Corporate Partner 2015.
- The Jaén regional government in Spain gave Valeo an award for its contribution to development and progress in this province.
- The Comfort & Driving Assistance Systems site in Tuam (Ireland) was named Best French Company in Ireland by the French-Irish Chamber of Commerce and NetworkIreland.
- The Visibility Systems Querétaro site in Mexico received an Environmental Excellence Award from the Mexican government's environmental protection commissioner (PROFEPA).
- At the seventh World Water Forum, the Powertrain Systems Business Group's two Kyongju sites in South Korea received awards for their endeavors to cut down drinking water consumption, allow for environmental factors when setting up new industrial processes, detect water leaks in pipes, and work with the local government on setting up a wastewater separation system to prevent groundwater pollution.

RISK FACTORS

2

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

Operational risks	Environmental and industrial risks	Legal risks	Financial risks
■ Risks associated with the automotive equipment industry	■ Environmental risks	■ Intellectual property risks (patents and trademarks)	■ Liquidity risk
■ Risks related to new product development	■ Industrial risks	■ Risks related to sales of products and services	■ Commodity risk
■ Supplier failure risk	■ Natural disaster risks	■ Risks of failure to comply with the Code of Ethics or the law	■ Foreign currency risk
■ Geopolitical risks		■ Claims, litigation, and governmental, legal and arbitration proceedings	■ Interest rate risk
■ IT systems failure risk			■ Banking counterparty risk
			■ Equity risk
			■ Customer credit risk
Pages 62 to 64	Pages 65 to 66	Pages 66 to 69	Pages 69 to 73

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, image and outlook. This chapter sets out the main risks to which Valeo considers it is exposed, including operational risks inherent to its business, environmental and industrial risks, and 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 Chapter 3, section 3.4 "Internal control and risk management", on pages 134 to 138, 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 identification and dynamic risk management is coordinated by the Risks Committee described in Chapter 1, section 1.1.7, under "Risk management", on page 22.

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 directly dependent on the level of automotive production, which itself depends on car registrations and automakers' sales and production policies. In turn, these are influenced by a number of contextual factors, including economic activity, consumer confidence, employment trends, disposable income, interest rates, consumers' access to credit, trade agreements, and 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 and 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, and this risk would be more pronounced given that vehicle platforms nowadays are worldwide.

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 adversely impact its earnings. The impact of these events, commercial failure or deselection from supplier bases, would be aggravated by the fact that vehicles are now produced on global platforms.

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 different regions. The Group maintains a tight rein on fixed costs, particularly by ensuring good workforce flexibility.

The 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, Valeo seeks to ensure that its original equipment sales are well balanced in terms of:

- production regions: Europe represented 49% of production in 2015, Asia 27%, North America 22% and South America 2%;
- customers: German customers accounted for 30% of production in 2015, Asian customers 26%, US customers 24% and French customers 15%.

Valeo also derives 11% of its sales from the aftermarket, which is less vulnerable to fluctuations in the economic climate.

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, when developing new products, to anticipate technological and regulatory changes and to adapt to trends or major shifts in the market such as those currently created by developers of intelligent software and connected services. 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 – whose business calls for diverse skills that are able to evolve in line with changes in the automotive business – may also face difficulties in attracting and retaining staff with the necessary qualifications and skill sets to develop and manufacture its products or systems.

Management of risk

Research and Development (R&D) is a key pillar of the Group's future growth. Valeo has 17 research centers and 35 development centers worldwide. The Research and Development network employs 11,620 people. The 12% increase in staff numbers compared to 2014 was primarily in emerging countries, and was aimed at specifically addressing the needs of these markets. Gross Research and Development expenditure represented 1,307 million euros in 2015, or 10.4% of original equipment sales in the year (1,130 million euros in 2014, or 10.4% of original equipment sales in that year).

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 Research and Development and Product Marketing departments. Joint initiatives with renowned companies specializing in intelligent software and connected services allow Valeo to plan ahead for the digital migration which is changing the automotive world as we know it.

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 Research and Development 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 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 facilities or extend existing facilities close to areas with large job pools or in regions where it already enjoys an established reputation as an employer. It has an ambitious recruitment strategy which aims to attract future high-performers, particularly in regions with high growth potential, drawing on its established reputation as employer and offering visibility on employment opportunities within the Group (particularly through social networks and promotional initiatives targeting students). It also seeks to create a rich talent pool. Valeo also develops appropriate reward systems, placing a premium on internal mobility and skills-building in a bid to promote and retain key talent for the Group's development going forward.

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

For more on Valeo's Research and Development policy, see Chapter 4, section 4.2.1 "Valeo's innovation policy", pages 150 to 153.

Supplier failure risk

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 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 1,186 suppliers. The Group's biggest supplier represents 2% of its purchases, the five biggest suppliers account for 8% and the ten biggest, 14%.

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 rolling out initiatives such as:

- 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 risk

Risk

The Group depends on infrastructure and IT applications common to all of its businesses. These include procurement, production, distribution, 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 prevent and minimize the impact of IT infrastructure and software malfunctions, 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 65);
- 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. This charter is explained and illustrated in a practical guide that aims to raise users' awareness of the importance of safeguarding the Group's assets on a daily basis through the responsible use of available IT resources.

For more on our information systems protection policy, see Chapter 4, section 4.2.5 "Security and use of computer data", on pages 163 and 164.

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 additional costs and/or capital expenditure for the Group 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) enables each site to be alert 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.

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 "Insurance and risk coverage", on page 74).

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 standards, and is exposed to the risk of failing to comply with such regulations.

Management of risk

As described in Chapter 4, section 4.3.1 "Environmental policy", on pages 165 to 173, Valeo's environmental policy is designed to control and minimize environmental risks as far as possible. Environmental risk management is overseen by the Risk Insurance Environment Department, assisted by a Health, Safety, Environment (HSE) manager at Group level and at the level of each Business Group, as well as 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 however 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 68).

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

Environment-related provisions (primarily for site restoration) amounted to 14 million euros at December 31, 2015 (see Chapter 5, section 5.4.6, Note 7.1 to the consolidated financial statements, "Other provisions", on page 307).

Industrial risks

Risk

Valeo's production facilities may be exposed to industrial risks resulting from their 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. Action 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 risk 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. Work to upgrade sites may be carried out to improve their resistance to earthquakes, in phase with changes in applicable 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 in compliance 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 standards and do not present a safety risk.

Regular audits are performed with regard to natural hazards every two years and each site is graded according to a scale of 1 (highest risk) to 5. Action 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 a major patent filer in its business sector, with 1,406 patents filed in 2015. These patents, covering the major automotive markets, provide the Group with an effective weapon against copying 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 seem to involve the reproduction of patented technologies or products, Valeo may pursue the appropriate course of action in order to stop and penalize the infringement of its intellectual property rights.

Intellectual property risks are managed by the Research and Development 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 only offer customers products that are freely marketable according to Valeo's best knowledge as drawn from regular reviews of competitors' patents while new products are being developed.

Risks related to sales of products and services

Risk

Valeo is exposed to warranty claims from customers due to faulty products sold, non-compliance with specific product regulations or compatibility issues (particularly if the products are complex systems) with regard to regulatory provisions. Regulations seeking to protect car users and/or defend the public interest, particularly in terms of the environment, are increasingly strict and checks that such regulations have been complied with are ever more frequent and thorough.

Even though Valeo pursues a policy aimed at achieving quality excellence, the Group may at times be confronted by defective volume production that in some cases may impact safety or regulatory compliance resulting in a large-scale recall campaign for a given production period. If such a quality problem were to trigger a major recall, it could have a substantial impact on the Group's financial position and image.

In addition to the risk of fines, Valeo is also exposed to the risk of individual or group liability claims in the event that defective products sold or services rendered by the Group are said to have caused damage to users and/or third parties.

Valeo is also exposed to the risk of liability claims by its customers for failure to comply with highly demanding contractual commitments imposed by these customers, which reflect the excellence they expect from their suppliers in terms of 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

During the product design and development phase, the Research and Development and Quality departments are in charge of managing these risks. These departments ensure that the product has a robust design and complies with customer specifications, standards and regulations. During volume production, the Purchasing, Industrial and Logistics, and Quality functions (see Chapter 1, section 1.2.3 "Operations", on pages 29 to 31), driven by the same total quality approach, look to ensure that components and materials purchased are appropriate and meet the requisite quality standards, and also make sure that production processes are stable.

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 a deductible amount and up to a certain sum, 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 (see section 2.2 "Insurance and risk coverage", on page 74).

To protect itself against liability claims, Valeo has taken out an insurance policy that covers the financial impact of any claims resulting from damage caused above a deductible amount and up to a certain sum (see section 2.2 "Insurance and risk coverage", on page 74). However, it is uncertain whether the insurance policy would be adequate to cover the full financial consequences of any such claims. In any case, criminal liability risk cannot be insured and certain coverage exclusions can be applied.

Provisions for product warranties amounted to 183 million euros at December 31, 2015 (see Chapter 5, section 5.4.6, Note 7.1 to the consolidated financial statements, on page 307).

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 employed 82,800 people in 30 countries at December 31, 2015 – 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. This calls for firm preventive measures based on the highest ethical standards, stringent rules of conduct and in-depth training and awareness initiatives.

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 compliance 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 for each country in which Valeo operates. These procedures are then translated and adapted in line with local regulations and culture.

Ethics and compliance also come 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 and to providing the necessary support to employees and stakeholders (suppliers, service providers, etc.).

In 2015, the Group updated and improved its existing Code of Ethics, which had been in force for almost 20 years. The code establishes a specific link between the principles of integrity underpinning the Group and the compliance program discussed above. It also addresses the protection of Valeo's critical assets such as confidential information, image and reputation, along with measures to combat IT fraud and conflicts of interest. It makes reference to different charters and implementation guides which are now seamlessly integrated within the Group's comprehensive protection approach.

This approach has been presented and rolled down to all employees. Detailed training sessions will be organized as from 2016.

For more information on the work of the Ethics and Compliance Department, please refer to Chapter 1, section 1.1.7 "Adhering to ethics and compliance principles", on pages 23 to 24, and to Chapter 4, section 4.5.2 "Ethics and compliance", on pages 221 to 222.

The Group also updated its Code of Conduct in 2015 as regards securities transactions and the prevention of insider trading. The new version of the Code of Conduct was approved by the Board of Directors on October 21, 2015.

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 (anxiety) or economic harm on the grounds that their early retirement was not a free choice.

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 157 million euros at December 31, 2015 and are discussed in Chapter 5, section 5.4.6, Note 7.1 to the consolidated financial statements, on page 307.

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.

In Europe, investigations by the European anti-trust authorities are still in progress. Valeo is cooperating fully with the European Commission in connection with its investigations.

At this stage, the Group is unable to predict the outcome of these investigations. However, Valeo cannot rule out that they could have a material adverse impact on its future earnings.

The Group is also unable to predict the outcome of any compensation claims filed or that may be filed by customers. However, it cannot rule out that they could have a material adverse impact on its future earnings.

Details of the Group's contingent liabilities are provided in Chapter 5, section 5.4.6, Note 7.2 to the consolidated financial statements, page 308.

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 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.

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. A cash pooling arrangement is in place in 12 European countries, enabling day-to-day cash to be managed on a centralized basis. In other countries, local cash pooling arrangements exist and loans and borrowings are regularly taken out with the parent company (Valeo).

At December 31, 2015 Valeo had 1.7 billion euros in cash and cash equivalents (end-2014: 1.5 billion euros). Cash comprises bank deposits for 700 million euros and cash equivalents (mainly money market funds) for 1,025 million euros.

Other sources of liquidity were as follows:

- confirmed bank credit lines with an average maturity of four years, representing an aggregate amount of 1.2 billion euros. None of these credit lines were drawn down during 2015. 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 3 billion euros, on which 1.2 billion euros had been drawn at December 31, 2015.

The Group's gross debt amounted to 1.8 billion euros at both December 31, 2015 and December 31, 2014. Gross debt includes short-term debt totaling 128 million euros, long-term debt totaling 1,617 million euros (of which 472 million euros maturing within one year), and a liability relating to put options granted to holders of non-controlling interests totaling 39 million euros.

On June 1, 2015, within the scope of the EMTN program, Valeo subscribed to a 30 million euro bond maturing on July 1, 2016 (paying interest at 1-month Euribor +0.22% up to June 30, 2015

and 3-month Euribor +0.22% thereafter) and a 70 million euro bond maturing on December 1, 2016 (paying interest at 3-month Euribor +0.30%).

The Group seeks to ensure a balanced long-term debt repayment profile. At December 31, 2015, the average maturity of its debt with its parent company (Valeo) was 4.3 years (5.3 years at December 31, 2014).

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, 2015 (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	56	EUR	6-month Euribor +2.46%
European Investment Bank loan	November 2018	103	77	USD	6-month USD Libor +1.9%
Bond (EMTN program)	July 2016	30	30	EUR	3-month Euribor +0.22%
Bond (EMTN program)	December 2016	70	70	EUR	3-month Euribor +0.3%
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%

Details of the Group's borrowings and debt are included in Chapter 5, section 5.4.6, Note 8.1 to the consolidated financial statements, page 308.

- Bank credit lines, the syndicated 250 million euro loan, along with 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, 2015, the ratio calculated over 12 months was less than 0.1.
- 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 short- and long-term 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 either 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).

- 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.

Credit rating

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status: On May 11, 2015, Moody's upgraded Valeo's long-term corporate credit rating from Baa3 to Baa2 and its short-term corporate credit rating from P-3 to P-2, while on March 3, 2016, Standard & Poor's upgraded Valeo's credit rating outlook from "stable" to "positive".

Rating agency	Published	Long-term debt	Outlook	Short-term debt
Standard & Poor's	April 2, 2015	BBB	Positive ⁽¹⁾	A-2
Moody's	May 11, 2015	Baa2	Stable	P-2

(1) Since March 3, 2016.

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 1.9 billion euros in 2015 (of which 39% non-ferrous metals, 35% steel, 25% 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 three-quarters 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. In 2015, an unrealized loss of 6 million euros related to these hedges was recognized directly in other comprehensive income (unrealized loss of 1.8 million euros recognized directly in other comprehensive income in 2014).

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

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 reduce the amount.

Exposure to commodity risk and the related pre-tax sensitivity analysis are detailed in Chapter 5, section 5.4.6, Note 8.3.1.2 to the consolidated financial statements, on page 320.

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

The Group systematically hedges statement of financial position exposure and three-month commercial transaction forecasts. Subsidiaries principally hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties (leading banks). The corresponding currency instruments are classified as trading derivatives in accordance with the standard on financial instruments.

For specific, material transactions, the Group also enters into longer-term hedges (based on a budget or contractual period). In this case, it applies hedge accounting rules as permitted by the standard on financial instruments. In 2015, an unrealized gain of 7 million euros arising on these hedges was recognized directly in other comprehensive income (unrealized gain of 17 million euros recognized directly in other comprehensive income in 2014).

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", pages 69 to 70).

Only 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 syndicated loan taken out at the end of June 2011 was hedged by a cross currency swap converting the initial nominal euro amount of the loan into yen and at the same time converting 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 cross currency swap was for an original amount of 237 million euros. Portions of this swap were successively repaid in 2013 (35 million euros), 2014 (69 million euros) and 2015 (133 million euros), in line with the repayments of identical amounts by Valeo Japan.

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

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 Chapter 5, section 5.4.6, Note 8.3.1.1 to the consolidated financial statements, on page 319).

The Group's gross and net forex risk exposure is shown in Chapter 5, section 5.4.6, Note 8.3.1.1 to the consolidated financial statements, on page 319.

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

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, 2015, an unrealized gain of 1 million euros related to these hedges was recognized directly in other comprehensive income.

Taking into account hedging transactions, 75% of long-term debt (i.e., debt due in more than one year) was at fixed rates at December 31, 2015 (72% at December 31, 2014).

The Group's investments are mainly at variable rates.

Exposure to interest rate risk and the related pre-tax sensitivity analysis are detailed in Chapter 5, section 5.4.6, Note 8.3.1.3 to the consolidated financial statements, on page 321.

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 Chapter 5, section 5.4.6, Note 8.1.1 to the consolidated financial statements, on page 309).

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 2015, 1,330,142 shares were acquired and 2,017,109 shares were sold (including 1,312,642 shares in respect of the liquidity agreement and 704,467 shares in relation to stock option and free share plans), leading to an 18 million euro increase in consolidated equity at end-2015.

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 "Treasury shares", on pages 377 to 378.

Equity investments for pension funds

Pension fund assets comprised 280 million euros in equities at December 31, 2015, representing 53% of the assets invested. After a higher-than-expected return on plan assets in 2014, essentially in the United States, plan asset yields came in below expectations in 2015, leading to a decrease of around 2 million euros in the value of the assets. Actual return on plan assets was 23 million euros in 2014 (see Chapter 5, section 5.4.6, Note 5.3.5 to the consolidated financial statements, on page 295).

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 53 million euros at December 31, 2015 (40 million euros at December 31, 2014). The Group is exposed to the risk of changes in the market value of this investment. At December 31, 2015, the market value of the Ichikoh shares held by Valeo was 55 million euros, compared with 53 million euros at end-2014.

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.

The two largest customers represented 32% of the Group's original equipment sales in 2015. The Group's five largest customers accounted for 60% of its original equipment sales, and its ten largest customers, 86%. Valeo also generates 11% of its sales in the aftermarket, with automakers representing 44% and independent dealer networks 56%. The customer base of independent dealer networks (3% of the Group's accounts and notes receivable at end-2015) 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, 2015, stable compared to end-2014, following the assignment of trade receivables.

For more information on the aging of trade receivables and impairment of doubtful receivables, see Chapter 5, section 5.4.6, Notes 4.2 and 8.3.3 to the consolidated financial statements, on pages 281 and 323.

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 likely 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;
- IT system security infringements.

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 14.6 million euros in premiums for its insurance coverage in 2015.

CORPORATE GOVERNANCE

3

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



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Meetings of the
Board of Directors



93%
Average effective
attendance rate

83%

Proportion of
independent directors



33%
of women

Message from Pascal Colombani

Chairman of the Board of Directors

(until February 18, 2016)



This is my final message as Chairman of the Board of Directors of Valeo: having reached the age limit, I am stepping down from my position. I look at the work accomplished since 2009 with pride: under the leadership of the Chief Executive Officer, Jacques Aschenbroich, now Chairman and Chief Executive Officer, Valeo has experienced exceptional growth, achieved outstanding results and returned to the CAC 40 index, all this being reflected in the share price rise and the level of dividends paid to shareholders.

Valeo can also claim to have become a reference in terms of corporate governance: since 2009, we have been committed to applying the most stringent corporate governance rules, and we have often been pioneers in this area.

The Board wishes to acknowledge the excellent results in 2015 and congratulate Management and staff for their unfailing commitment.

The Board of Directors met on nine occasions, with an average attendance rate of 92.6%⁽¹⁾, once again demonstrating the commitment of its members, as confirmed by the similar attendance rates of the Board's three Committees.

As one of its roles, the Board of Directors paid close attention to the Group's strategy, both in terms of organic growth and acquisition opportunities, in the context of major technological changes in the automotive industry toward drastic emission reductions and intuitive driving. It also reviewed the accumulated efforts in risk and compliance analysis undertaken over the years and ensured that the internal control framework always remained in step with the Group's growth and challenges.

Valeo's strategy is deployed worldwide: over the last few years, in keeping with the ongoing analysis of the Group's growth factors, the directors met for their annual strategy seminar

⁽¹⁾ The average attendance rate of the members of the Board of Directors (in person or by proxy) during 2015 was 98.1%. The average attendance rate of the members of the Board of Directors in person during 2015 was 92.6%.

*“ The Board of Directors
salutes the Group's excellent
performance in 2015. ”*

3

to prepare for the opportunities facing the Company in the Group's main markets: France, Germany, China, Japan and the United States. This annual seminar is also an opportunity to meet key Group executives and automakers. In 2015, the seminar was again held in France, focusing on driving assistance technologies, Valeo Service and digital production developments.

The Board of Directors assesses its own performance each year, either through an external service provider or through self-assessment. In 2015, self-assessment was carried out and confirmed the directors' very positive view of the Company's governance. The ongoing improvement process should continue: I am convinced that the new governance arrangements implemented in 2016, with the appointment of a Lead Director, will ensure this.

Regarding the Board of Directors' composition, the Board noted with regret the departure of Lord Michael Jay of Ewelme in April 2015 for personal reasons. He was replaced by C. Maury Devine. Aware of the importance of developing new expertise in a rapidly evolving technological environment and of equal representation of women and men on the Board, the Board of Directors will ask the Shareholders' Meeting of 2016 to elect Véronique Weill, Chief Operating Officer of the AXA group and Mari-Noëlle Jégo-Laveissière, Senior Executive Vice-President in charge of the Innovation, Marketing and Technology (IMT) Division of Orange. Valeo will, therefore, fully satisfy regulatory requirements for diversity.

February 18, 2016

Valeo refers to the AFEP-MEDEF Corporate Governance Code of Listed Companies published in December 2008 and revised in April 2010, June 2013 and November 2015. 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 of Listed Companies is described in this chapter, in section 3.2.4, page 110.

The AFEP-MEDEF Corporate Governance Code of Listed Companies is available in French and English on the MEDEF 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 18, 2016, 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

In 2015, the Group's Executive Management team included 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.

Pascal Colombani, Chairman of the Board of Directors, having reached the age limit set out in Article 15.1 of the articles of association of Valeo on October 14, 2015, has indicated to the Board of Directors that it would be the appropriate time for him to step down from his position, in view of a change of governance. At its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, unanimously decided to combine the positions of Chairman of the Board of Directors and Chief Executive Officer and to appoint Jacques Aschenbroich as Chairman of the Board of Directors, Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer. At the meeting, the Board of Directors appointed Pascal Colombani as Honorary Chairman.

Since February 18, 2016, the Group's Executive Management team includes the Chairman and Chief Executive Officer, as well as the Functional Directors and the Operational Directors, who are members of the Operations Committee.



Chief Executive Officer

Jacques Aschenbroich

(Current term of office began on May 26, 2015 and expires at the close of the Shareholders' Meeting that will be called to approve the financial statements for the year ended December 31, 2018)

In his capacity as Chairman and Chief Executive Officer, Jacques Aschenbroich 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. He 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 March 24, 2016)



Geoffrey Bouquot

Vice-President,
Corporate Strategy
and External Relations,
since January 1, 2016



Fabienne de Brébisson

Vice-President,
Communications



Robert Charvier

Chief Financial Officer



Catherine Delhaye

Chief Ethics and
Compliance Officer



Antoine Doutriaux

President, Thermal
Systems Business Group



Xavier Dupont

President, Powertrain
Systems Business Group
since July 1, 2015



Éric-Antoine Fredette

General Counsel
since August 1, 2015



Bruno Guillemet

Senior Vice-President,
Human Resources
since October 1, 2015



Maurizio Martinelli

President, Visibility
Systems Business Group



Axel Maschka

Senior Vice-President,
Sales & Business
Development



Christophe Périllat

Chief Operating Officer



Éric Schuler

President, Valeo
Service Activity
since January 1, 2016



**Jean-François
Tarabbia**

Senior Vice-President,
Research & Development
and Product Marketing



Marc Vrecko

President,
Comfort &
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 2015, there were no directors representing the employee-shareholders or the employees on the Board of Directors. The Group must have such representation within the Group at the latest on December 31, 2017 in accordance with the law on labor relations and employment of August 17, 2015.

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 2015, 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 January 22, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to ask the Shareholders' Meeting of May 26, 2015 called to approve the 2014 financial statements to renew the directorships of Jacques Aschenbroich, Pascal Colombani and Michel de Fabiani. Furthermore, at its meeting on April 23, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided, following Michael Jay's resignation from his directorship, to appoint C. Maury Devine as a director for the remainder of Michael Jay's term of office, to expire at the close of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2016.

The changes and renewals in the composition of the Board of Directors decided at the Board of Directors' meeting of April 23, 2015 and at the Shareholders' Meeting of May 26, 2015 are summarized below:

Director	Changes and renewals in the composition of the Board of Directors
Jacques Aschenbroich	Reappointed for a period of four years
Pascal Colombani	Reappointed for a period of four years
C. Maury Devine	Ratification of the appointment of C. Maury Devine as director, to replace Michael Jay, for the remainder of Michael Jay's term of office, to expire at the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2016
Michel de Fabiani	Reappointed for a period of four years

Following the renewal of the directorships of Jacques Aschenbroich, Pascal Colombani and Michel de Fabiani at the Shareholders' Meeting of May 26, 2015, and the ratification of the appointment of C. Maury Devine as director by this meeting, to replace Michael Jay, the Board of Directors therefore comprises the following 12 members: Jacques Aschenbroich, Gérard Blanc, Daniel Camus, Pascal Colombani, Jérôme Contamine, C. Maury Devine, Sophie Dutordoir, Michel de Fabiani, Noëlle Lenoir, Thierry Moulouguet, Georges Pauget and Ulrike Steinhorst. The composition of the Board of Directors remained unchanged at December 31, 2015.

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 84 to 96 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 2015 financial statements	Thierry Moulouguet, Georges Pauget and Ulrike Steinhorst
Shareholders' Meeting called to approve the 2016 financial statements	G�rard Blanc, Sophie Dutordoir and C. Maury Devine
Shareholders' Meeting called to approve the 2017 financial statements	Daniel Camus, J�r�me Contamine and No�lle Lenoir
Shareholders' Meeting called to approve the 2018 financial statements	Jacques Aschenbroich, Pascal Colombani and Michel de Fabiani

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 the Board of Directors being over this age. This age limit applies, where applicable, to representatives of legal entities holding directorships.

Pascal Colombani, Chairman of the Board of Directors, having reached the age limit set out in Article 15.1 of Valeo's articles of association on October 14, 2015, indicated to the Board of Directors that it would be the appropriate time for him to step down from his position, in view of a change of governance. At its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, unanimously decided (Jacques Aschenbroich refraining from taking part in voting) to appoint Jacques Aschenbroich as Chairman of the Board of Directors, Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, at its meeting on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer. 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, the Board of Directors, on the recommendation of the Appointment, Compensation & Governance Committee, reviewed the status of Michel de Fabiani at its meeting on November 11, 2015, and of each of its members at its meeting on January 19, 2016, 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 (to which Valeo refers), 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 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 at December 31, 2015:

- 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. However, the status of Pascal Colombani will be reviewed in 2016 after the end of his term of office as Chairman;
- one director holds the position of Chief Executive Officer: Jacques Aschenbroich, who therefore cannot be considered independent;
- ten directors are considered independent in light of the independence criteria set out in the internal procedures: Gérard Blanc, Daniel Camus, Jérôme Contamine, C. Maury Devine, Sophie Dutordoir, Michel de Fabiani, Noëlle Lenoir, Thierry Moulonguet, Georges Pauget and Ulrike Steinhorst.

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

At December 31, 2015, the Board of Directors included four women: Sophie Dutordoir, C. Maury Devine, Noëlle Lenoir and Ulrike Steinhorst.

Women currently hold more than 30% 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. The second threshold of 40% should be met at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2016. Furthermore, at its meeting on November 11, 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 ask the Shareholders' Meeting of May 26, 2016, called to approve the financial statements for the year ended December 31, 2015, to appoint two new directors, Mari-Noëlle Jégo-Laveissière and Véronique Weill, who will be considered as independent. If these appointments are approved at the Shareholders' Meeting of May 26, 2016, the number of women on the Board of Directors will exceed the 40% threshold.

Appointment of a Lead Director

In accordance with AMF recommendation no. 2012-02, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, at its meeting of October 21, 2015, decided to provide for the possibility of appointing a Lead Director, so that in the case of the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer, (i) additional assurance as to the smooth operation of the Board of Directors and the balance of powers with General Management and the Board of Directors would be provided, and (ii) the avoidance of potential conflicts of interest would be ensured. Consequently, at the Board of Directors' Meeting of October 21, 2015, the internal procedures were amended to create the position of Lead Director and confer him/her with the widest powers to carry out his/her duties.

In view of a change of governance effective February 18, 2016 (unanimous decision of the Board of Directors, with Jacques Aschenbroich refraining from taking part in voting, to appoint Jacques Aschenbroich as Chairman, Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision on the same day to combine the positions of Chairman of the Board of Directors and Chief Executive Officer), on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, unanimously decided to appoint Georges Pauget, independent director, as Lead Director (Georges Pauget refraining from taking part in voting).

The role and powers of the Lead Director, as laid down in the internal procedures, are summarized below.

The Lead Director, who must be appointed from among the independent directors, may convene the Board in the event of the temporary absence or death of the Chairman and Chief Executive Officer, or in case of an emergency, and may ask the Chairman and Chief Executive Officer to convene the Board of Directors with a specific meeting agenda. The Lead Director must be consulted by the Chairman and Chief Executive Officer on (i) the annual strategic plan that is to be included on the agenda of Board meetings and (ii) the agenda for Board meetings, and may propose the inclusion of additional items on the agenda to the Chairman and Chief Executive Officer. The Lead Director ensures compliance with the Board's internal procedures.

In addition, the Lead Director is in regular, open contact with each director, and if necessary may act as a spokesperson to the Chairman and Chief Executive Officer. To guarantee transparent operations of the Board of Directors, the Lead

Director ensures that the directors are provided with the information necessary to carry out their duties and verifies that this information is provided to them prior to the Board of Directors' meetings. At least once a year, the Lead Director holds meetings, in the absence of executive or internal directors, for purposes including but not limited to (i) the assessment of the performance of General Management, and (ii) the assessment of the performance of the Board of Directors.

The Lead Director may attend and participate in any committee meetings, including committees of which he/she is not a member. He/she may be appointed to chair one or more Committees and has access at all times to the Committee Chairmen with whom he/she is in regular contact. The Lead Director is in regular contact with General Management and may maintain a direct relationship with the Chief Financial Officer and the General Counsel, Secretary of the Board of Directors.

Regarding conflicts of interest, the Lead Director is responsible for preventing them from occurring by raising awareness of the circumstances that may generate such conflicts of interest. He/she notifies the Board of Directors of any conflicts of interest concerning the executive corporate officers and other members of the Board of Directors as may have been identified by him/her or of which he/she may have been informed.

In accordance with AMF recommendation no. 2012-02, a progress report on the Lead Director will be included in the Annual Report for the year ending December 31, 2016, in order to assess on the one hand the nature of the due diligence and tasks performed as a Lead Director and, on the other hand, how he/she may have used the powers given to him/her.

Presentation of directors

**Pascal Colombani**

Chairman of the Board of Directors
(until February 18, 2016)
Honorary Chairman (since February 18, 2016)

French
Age: 70

Valeo
43, rue Bayen
75017 Paris

Number of shares held: 600

First appointed: 05/21/2007

Start of current term of office: 05/26/2015

End of directorship: Shareholders' Meeting
called to approve the 2018 financial statements

Main position held outside the Company in 2015

- Senior Advisor, J.P. Morgan Chase and A.T. Kearney

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- 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)
- Member of the Supervisory Board of SIACI Saint-Honoré
- 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 was Chairman of the Board of Directors until February 18, 2016 and is a director of Valeo.

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 sciences (*agrégé de physique*) and has a doctorate in physics.

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



Jacques Aschenbroich

Chief Executive Officer until February 18, 2016 and Chairman and Chief Executive Officer since that date

French
Age: 61

Valeo
43, rue Bayen
75017 Paris

Number of shares held: 231,240⁽¹⁾

First appointed: 03/20/2009

Start of current term of office: 05/26/2015

End of current term of office:
Shareholders' Meeting called to approve
the 2018 financial statements

Main position held outside the Company in 2015

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

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- 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 was Chief Executive Officer until February 18, 2016 and is Chairman and Chief Executive Officer since that date. He is also 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). He was also a director of Valeo Service España, SA (Spain) until March 23, 2014 and President of Valeo Service until April 15, 2013.

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⁾ At March 24, 2016, Jacques Aschenbroich held 231,240 shares.
At December 31, 2015, he held 177,760 shares.

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

**Gérard Blanc**

Independent director
Member of the Strategy Committee

French
Age: 73

Marignac Gestion SAS
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 2015

- Chairman and CEO, Marignac Gestion SAS

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

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

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

-

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 and Canadian
Age: 63
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 2015

- Chief Financial Officer, The Global Fund

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- Member of the Supervisory Board of SGL Group SE (Germany)
 - ◆ (Chairman of the Strategy Committee)
- Member of the Board of Directors of Cameco Corp. (Canada)
 - ◆ (member of the Audit and Compensation Committee)
- Senior Advisor, Roland Berger Strategy Consultants (Germany)

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

- Member of the Supervisory Board, Morphosys AG (Germany) (Chairman of the Audit Committee until May 2015), Vivendi SA (Chairman of the Audit Committee until September 2015)

Experience

Daniel Camus is Chief Financial Officer of The Global Fund and Senior Advisor of Roland Berger Strategy Consultants (Germany). He is also a member of the Supervisory Board of SGL Group SE (Germany) and a member of the Board of Directors of Cameco Corp. (Canada). He was a member of the Supervisory Boards of Morphosys AG (Germany) until May 2015 and of Vivendi SA until September 2015. 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: 58

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 2015

- Executive Vice-President and Chief Financial Officer, Sanofi

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

-

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

-

Experience

Jérôme Contamine has been Executive Vice-President and Chief Financial Officer of Sanofi since March 16, 2009 and holds a number of directorships in companies of the Sanofi group. 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*).

**C. Maury Devine**

Independent director
Member of the Appointment,
Compensation & Governance Committee

American 1219 35th Street NW
Age: 65 Washington, DC 20007
United States

Number of shares held: 500

First appointed: 04/23/2015

Start of current term of office: 04/23/2015

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

Main position held outside the Company in 2015

- Director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- Director, Technip ♦ (Chair of the Ethics and Governance Committee and member of the Nominations and Remunerations Committee), FMC Technologies (United States) ♦ (Chair of the Audit Committee and member of the Nominating and Governance Committee), John Bean Technologies (United States) ♦ (Chair then member, but not Chair, of the independent Nominating and Governance Committee and member of the Audit Committee)
- Member of the independent Nominating and Governance Committee, Petroleum Geo-Services (Norway)

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

- Chair of the Nominating and Governance Committee of John Bean Technologies (United States) until July 2015

Experience

C. Maury Devine is a director of Technip, FMC Technologies and John Bean Technologies. She is also a member of the independent Nominating and Governance Committee of Petroleum Geo-Services.

C. Maury Devine was Vice-Chairman of Det Norske Veritas (DNV) between 2000 and 2010 and Fellow at the Belfer Center for Science and International Affairs at Harvard University between 2000 and 2003. Between 1987 and 2000, she held a number of positions at ExxonMobil Corporation, including that of Chair and Chief Executive Officer of its Norwegian subsidiary from 1996 to 2000 and that of Secretary General of Mobil Corporation between 1994 and 1996. Between 1972 and 1987, she worked for the US government in various capacities, most notably for the Department of Justice, the White House and the US Drug Enforcement Administration (DEA).

C. Maury Devine is a graduate of Middlebury College, the University of Maryland and Harvard University (Master's of Public Administration).

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



Sophie Dutordoir

Independent director
Member of the Appointment,
Compensation & Governance Committee

Belgian
Age: 53

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 2015

- Director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- Independent director, BNP Paribas Fortis (Belgium) (member of the Governance and Appointment Committee and of the Compensation Committee)
- Independent director, BPost (Belgium) ♦ (member of the Audit Committee, the Appointment and Compensation Committee and the Committee of Independent Directors)
- Executive Manager of Poppeia (Belgium)

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)

Experience

Sophie Dutordoir is an independent director of BNP Paribas Fortis and BPost and executive manager of Poppeia 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 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 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 holds a degree in Economic, Financial and Tax Sciences from the *Economische Hogeschool Sint-Aloysius* (EHSAL) school in Brussels.

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

**Michel de Fabiani**

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

French
Age: 70

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: 05/26/2015

End of current term of office:
Shareholders' Meeting called to approve
the 2018 financial statements

Main position held outside the Company in 2015

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

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- 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 Europia (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).



Michael Jay

Independent director (until April 23, 2015)
Member of the Appointment, Compensation
& Governance Committee (until April 23, 2015)

British
Age: 69

House of Lords
Westminster London SW1A
OPW United Kingdom

Number of shares held: 500⁽¹⁾

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
Term of office ended on April 23, 2015
(resignation).

Main position held outside the Company in 2015

- Independent member of the House of Lords (United Kingdom)

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- 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 also a director of EDF, Chairman of the British Library Advisory Council and a trustee for Thomson Reuters Founders Share Company.

Michael Jay has also served as Chairman of Culham Languages and Sciences (an educational charity), Chairman of Merlin (an 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.

⁽¹⁾ To the best of Valeo's knowledge, on the date of Michael Jay's resignation, on April 23, 2015.

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

**Noëlle Lenoir**

Independent director
Member of the Audit & Risks Committee

French
Age: 67

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 2015

- Partner, Kramer Levin Naftalis & Frankel LLP

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- 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)
- Founding 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*)
- Member of the International Chamber of Commerce

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

- Member of the *Conseil d'État* (France's highest administrative court)
- Director, Generali France
- Ethics Officer at the French National Assembly, until April 2014
- Mayor, Valmondois (Val d'Oise, France)

Experience

Noëlle Lenoir is 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, of the Board of Directors of the French Comparative Law Society and of the International Chamber of Commerce.

She was also a member of the *Conseil d'État* (France's highest administrative court), a director of Generali 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 post-graduate 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: 65

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

Main position held outside the Company in 2015

- Director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- Independent director, Fimalac SA ♦ (member of the Selection, Nominations and Remunerations Committee), Fimalac Développement, Lucien Barrière group (Chairman of the Audit and Risk Committee), HSBC France (Chairman of the Audit 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

- Independent director of Fitch Ratings Ltd (United Kingdom)

Experience

Thierry Moulonguet is a director of Fimalac SA, Fimalac Développement, 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 Fitch Ratings Ltd, 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
Lead Director since February 18, 2016
Chairman of the Appointment,
Compensation & Governance Committee
and member of the Strategy Committee

French **Économie Finance et Stratégie SAS**
Age: 68 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 2015

- Chairman, Économie Finance et Stratégie SAS

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- 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 (Chairman of the Compensation Committee), Danelys ♦
- Vice-President, Club Med ♦ (Chairman of the Audit Committee)
- Chairman, *Institut pour l'Éducation Financière du Public* (IEFP)

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

- Scientific Director and Chair of Asset Management, *Université de Paris Dauphine*
- Adjunct Professor, *Université de Paris Dauphine*
- Visiting Professor, University of Beijing
- Chairman of the Board of Directors, Viel & Cie
- CEO, Crédit Agricole SA
- 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 Danelys, 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).

He was previously Scientific Director, Chair of Asset Management and Adjunct Professor at Université de Paris Dauphine, and Visiting Professor at the University of Beijing until 2015.

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
and of the Strategy Committee

German **Airbus group**
Age: 64 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 2015

- Strategy, Planning and Finance Director, Airbus group's Technical Corporate division

Other directorships and positions held in companies other than Valeo subsidiaries in 2015

- Member of the Supervisory Board, Mersen SA ♦ (member of the Appointment and Compensation Committee and of the Strategy 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 has been Senior Advisor to the Chief Technical Officer of Airbus group since January 2016, having previously held the position of 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 genetic disease research institute, the F2I Innovation Fund (UIMM) and the Franco-German Chamber of Commerce and Industry.

She started her career in France at the office of the Minister for European Affairs where she was in charge of relations with Germany at the time of its reunification. From 1990 to 1998, she held a number of positions at EDF, initially in the International division, then as an advisor in charge of international and institutional issues within the General Management of the group, before becoming head of the International Subsidiaries in the Industrial division. In 1999, she joined Degussa AG group where she was a division's Head of Human Resources, and then Vice-President, Executive Development at group level. She later headed the subsidiary Degussa France before heading up the group's representation office in Brussels. In 2007, she joined EADS where she served as Chief of Staff of the Executive Chairman.

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).

The table below presents a summary of the composition of the Board of Directors at March 24, 2016.

	Age	Inde- pendent	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	Rate of attendance at Board meetings (director in attendance)
Pascal Colombani	70	No	2				2007	2019	9	100%
Jacques Aschenbroich	61	No	1				2009	2019	7	100%
Gérard Blanc	73	Yes	1			●	2007	2017	9	100%
Daniel Camus	63	Yes	2	(Chair) ●			2006	2018	10	100%
Jérôme Contamine	58	Yes	0			(Chair) ●	2006	2018	10	78%
C. Maury Devine ⁽¹⁾	65	Yes	3		●		2015	2017	1	80%
Sophie Dutordoir	53	Yes	1		●		2013	2017	3	89%
Michel de Fabiani	70	Yes ⁽²⁾	1	●	●		2009	2019	7	100%
Noëlle Lenoir	67	Yes	1	●			2010	2018	6	89%
Thierry Moulouguet	65	Yes	1	●		●	2011	2016	5	89%
Georges Pauget	68	Yes	3		(Chair) ●	●	2007	2016	9	100%
Ulrike Steinhorst	64	Yes	1		●	●	2011	2016	5	89%
Number of meetings				5	6	3				9
Average attendance rate				100%	96%	100%				93%

(1) Since she was appointed on April 23, 2015.

(2) At the Board of Directors' meeting of November 11, 2015, Michel de Fabiani was considered independent.

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, which are regularly updated, 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. Acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors updated its internal procedures on October 21, 2015, to provide for the appointment of a Lead Director (for details on the Lead Director, see section 3.2.1 "Appointment of a Lead Director", pages 82 to 83). Internal procedures have also been drawn up for the Board of Directors' Committees.

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. The Lead Director, where applicable, also makes sure that the directors are fully informed.

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 of Directors among its members. The Board of Directors may also grant directors exceptional compensation for specific assignments or tasks entrusted to them. The Board of Directors sets the compensation of the executive corporate officers, 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. This obligation is included in Article 1.1(b) of the internal procedures. At its meeting of March 24, 2016, the Board of Directors decided to ask the Shareholders' Meeting of May 26, 2016 to divide the par value of the share in three. If the shareholders approve this decision, the articles of association and the internal procedures will be amended to reflect this situation and will state that each director will have to hold 1,500 shares.

A Code of Conduct related to securities trading and compliance with French regulations on insider trading and breaches by insiders, which was implemented on January 23, 2008 and updated by the Board of Directors on October 21, 2015, governs the trading of the Company's securities by the members of the Board of Directors, the executive corporate officers, the members of the Operations Committee and the Liaison Committee and any person with insider information. 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, executive corporate officers of the Company and other executive managers in relation to declaring transactions concerning those securities. Under the Code of Conduct, it is prohibited for any person 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 or enable to carry out, either on their own behalf or for third parties, directly or through an intermediary, one or more transactions (including the sale of shares resulting from the exercise of stock purchase options and stock subscription options) on financial instruments (shares, bonds, etc., and any related derivatives) of the Company if they have insider information about the Company or any other Group entity. This Code also prohibits any person having insider information from disclosing this information, other than in the performance of their duties, to any person, particularly when the circumstances of such disclosure would enable that person to carry out one or more transactions on the Company's financial instruments.

They are also prohibited from advising any person to buy or sell – or from having a third party buy or sell – the Company's financial instruments based on insider information.

The members of the Board of Directors, the executive corporate officers, the members of the Operations Committee and the Liaison Committee and other Group executive managers are also prohibited from carrying out, directly or indirectly, the following transactions:

- any speculative transactions on the Company's shares as well as on any related financial instruments, such as transactions in derivatives, margin buying and short selling, as well as rolling over deferred settlement orders;
- hedging the shares of the Company and any related financial instruments, including shares, stock purchase or stock subscription options, rights over shares which may be allotted free of charge, and shares issued following the exercise of options or allotted free of charge.

In addition to transactions on Valeo's shares, the Code also applies to the purchase or sale (or forward transaction) of the securities of any other company by any persons having insider information if the transaction concerned is based on insider information obtained in the course of their duties.

In the event of doubt as to whether information is considered insider information, all persons must contact the Group's General Counsel before carrying out any transactions involving Valeo's shares. Directors, executive corporate officers and members of the Operations Committee must check with the Group's General Counsel before carrying out any transactions involving Valeo's shares that they do not have insider information as a result of their position.

Restrictions on transactions involving Valeo's shares apply to any person having insider information up to the third trading session, inclusive, following publication of the press release on the insider information in question.

In addition, the members of the Board of Directors, the executive corporate officers, the members of the Operations Committee and the Liaison Committee and any person having regular or permanent access to insider information are prohibited from carrying out one or more transactions involving the Company's shares (including the sale of free shares and the exercise of stock purchase or subscription options) during the following lock-up periods:

- between the thirtieth calendar day inclusive preceding the date of publication of Valeo's annual and half-yearly financial statements, and the third trading session, inclusive, following the date of publication of the press release on these financial statements;

- between the fifteenth calendar day inclusive preceding the date of publication of Valeo's quarterly information and the third trading session, inclusive, following the date of publication of the press release on this quarterly information.

The statutory lock-up periods applicable to the allotment of stock subscription or purchase options by the Board of Directors (Article L.225-177 of the French Commercial Code) and the sale of free shares by their beneficiaries following the lock-up period (Article L.225-197-1 of the French Commercial Code), must also be met.

In addition, pursuant to this Code, the members of the Board of Directors, the executive corporate officers, other executive managers and persons having close personal ties with them must comply with obligations to inform the Company and the AMF following transactions on Valeo's shares in accordance with applicable laws and regulations.

Although not expressly provided by the Board of Director's internal procedures, in practice the directors attend the Company's Shareholders' Meetings, in accordance with the relevant recommendations of the AFEF-MEDEF Code.

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 2015 fiscal year, five 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, where applicable, by the Chairman and Chief Executive Officer) or, in his absence, by a Vice-Chairman, where applicable, or a director designated by the Board of Directors. All nine Board of Directors' meetings held during the 2015 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 (or, where applicable, by the Chairman and Chief Executive Officer) 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 nine occasions in 2015, i.e., three times more than the minimum number of meetings stipulated by the internal procedures.

The directors held their annual strategy seminar in France, over three days in November 2015, at the Étaples-sur-Mer and Angers plants.

The average attendance rate of directors at Board of Directors' meetings held during 2015 was: (i) 98.1% of directors present or represented, and (ii) 92.6% of directors present (excluding directors represented).

The following table provides the average attendance rate of each director at Board of Directors' meetings (excluding directors represented):

Director	Attendance rate (director in attendance)
Pascal Colombani	100%
Jacques Aschenbroich	100%
Gérard Blanc	100%
Daniel Camus	100%
Jérôme Contamine	77.8%
C. Maury Devine ⁽¹⁾	80%
Sophie Dutordoir	88.9%
Michel de Fabiani	100%
Michael Jay ⁽¹⁾	75%
Noëlle Lenoir	88.9%
Thierry Moulonguet	88.9%
Georges Pauget	100%
Ulrike Steinhorst	88.9%

(1) Following Michael Jay's resignation from his directorship, at its meeting on April 23, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to appoint C. Maury Devine, as a director, for the remainder of Michael Jay's term of office.

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 (or, where applicable, to the Chairman and Chief Executive Officer). 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 (or, where applicable, by the Chairman and Chief Executive Officer) once the Board of Directors deems that they are useful.

The Chairman of the Board and the Chief Executive Officer (or, where applicable, the Chairman and 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.

The Lead Director, where applicable, will ensure that the directors are provided with the information necessary to carry out their duties and verify that this information is provided to them prior to the Board of Directors' meetings. The Lead Director is in regular contact with General Management and ensures that any information concerning the Company is reported to the Board of Directors.

Guests of the Board

During the 2015 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 (or, where applicable, the Chairman and 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 corporate governance and 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 2015, 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 2015 budget,
 - the Statutory Auditors' presentation on the parent company and the consolidated financial statements for the 2014 fiscal year, and on the review of the interim consolidated financial statements for the six months ended June 30, 2015,
 - preparing the parent company and the consolidated financial statements for the 2014 fiscal year,
 - reviewing the results for the first half of 2015, the forecasts for the second half of 2015 and the outlook for the 2015 fiscal year,
 - preparing the management report and the related notes for the 2014 fiscal year,
 - handling the proposed payment of a dividend of 2.20 euros per share for 2014,
 - reviewing the quarterly figures and results, and the forecasts and projections prepared for 2015;

- oversight relating to key strategies, and in particular:
 - discussing acquisitions under review, and in particular the peiker and Spheros acquisitions,
 - reviewing strategic operations,
 - discussing strategic issues that the Company must deal with,
 - the findings of the strategy seminar;
- executive compensation, and in particular:
 - the variable portion of the Chief Executive Officer's compensation,
 - the termination benefits and non-competition payment of the Chief Executive Officer,
 - amendments to the criteria for allocating the variable portion of compensation and allotting performance shares to the Chief Executive Officer,
 - the salary policy for the Group's main executive managers,
 - the plan to allot performance shares to the Group's corporate officers and employees,
 - the succession and development plans of the Group's main executive managers,
 - the training program;
- 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,
 - renewing the terms of office of the Chairman of the Board of Directors and of the Chief Executive Officer and determining their compensation,
 - maintaining the separation of the positions of Chairman of the Board of Directors from that of Chief Executive Officer,
 - changing the composition of the Committees,
 - reviewing the attendance fees payable to 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 of Directors' work is prepared and organized, and the internal control and risk management procedures put in place by the Group,
 - reviewing the provisions of the consolidated AFEP-MEDEF Code (comply or explain),
 - 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, 2014,
 - reviewing the Code of Conduct relating to securities trading and the prevention of insider trading,
 - appointing and accepting the resignation of directors,
 - appointing the Secretary of the Board of Directors,

- representing employees at Board of Directors' meetings,
- amending the Board of Directors' internal procedures to provide for the appointment of a Lead Director;
- financial operations, and in particular:
 - sureties, endorsements and guarantees,
 - issuance of bonds;
- 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 the composition of the Committees,
 - reviewing anti-trust proceedings,
 - organizing the Investor Day,
 - reviewing the directors' and corporate officers' liability,
 - reviewing the Volkswagen affair,
 - reviewing the control and monitoring of product compliance, including with respect to applicable regulations,
 - reviewing press releases,
 - reviewing the shareholding structure and changes thereto.

Since the beginning of 2016, matters addressed by the Board of Directors have concerned (i) combining the position of Chairman of the Board of Directors and Chief Executive Officer, (ii) the appointment of Jacques Aschenbroich as Chairman and Chief Executive Officer, (iii) the compensation of Jacques Aschenbroich in his capacity as Chairman and Chief Executive Officer, and (iv) the division of the par value of the share in three which will be proposed at the Shareholders' Meeting of May 26, 2016.

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 2015 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 2015, the Audit & Risks Committee comprised four members: Daniel Camus (Chairman of the Audit & Risks Committee), Michel de Fabiani, Noëlle Lenoir and Thierry Moulouquet, who are all considered independent according to the criteria set out in the Board of Directors'

internal procedures except for Michel de Fabiani who was considered independent by the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, at its meeting of November 11, 2015. Therefore, at December 31, 2015, the members of the Audit & Risks Committee, whose composition did not change during the year, are all considered independent according to the criteria set out in the Board's internal procedures. 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 Group Internal Audit Director 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 (or, where applicable, the Chairman and Chief Executive Officer) are not members of the Audit & Risks Committee but may be invited to attend its meetings. The Lead Director, where applicable, may attend and participate in any committee meetings, including committees of which he/she is not a member.

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 I.1 "Presentation of directors".

In accordance with Article L.823-19 of the French Commercial Code and the internal procedures, 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 reports, activity reports and earnings releases 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, including compliance, 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, and that the Group adheres to compliance rules,
 - 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 of the Board of Directors and the Chief Executive Officer (or, where applicable, the Chairman and 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) where 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 2015 with an attendance rate of 100%.

The following table provides the average attendance rate of each member of the Audit & Risks Committee at the Committee's meetings:

Director	Attendance rate
Daniel Camus	100%
Michel de Fabiani	100%
Noëlle Lenoir	100%
Thierry Moulonguet	100%

During these meetings, the Audit & Risks Committee, in particular:

- examined the draft financial statements for 2014;
- reviewed the Group's draft results for the first quarter of 2015 and the forecasts for the first half of 2015;
- reviewed the 2015 half-year financial statements;
- reviewed the draft press releases containing financial information;
- reviewed the reports and analyzed the findings presented by the Statutory Auditors;
- reviewed the management report for the 2014 fiscal year;
- reviewed the draft Report of the Chairman on internal control;
- analyzed information presented by the Group Financing and Treasury Director on the Group's financial policy;

- analyzed information presented by the Group Tax Director on transfer pricing guidelines;
- analyzed information presented by the Group Accounting Director on the accounting standard regarding quick savings;
- examined the summary of IT audits in first-half 2015;
- analyzed information presented by the Group Information Systems Director on the audit of information systems governance;
- analyzed information presented by the Group Information Systems Director on risk mapping of information systems and implementation of action plans;
- reviewed risk mapping, the method selected to prepare the mapping, the analysis of the main risks and the organization of their management;

- examined the governance of the Group's Research and Development projects (in particular controlling and monitoring compliance of products under development with applicable regulations and customer specifications) and analyzed information presented by the Chief Operating Officer on this matter;
- reviewed Valeo's exposure to customer credit risk;
- analyzed information presented by the Chief Financial Officer on foreign currency risk in Asia;
- examined the summary of Internal Audit's work in 2015;
- analyzed information reported by the Chief Ethics and Compliance Officer on the progress and implementation of the ethics and compliance program (completing the deployment of the Code of Ethics, raising awareness and seeking the commitment of partners, reviewing the NTIC Charter, confidentiality and image protection policy, and the annual program to give compliance training to 20,000 managers, etc.);
- reviewed the results of the 2015 internal control self-assessment campaign and monitored actions to put in place following requests by the Audit & Risks Committee; and
- approved the audit plan for 2016.

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, the Group Internal Audit and Control Director, 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.

Since the beginning of 2016, the Audit & Risks Committee has reviewed the issue of the division of the par value of the share in three.

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 (or, where applicable, the Chairman and Chief Executive Officer) 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 2015, 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, all of whom were considered independent according to the criteria set out in the Board of Directors' internal procedures, except for Michel de Fabiani. At its meetings on July 24, 2015 and October 21, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to appoint (i) Sophie Dutordoir, to replace Michael Jay and (ii) C. Maury Devine, as members of the Committee. At December 31, 2015, the Appointment, Compensation & Governance Committee comprised five members: Georges Pauget (Chairman), C. Maury Devine, Sophie Dutordoir, Michel de Fabiani and Ulrike Steinhorst. On that date, they were all considered independent according to the criteria set out in the Board of Directors' internal procedures, pursuant to the Board of Directors' meeting of November 11, 2015, which, acting on the recommendation of the Appointment, Compensation & Governance Committee, considered that Michel de Fabiani was independent. 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 Senior Vice-President, Human Resources or any other person designated by the Chairman of the Committee acts as the meeting's secretary. The Lead Director, where applicable, may attend and participate in any committee meetings, including committees of which he/she is not a member.

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 general policy and terms and conditions for allotting stock purchase and/or subscription options, free shares and performance shares, as well as on stock option, free share and performance share plans set up by the Group's General Management in accordance with applicable rules and recommendations,
 - giving its recommendation to the Board of Directors on the allotment of stock purchase or subscription options with reasons for its choice and the related consequences,
 - 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 reasoned recommendations regarding the appointment of executive corporate officers, directors, including the Lead Director, where applicable, as well as members of the Committees and the Chairman of each of these Committees (except for its own Chairman) as well as by drawing up a succession plan for the executive corporate officers and directors in order to propose solutions to the Board of Directors in the event of an unforeseen vacancy,
 - reviewing the status of each director in light of the independence criteria set out in the Board of Directors' internal procedures,
 - selecting new directors for appointment;
- 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 of Directors 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 of Directors 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). In this case, the Committee first informs the Chairman of the Board of Directors and the Chief Executive Officer (or, where applicable, the Chairman and Chief Executive Officer).

The Appointment, Compensation & Governance Committee met six times in 2015 with an attendance rate of 95.8%.

The following table provides the average attendance rate of each member of the Appointment, Compensation & Governance Committee at the Committee's meetings:

Director	Attendance rate
Georges Pauget	100%
C. Maury Devine ⁽¹⁾	100%
Sophie Dutordoir ⁽¹⁾	100%
Michel de Fabiani	100%
Michael Jay ⁽¹⁾	66.7%
Ulrike Steinhorst	100%

⁽¹⁾ At its meetings on July 24, 2015 and October 21, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to appoint (i) Sophie Dutordoir, to replace Michael Jay who resigned from the Board on April 23, 2015, and (ii) C. Maury Devine, as members of the Committee.

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 renewal of Jacques Aschenbroich, Pascal Colombani, and Michel de Fabiani's terms of office as directors and the appointment of C. Maury Devine;

- reviewed the Company's corporate governance practices;
- reviewed the applications from potential female directors for the next Shareholders' Meeting and recommended that the Board of Directors ask the shareholders to appoint Mari-Noëlle Jégo-Laveissière and Véronique Weill;
- reviewed the succession and development plans for the Group's main executive managers;

- reviewed the attendance fees payable to directors;
- reviewed the compensation of the Chief Executive Officer, including his termination benefits and non-competition payment;
- reviewed the proposed allotment of free shares either by an allotment in March 2015 and/or by a new resolution to be proposed at the Shareholders' Meeting;
- reviewed the variable portion of the executive corporate officers' compensation for 2014 and 2015, including the variable portion of the Chief Executive Officer's compensation;
- reviewed the structure of the compensation paid to the members of General Management and in particular to the Chief Executive Officer;
- reviewed the comply or explain table pursuant to the consolidated AFEF-MEDEF Code;
- reviewed the need to amend the Board of Directors' internal procedures to provide for the appointment of a Lead Director and define his/her powers;
- examined an employee share ownership plan;
- reviewed the draft Report of the Chairman of the Board of Directors on governance and internal control;
- reviewed the report on the remuneration due or granted to executive corporate officers in 2014 (say on pay);
- examined the succession of the General Counsel and the Senior Vice-President, Human Resources;
- reviewed the salary policy for the Group's main executive managers;
- analyzed information presented by the Senior Vice-President, Human Resources on the training program;
- assessed the significant business relationships during the assessment of the directors' independence status; and
- recommended changes to the composition of the Board's Committees.

Valeo is committed to a sustainable development strategy through a Corporate Social Responsibility (CSR) policy, aimed at ensuring the consistency of its economic, environmental and social targets. Valeo bases its method of governance and its development on its values and socially responsible operating principles. The members of the Appointment, Compensation & Governance Committee wished to review this issue as well as Valeo's safety policy. Therefore, at their meetings of January 19, 2016 and February 11, 2016, they examined Valeo's CSR and safety policy.

Since the beginning of 2016, the Appointment, Compensation & Governance Committee has reviewed matters related to (i) combining the position of Chairman of the Board and Chief Executive Officer, (ii) the appointment of Jacques Aschenbroich as Chairman and Chief Executive Officer, and (iii) the compensation of Jacques Aschenbroich in his capacity as Chairman and Chief Executive Officer.

Strategy Committee

At the beginning of 2015, the Strategy Committee comprised five members: Jérôme Contamine (Chairman), Gérard Blanc, Sophie Dutordoir, Thierry Moulouquet and Georges Pauget, all independent according to the criteria set out in the Board's internal procedures. At its meeting on July 24, 2015, acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors decided to appoint Ulrike Steinhorst as a member of the Committee to replace Sophie Dutordoir. At December 31, 2015, the Strategy Committee comprised five members: Jérôme Contamine (Chairman), Gérard Blanc, Thierry Moulouquet, Georges Pauget and Ulrike Steinhorst, all deemed independent directors. 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.

The Lead Director, where applicable, may attend and participate in committee meetings, including committees of which he/she is not a member. In agreement with the Chairman of the Board of Directors (or, where applicable, the Chairman and Chief Executive Officer), 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 three times in 2015 with an attendance rate of 100%.

The following table provides the average attendance rate of each member of the Strategy Committee at the Committee's meetings:

Director	Attendance rate
Jérôme Contamine	100%
Gérard Blanc	100%
Thierry Moulonguet	100%
Georges Pauget	100%
Sophie Dutordoir ⁽¹⁾	100%
Ulrike Steinhorst ⁽¹⁾	100%

(1) At its meeting on July 24, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to appoint Ulrike Steinhorst, to replace Sophie Dutordoir, as a member of the Committee.

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 organization and operation of the Group's Research and Development;
- analyzed the competitive landscape;
- reviewed technological developments in the automotive sector over the coming years;
- studied the Company's medium-term plan;
- reviewed Valeo's technological roadmaps.

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, 2015, noting that an outside advisor had assessed its operations last year, decided to assess its operations for 2015 internally. The assessment carried out between the end of 2015 and the beginning of 2016 by the Secretary to the Board of Directors, using a questionnaire given to each director, provided an insight into the directors' view of the Board's operation and

their suggestions for improvement. 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 summary assessment report was reviewed by the Appointment, Compensation & Governance Committee at its meeting on January 19, 2016, and presented and discussed at the Board of Directors' meeting held on January 21, 2016. The review highlighted the directors' very positive assessment of the Company's governance. The directors were satisfied with the Board of Directors' and the Committees' operation, composition and duties as regards the level of information, the organization of discussions, and directors' and General Management's 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. The recommendations issued during the first assessment were handled appropriately. Furthermore, the directors highlighted and appreciated the quality of the annual strategy seminar, particularly with regard to the topics addressed and the opportunity to meet Valeo's teams.

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 ask the Shareholders' Meeting called to approve the 2015 financial statements, acting on the recommendation of the Appointment, Compensation & Governance Committee, to appoint Mari-Noëlle Jégo-Laveissière and Véronique Weill, is in line with this objective.

The analysis of the assessment also gave rise to recommendations concerning the Board of Directors' operation, particularly regarding the organization of executive sessions for independent directors, the role of the the Strategy Committee and special directors' committees set up during acquisitions, and the resources allocated to the Committees' operation.

3.2.3 Declarations concerning the Group's corporate officers

Conflicts of interest

At December 31, 2015, 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 Lead Director and the Board 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 the Company 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 the Company or one of its subsidiaries, or entered into through an intermediary" (Article 1.4 (a)).*
- *"Regarding conflicts of interest, the Lead Director:*
 - *prevents them from occurring by raising awareness of the circumstances that may generate such conflicts of interest,*
 - *notifies the Board of any conflicts of interest concerning the executive corporate officers and other members of the Board as may have been identified by the Lead Director directly or brought to his/her attention in accordance with article 1.1(d) of the Board's internal procedures."* (Article 1.7(b)).

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 (www.valeo.com).

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 (or, where applicable, the Chairman and Chief Executive Officer) 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, the Company's articles of association or pursuant to the Code of Conduct as described in section 3.2.2 "Directors' rights and duties", pages 97 to 99. As indicated in section 3.2.5 "Concerning the holding of shares resulting from the exercise of stock purchase options and vested performance shares", pages 111 to 112, the shares allotted to the Company's Chief Executive Officer (or, where applicable, the Chairman and 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. At its meeting of March 24, 2016, the Board of Directors decided to ask the Shareholders' Meeting of May 26, 2016 to divide the par value of the share in three. In the event of a favorable vote by the shareholders, the articles of association and internal procedures will be amended to reflect this situation and will indicate that each director will have to hold 1,500 shares.

3.2.4 Corporate Governance Code

The Company refers to the AFEP-MEDEF Code and, in accordance with Article 25.2 of the Code, is a member of the AFEP-MEDEF High Committee on Corporate Governance (*Haut Comité de Gouvernement d'Entreprise*). 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 2015, 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 for the Committee Chairmen, given the special duties for which they are responsible;
- 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 of Directors. 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 of the Board of Directors, who is already required to hold at least 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.

Since the sale of a portion of Bpifrance Participations SA's investment in the Company on March 31, 2015 (see Chapter 6, section 6.6.6 "Relations with Bpifrance Participations SA", page 388), to the best of the Company's knowledge, 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 its General Management.

At its meeting of March 24, 2016, the Board of Directors decided to ask the Shareholders' Meeting of May 26, 2016 to divide the par value of the share in three. In the event of a favorable vote by the shareholders, the articles of association and internal procedures will be amended to reflect this situation and will indicate that each director will have to hold 1,500 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' meetings of April 9, 2009 and October 20, 2009, on the recommendation of the Appointment, Compensation & Governance Committee, 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's stock purchase or stock subscription options and performance share allotment policy complies with the recommendations of the AFEP-MEDEF Code, to which Valeo refers. 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 (or, where applicable, the Chairman and Chief Executive Officer) and members of the Operations Committee are subject to performance criteria.
- It is only possible to allot stock purchase options or performance shares to the Chief Executive Officer (or, where applicable, the Chairman and Chief Executive Officer) if the Chief Executive Officer's (or, where applicable, the Chairman and Chief Executive Officer's) term of office has not expired on the exercise date (this presence condition, however, may be waived at the discretion of 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 (or, where applicable, the Chairman and 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. In practice, the Group allotted shares in March of each year. Regarding allotments of shares in 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to submit a

new resolution to the Shareholders' Meeting of May 26, 2016 on the allotment of free shares to Group employees and corporate officers. In addition, the shares will be allotted only after the adoption of this resolution to be covered by the provisions of law no. 2015-990 for Growth, Activity and Equality of Opportunities of August 6, 2015, known as the Macron law (and not in March 2016 based on the twelfth resolution adopted by the Shareholders' Meeting of May 21, 2014).

Concerning the price of stock purchase options and performance shares

- No discount is applied when stock purchase options are allotted.
- Executive corporate officers who benefit from stock purchase options and performance shares must formally undertake not to engage in hedging transactions (the same obligation applies to the Group's executive managers).

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", pages 97 to 99.

Concerning the holding of shares resulting from the exercise of stock purchase options and vested performance shares

The Chief Executive Officer (or, where applicable, the Chairman and 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 (or, where applicable, the Chairman and 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 Jacques Aschenbroich is presented in section 3.3.1 "Stock purchase options and performance shares", pages 122 to 123.

Information on stock purchase options or stock subscription options and on free shares allotted to other executives is presented in section 3.3.3 "Overall compensation of other Group executive managers", pages 131 to 133, and in section 3.3.4 "Information about stock purchase or subscription options and performance shares", pages 133 to 134.

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 2015

Apart from Pascal Colombani and Jacques Aschenbroich, no Board member was paid any compensation or benefits other than attendance fees by the Company during 2015. For further information, see section 3.3.1 "Compensation of executive corporate officers", pages 117 to 129 and section 3.3.2 "Compensation of non-executive corporate officers", page 130.

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, February 21, 2013 and July 24, 2014, on the recommendation of the Appointment, Compensation & Governance Committee, are described below:

- (i) each director receives:
 - fixed portion: 22,000 euros/year,
 - variable portion: 2,700 euros/meeting attended;
- (ii) each director who is a member (but not Chairman) of a Board Committee also receives:
 - fixed portion: 0,
 - variable portion: 2,700 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: 2,700 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: 2,700 euros/meeting attended.

These payments are not capped; however if the budget of 700,000 euros set 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:

$$\frac{\text{Fees paid to an individual director}}{\text{Total fees paid to all directors}} \times 700,000 \text{ euros}$$

The amount of attendance fees paid to each director in 2015 is presented in section 3.3.2 "Compensation of non-executive corporate officers", pages 130 to 131.

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.

At its meeting on January 21, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, asked the Shareholders' Meeting of May 26, 2016 to change the amount of the budget for attendance fees to 1,100,000 euros for 2016 and subsequent years until a new decision of the Shareholders' Meeting. This recommendation is based on the fact that (i) according to a study of directors' compensation of companies belonging to the CAC 40 index, the average amount paid to Valeo's directors is lower than the average reported for these companies and was adjusted as indicated below, (ii) the number of directors eligible for attendance fees could increase if the Shareholders' Meeting approved the Board of Directors' recommendation on the appointment of directors and renewal of directorships, (iii) as from the end of his term of office as Chairman of the Board of Directors, Pascal Colombani will receive attendance fees as a director (which was not the case when he was an executive corporate officer) and (iv) the Lead Director, where applicable, receives additional attendance fees for the performance of his duties.

Regarding the adjustment of attendance fees, subject to the approval of the new budget for attendance fees by the Shareholders' Meeting of May 26, 2016, the Board of Directors at its meeting of January 21, 2016 and acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to change the rules for allocating attendance fees for 2016 and increase the amount of (i) the fixed and variable portions paid for attending Board of Directors' meetings (from 22,000 euros to 25,000 euros as fixed portion and from 2,700 euros to 3,000 euros per meeting attended as variable portion) and (ii) the variable portion paid to Committees' members (from 2,700 euros to 3,000 euros per meeting attended), the other amounts remaining unchanged. The compensation of the Lead Director, where applicable, will be equal to the fixed portion and variable portion that he/she will receive as director for a given year, in accordance with the Board of Directors' decision of October 21, 2015.

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 AFEP-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. Following the renewal of the terms of office of the Chairman of the Board of Directors and Chief Executive Officer by the Board of Directors on May 26, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided, at its meetings of May 26, 2015 and July 24, 2015, not to change the fixed compensation of the Chairman of the Board of Directors and Chief Executive Officer. After examining various comparative studies on the compensation of Chief Executive Officers and Chairmen and Chief Executive Officers of companies belonging to the CAC 40 index and noting that the fixed compensation of Jacques Aschenbroich is lower than the average fixed compensation reported in these studies, at its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, and following the appointment of Jacques Aschenbroich as Chairman of the Board

of Directors, unanimously approved by the Board of Directors on February 18, 2016 (Jacques Aschenbroich refraining from taking part in voting), and the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer approved on the same day, decided to increase the fixed annual compensation of Jacques Aschenbroich. See section 3.3.1 "Fixed compensation and benefits in kind", page 120 for a description of these principles.

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", pages 120 and 121 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", pages 123 to 124). However, in accordance with its decisions on April 9, 2009 and October 20, 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.

The appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously decided by the members of the Board of Directors on February 18, 2016 (Jacques Aschenbroich refraining from taking part in voting), Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, does not interfere with the compensation policy for executive corporate officers, the compensation packages of the Company's corporate officers being determined globally by the Board of Directors acting on the recommendations of the Appointment, Compensation & Governance Committee and in compliance with the AFEP-MEDEF Code.

Furthermore, following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously decided by the members of the Board of Directors on February 18, 2016 (Jacques Aschenbroich refraining from taking part in voting), Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, Jacques Aschenbroich notified the Board of Directors of his decision to waive, as from his appointment, his right to termination benefits whose renewal and modifications were authorized by the Board of Directors on February 24, 2015 and approved by the Shareholders' Meeting of May 26, 2015.

Finally, following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously decided by the members of the Board of Directors on February 18, 2016 (Jacques Aschenbroich refraining from taking part in voting), Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, Jacques Aschenbroich's supplementary pension plan was amended to provide for performance criteria to comply with the provisions of law no. 2015-990 for Growth, Activity and Equality of Opportunities of August 6, 2015, known as the Macron law. The acquisition of conditional supplementary pension benefits

under the supplementary defined benefit pension plan for the period of February 19, 2016 to December 31, 2016, will be subject to a condition related to the beneficiary's performance which is achieved if the variable portion of the compensation of the Chairman and Chief Executive Officer paid in 2017 for 2016 corresponds to 100% of the fixed compensation payable for 2016. In the event that the variable portion amounted to less than 100% of the fixed portion, rights would accrue on a prorata basis. The amended supplementary pension plan, which was authorized by the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, will be submitted to the shareholders' approval at the Shareholders' Meeting of May 26, 2016.

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 24, 2015, 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. The Board of Directors' meeting on February 18, 2016 renewed this commitment based on the same terms and conditions. However, this power is now granted to the Chairman and Chief Executive Officer.

During 2015, 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 May 26, 2015, 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 positions of Chairman of the Board of Directors and Chief Executive Officer, decided by the Board of Directors' meeting on March 20, 2009, and renewed on June 8, 2011. The Board of Directors' meeting on May 26, 2015 renewed the term of office of Pascal Colombani as Chairman of the Board of Directors until the Shareholders' Meeting called to approve the 2015 financial statements given the age limit set out in the articles of association for the performance of his duties and the term of office of Jacques Aschenbroich as Chief Executive Officer until the end of his term of office as director.

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 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 May 26, 2015, 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, renewed on June 8, 2011, 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.

Pascal Colombani indicated that having reached the age limit set out in the articles of association, it would be the appropriate time for him to step down from his position. On February 18, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, unanimously decided (Jacques Aschenbroich refraining from taking part in voting) to appoint Jacques Aschenbroich as Chairman of the Board of Directors, Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer.

The Board of Directors' meeting on February 18, 2016 noted that under the leadership of Jacques Aschenbroich, since his appointment as Chief Executive Officer on March 20, 2009, Valeo has experienced a spectacular recovery and improved operating performance. Since 2009, there has been a significant increase in: (i) sales (from 7,499 million euros in 2009 to 14,544 million euros in 2015), (ii) operating margin (from 133 million euros representing 1.8% of sales in 2009 to 1,116 million euros representing 7.7% of sales in 2015), (iii) EBITDA (from 670 million euros representing 8.9% of sales in 2009 to 1,847 million euros representing 12.7% of sales in 2015) and (iv) net attributable income/(loss) (from a loss of 146 million euros in 2009 to income of 729 million euros in 2015). This operating performance resulted in annual dividend distributions starting again in 2010. They have been growing since that date (from 0 euro per share in 2009 to 1.20 euro per share in 2010 and 3 euros per share in 2015) with a distribution rate of 32% for 2015. This operating performance, combined with Valeo's strategy has also been acknowledged by financial markets, with its share price rising from 11.13 euros on March 20, 2009 to 142.55 euros on December 31, 2015 (an increase of 1,181% over that period) and Valeo's share returning to the CAC 40 index on June 23, 2014, for the first time since August 8, 2001.

The Board of Directors also considered that the combination of positions would not interfere with the Group's governance provided efficient checks and balances were established, such as the appointment of a Lead Director. This combination of positions would not interfere with the quality of operational management or main Group decisions. It will also strengthen the relationship between Valeo's shareholders and senior management.

The strong presence of independent directors on the Board of Directors (10 of 12 at December 31, 2015 and 12 of 14 following the Shareholders' Meeting of May 26, 2016 if the appointment

of Mari-Noëlle Jégo-Laveissière and Véronique Weill is approved by the shareholders), the Audit & Risks Committee (four out of four at December 31, 2015), the Appointment, Compensation and Governance Committee (five out of five at December 31, 2015) and the Strategic Committee (five out of five at December 31, 2015), as well as the appointment of a Lead Director, with the widest powers to perform his duties, for the purpose of bringing additional guarantees to the smooth operation of the Board of Directors and ensuring the avoidance of potential conflicts of interest, will serve as checks and balances. The role and powers of the Lead Director are described in section 3.2.1 "Appointment of a Lead Director", pages 82 to 83.

In addition, the Board of Directors, on the recommendation of the Appointment, Compensation & Governance Committee based on the self-assessment results of the Board of Directors' operating procedures, approved the holding of Board of Directors' and specialized Committee meetings without executive corporate officers being present, to enable directors to address issues concerning executive corporate officers, corporate governance or any other issue concerning the Company. The Lead Director also has the power to hold and chair meetings, at least once a year, without executive or internal directors being present, for purposes of, including but not limited to (i) the assessment of the performance of General Management, and (ii) the assessment of the performance of the Board of Directors.

The powers of the Chairman and Chief Executive Officer will be subject to the same limitation as previously applicable to the Chief Executive Officer (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 relating to commitments to Jacques Aschenbroich as Chief Executive Officer and already approved by a Shareholders' Meeting, were pursued in 2015:

- 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 117;
- a commitment in the form of a defined benefit pension plan (Board of Directors' decision of April 9, 2009 implemented in October 20, 2009). This policy is described in section 3.3.1 "Pension plan", pages 123 to 124.

Following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously decided by the members of the Board of Directors on February 18, 2016 (Jacques Aschenbroich refraining from taking part in voting), Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, Jacques Aschenbroich's supplementary pension plan was amended to provide for performance criteria to comply with the provisions of law no. 2015-990 for Growth, Activity and Equality of Opportunities of August 6, 2015, known as the Macron law.

The acquisition of conditional supplementary pension benefits under the supplementary defined benefit pension plan for the period of February 19, 2016 to December 31, 2016, will be subject to a condition related to the beneficiary's performance which is achieved if the variable portion of the compensation of the Chairman and Chief Executive Officer paid in 2017 for 2016 corresponds to 100% of the fixed compensation payable for 2016. In the event that the variable portion amounted to less than 100% of the fixed portion, rights would accrue on a prorata basis. The amended supplementary pension plan,

which was authorized by the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, will be submitted to the shareholders' approval at the Shareholders' Meeting of May 26, 2016.

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, pages 361 to 363).

3.2.10 Agreements governed by Article L.225-42-1 of the French Commercial Code authorized during the year

The following agreements, relating to commitments to Jacques Aschenbroich as Chief Executive Officer were authorized by the Board of Directors on February 24, 2015 and approved by a Shareholders' Meeting on May 26, 2015:

- non-competition payment: following the renewal of Jacques Aschenbroich's directorship and term of office as Chief Executive Officer, at its meeting on February 24, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, changed certain criteria of the agreement granting the Board of Directors the right to subject Jacques Aschenbroich, in his capacity of Chief Executive Officer, to a non-competition clause, which was authorized by the Board of Directors on February 24, 2010, 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);
- termination benefits: following the renewal of Jacques Aschenbroich's directorship and term of office as Chief Executive Officer, at its meeting on February 24, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, changed certain criteria for termination benefits, which were authorized by the Board of Directors on February 24, 2010, and renewed on February 24, 2011, and to which Jacques

Aschenbroich would be entitled 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, except on the grounds of gross misconduct).

Furthermore, following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously decided by the members of the Board of Directors on February 18, 2016 (Jacques Aschenbroich refraining from taking part in voting), Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, Jacques Aschenbroich notified the Board of Directors of his decision to waive, as from his appointment, his right to termination benefits whose renewal and modifications were authorized by the Board of Directors on February 24, 2015 and approved by the Shareholders' Meeting of May 26, 2015.

The non-competition payment and termination benefits to which Jacques Aschenbroich is entitled if he leaves the Company are described in section 3.3.1 "Termination benefits and non-competition payment", pages 124 to 126.

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, pages 361 to 363).

3.2.11 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.

3.2.12 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 "Information likely to have an impact in the event of a public tender offer", pages 387 to 388.

3.3 Compensation of corporate officers, directors and other Group executive managers

3.3.1 Compensation of executive corporate officers

The compensation components owed or awarded by the Board of Directors to each executive corporate officer, on the recommendation of the Appointment, Compensation & Governance Committee, for 2015, are described in this section.

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

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 250,000 euros to 300,000 euros with effect from June 1, 2011. Following the last renewal of the term of office of Pascal Colombani as Chairman of the Board of Directors on May 26, 2015, it was decided to maintain the amount of the fixed annual compensation at 300,000 euros. This amount has remained unchanged since June 8, 2011.

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). Following the renewal of his term of office as Chairman of the Board of Directors on May 26, 2015, it was decided to maintain this employment allowance in kind.

In 2015, Valeo paid Pascal Colombani fixed annual compensation of 300,000 euros.

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 2015 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)	2014	2015
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)	2014		2015	
	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 appointment: 05/21/2007				
Start of term of office: 05/26/2015				
End of current term of office (director): Shareholders' Meeting called to approve the financial statements for the year ended Dec. 31, 2018	No	No	No	No

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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 section 3.3.1 "Pension Plan", pages 123 to 124).

Compensation of the Chief Executive Officer for 2015

Long term	Performance shares 10,232 shares (€1,215,000)⁽¹⁾	Performance criteria over 3 years: - ROA, operating margin and ROCE⁽²⁾: the average ratio over three years (2015 to 2017) of the effective achievement rate in relation to the target rate set by the Board of Directors at the beginning of each fiscal year, which must be at least equal to the guidance for the year under review, is equal to or greater than one. 3-year vesting period: 3 criteria met (100%), 2 criteria met (60%), 1 criterion met (30%) and no criteria met (0%). 3-year vesting period followed by a mandatory 2-year holding period At the end of the holding period, at least 50% of the vested performance shares must be held until the term of office expires
	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 fixed compensation)
Short term	Fixed portion €900,000	Unchanged since 2011 Excluding benefits in kind and supplementary pension

(1) Performance shares measured in accordance with IFRS: €118.74 each at the allotment date, rounded up to the nearest euro cent.

(2) See Financial Glossary, page 406.

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.

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.

Valeo also provides Jacques Aschenbroich with a company car.

Following the renewal of Jacques Aschenbroich's term of office as Chief Executive Officer by the Board of Directors, at its meeting on May 26, 2015, it was decided that the compensation package would remain unchanged.

In 2015, fixed compensation due to Jacques Aschenbroich by Valeo came to 916,936 euros (compared with 916,840 euros in 2014). This consists of fixed compensation of 900,000 euros gross (as in 2014) and 16,936 euros (compared with 16,840 euros in 2014) in benefits in kind.

After examining various comparative studies on the compensation of Chief Executive Officers and Chairmen and Chief Executive Officers of companies belonging to the CAC 40 index

and noting that the fixed compensation of Jacques Aschenbroich is lower than the average fixed compensation reported in these studies, at its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, and following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously approved by the Board of Directors on February 18, 2016 (Jacques Aschenbroich refraining from taking part in voting), and the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer approved on the same day, decided to increase the fixed annual compensation of Jacques Aschenbroich to 1,000,000 euros effective on that date.

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 compensation of the Chief Executive Officer (or, where applicable, the Chairman and Chief Executive Officer) 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.

Summary of variable compensation paid to Jacques Aschenbroich over the last five years

(% of fixed compensation)	2011		2012		2013		2014		2015	
	Achieved	Capped	Achieved	Capped	Achieved	Capped	Achieved	Capped	Achieved	Capped
Quantitative criteria	51.7%	75.0%	41.8%	75.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
Qualitative criteria	33.3%	45.0%	44.2%	45.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Variable compensation	85.0%	120.0%	86.0%	120.0%	135.0%	135.0%	135.0%	135.0%	135.0%	135.0%

Variable compensation for 2014

In 2014, 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) 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 2014 had 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, i.e., 1,215,000 euros (unchanged on 2013).

Variable compensation for 2015

At the meeting of February 24, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that the variable compensation to be paid for 2015 would depend on the same quantitative and qualitative criteria as for 2014. However in 2015 a new sub-criterion was added to assess the achievement of the strategic vision criterion, namely an increased proportion of innovative products in the order intake in respect of 2015 and new higher targets were set. Variable compensation for 2015 has been capped at 135% of Jacques Aschenbroich's fixed annual compensation.

At its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, noted that the achievement rates for quantitative criteria for 2015 were 85% and achievement rates for qualitative criteria were 50% of the fixed compensation owed to Jacques Aschenbroich for 2015, bringing the amount of variable compensation owed to Jacques Aschenbroich for 2015 to 135% of his fixed annual compensation to be paid for the same year, i.e., 1,215,000 euros (unchanged on 2014). The achievement of quantitative criteria is assessed by the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, as follows:

- the financial communications criterion is measured in particular based on Valeo's share price compared with the share price of other European, Japanese and US companies operating in the same business sector;
- the strategic vision criterion is measured based on (i) analysts' assessments, (ii) Valeo's strategic operations and (iii) an increased proportion of innovative products in the order intake in 2015;
- the risk management criterion is measured based on (i) continued and intensified measures to reinforce the compliance policy and (ii) management of risks relating to ramp-up in production taking account of orders, new product launches and customer complaints.

Variable compensation for 2016

At the meeting of February 18, 2016 the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that for 2016 the quantitative component of the Chief Executive Officer's compensation will depend on the same five criteria as those applied in 2015: (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 is determined precisely but is not publicly disclosed for reasons of confidentiality. However, the achievement level of the quantitative criteria for 2016 was raised compared to the target for 2015.

The qualitative component of the Chairman and Chief Executive Officer's compensation will depend on the same three criteria as those of 2015: (i) quality of financial communication, (ii) strategic vision, and (iii) risk management. However, the achievement of the qualitative criteria will be assessed by the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, as in 2015, subject to the additional two new sub-criteria to (i) assess the achievement of the strategic vision criteria (a road map prepared by Management and presented at the next strategy seminar on differentiation initiatives which would create a competitive edge for Valeo and would describe their Research and Development impact) and (ii) measure the achievement of the risk management criterion (risk management relating to the Group CSR policy).

The amount of variable compensation as a percentage of the fixed annual compensation ranges from 0% to 23% for each of the five quantitative criteria (i.e., a maximum of 115%), and for the qualitative criteria from 0% to 11% for the quality of financial communications, and from 0% to 22% for strategic vision and risk management (i.e., a maximum of 55%) in accordance with the Board of Directors' decision of July 24, 2015, on the recommendation of the Appointment, Compensation & Governance Committee and confirmed on February 18, 2016.

Variable compensation for 2016 has been capped at 170% of Jacques Aschenbroich's fixed annual 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.

At its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, confirmed the maintenance of this rule following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously approved by the Board of Directors (Jacques Aschenbroich refraining from taking part in voting) and the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer, on the same day.

Compensation paid by companies controlled by Valeo

In 2015, 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.

At its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, confirmed the maintenance of this rule following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously approved by the Board of Directors (Jacques Aschenbroich refraining from taking part in voting) and the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer, on the same day.

Stock purchase options and performance shares

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 at its meeting on March 27, 2012 and announced 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 existing 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 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. Jacques Aschenbroich formally agreed in writing that he would not use such transactions on the 10,505 performance shares allotted to him on March 27, 2014.

The performance shares allotted to Jacques Aschenbroich during 2014 had a limited dilutive impact and represented 0.013% 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.

Allotments in 2015

At its meeting on March 26, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided 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 February 20, 2014 and disclosed to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on May 21, 2014. The Board of Directors therefore decided to allot 10,232 existing 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 2015, 2016 and 2017 fiscal years. These criteria are an average pre-tax return on assets (ROA) ratio, 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 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. The following scale then applies:

- if all three criteria for fiscal years 2015, 2016 and 2017 are met, all the performance shares initially allotted will vest;
- if two of the three criteria for fiscal years 2015, 2016 and 2017 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 2015, 2016 and 2017 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 2015, 2016 and 2017 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. Jacques Aschenbroich formally agreed in writing that he would not use such transactions on the 10,232 performance shares allotted to him on March 26, 2015.

The performance shares allotted to Jacques Aschenbroich during 2015 had a limited dilutive impact and represented 0.013% of the Company's share capital at December 31, 2015.

At its meeting on March 26, 2015, the Board of Directors noted that the performance shares allotted to the Chief Executive Officer in 2015 valued at 118.74 euros under IFRS represented 135% of his fixed annual compensation for the same year.

All stock purchase options and performance shares allotted, including to Jacques Aschenbroich specifically, are summarized in the tables on pages 127 and 128.

These tables show that he was conditionally allotted 100,000 stock purchase options and 50,000 performance 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 performance shares in 2011. In June 2014, 18,180 stock purchase options and 9,360 performance shares vested, equivalent to 60% of his initial allotment. Of the three criteria set (operating margin, ROCE and ROA for 2011-2013), the target operating margin was not reached.

He was conditionally allotted 35,300 stock purchase options and 11,400 performance shares in 2012. In March 2015, 35,300 stock purchase options and 11,400 performance shares vested, equivalent to 100% of his initial allotment, as all of the performance criteria were met (operating margin, ROCE and ROA for 2012-2014).

The 25,634 performance actions allotted to Jacques Aschenbroich in 2013 will vest on March 27, 2016 as a result of the achievement of the 2015 performance conditions to which they were were subject.

The shares allotted to Jacques Aschenbroich in 2014 and 2015 (respectively 10,505 and 10,232 performance shares), are subject to performance conditions whose achievement will be assessed after the closing of the 2016 and 2017 financial statements.

Pension plan

At its meeting on April 9, 2009, the Board of Directors discussed the total compensation of Jacques Aschenbroich and decided to register Jacques Aschenbroich with the supplementary defined benefit pension plan put in place for the Group's senior executives and referred to in Article L.237-11 of the French Social Security Code (*Code de la sécurité sociale*). This decision was implemented on October 20, 2009 and was taken with a view to retaining the Chief Executive Officer and motivating him with regard to the Company's objectives, protecting its corporate interest and following market practices. 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 him with five additional years of service at the start of his tenure.

The pension plan, which is not closed, has been in force since January 1, 2010. It was adopted as a regulated commitment pursuant to Article L.225-38 of the French Commercial Code by the Shareholders' Meeting on June 3, 2010 in its twelfth resolution, and maintained without any modification until February 21, 2012.

At its meetings on February 21, 2012 and January 23, 2014, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to (i) include 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 and (ii) adjust the supplementary pension plan to bring it in line with market practices. This adjustment, which does not have retroactive effect, involved 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 Article 23.2.6 of 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.

However, to be applicable, this plan requires nevertheless that the Chief Executive Officer end his/her professional career within the Group. In addition, all of the Chief Executive Officer's statutory pensions must have been settled.

The Chief Executive Officer's supplementary pension plan is financed by Valeo annually through the payment of premiums to the service provider in charge of administering the annuities.

Following the renewal of Jacques Aschenbroich's directorship by the Shareholders' Meeting of May 26, 2015, and his term of office as Chief Executive Officer, at the first Board of Directors' meeting held after this Shareholders' Meeting, it was decided that the pension plan covering Jacques Aschenbroich would be maintained without any modification.

Finally, following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously decided by the members of the Board of Directors on February 18, 2016 (Jacques Aschenbroich refraining from taking part in voting), Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, Jacques Aschenbroich's supplementary pension plan was amended to provide for performance criteria to comply with the provisions of law no. 2015-990 for Growth, Activity and Equality of Opportunities of August 6, 2015, known as the Macron law. The acquisition of conditional supplementary pension benefits under the supplementary defined benefit pension plan for the period of February 19, 2016 to December 31, 2016, will be subject to a condition related to the beneficiary's performance which is achieved if the variable portion of the compensation of the Chairman and Chief Executive Officer paid in 2017 for 2016 corresponds to 100% of the fixed compensation payable for 2016. In the event that the variable portion amounted to less than 100% of the fixed portion, rights would accrue on a prorata basis. The amended supplementary pension plan, which was authorized by the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, on February 18, 2016, will be submitted to the shareholders' approval at the Shareholders' Meeting of May 26, 2016.

Termination benefits and non-competition payment

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 renewal of his term of office as Chief Executive Officer at the first Board of Directors' meeting held after this Shareholders' Meeting, to modify certain criteria for termination benefits initially granted by the Board of Directors on February 24, 2010, and renewed in the twelfth resolution of the Shareholders' Meeting of June 8, 2011, such that the termination benefits' triggering condition is more demanding.

The modified termination benefits were adopted as regulated commitments pursuant to Article L.225-42-1 of the French Commercial Code by the Shareholders' Meeting on May 26, 2015 in its fifth resolution. Jacques Aschenbroich's directorship was renewed by the Shareholders' Meeting of May 26, 2015, and his term of office as Chief Executive Officer was renewed at the first Board of Directors' meeting held after

this Shareholders' Meeting. These benefits described below became effective following the Board of Directors' meeting referred to above.

These benefits would only be paid to the Chief Executive Officer 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 however 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 Valeo Group, or if he had the opportunity to claim retirement benefits within a short time period.

The amount of these benefits is subject to the following five performance criteria:

- payment of 50% of variable compensation on average during the last three fiscal years;
- positive net income 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; and
- a ratio of new orders to original equipment sales exceeding 1.3 on average over the previous three fiscal years.

The maximum amount of termination benefits that may be paid to Jacques Aschenbroich is equal to twice his annual compensation (fixed and variable). This compensation is calculated by taking the average compensation (fixed and variable) paid for the three fiscal years preceding the year of departure.

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.

In addition, 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 as Chief Executive Officer.

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.

If the Company decided to invoke the non-competition clause applicable to Jacques Aschenbroich (described below), the amount owed would be offset against his termination benefits limited to twice his annual compensation (fixed and variable) calculated as described above.

Following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously decided by the members of the Board of Directors on February 18, 2016 (Jacques Aschenbroich refraining from taking part in voting), Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive

Officer, Jacques Aschenbroich notified the Board of Directors of his decision to waive, as from his appointment, his right to termination benefits whose renewal and modifications were authorized by the Board of Directors on February 24, 2015 and approved by the Shareholders' Meeting of May 26, 2015. As a result, Jacques Aschenbroich is no longer entitled to termination benefits as of February 18, 2016.

The following table provides an overview of the Chief Executive Officer's termination benefits in effect from May 26, 2015 to February 18, 2016 and the previous commitment relating to termination benefits in effect until May 26, 2015.

	Termination benefits approved at the Shareholders' Meeting of June 8, 2011 and in effect until May 26, 2015	Termination benefits approved at the Shareholders' Meeting of May 26, 2015 and in effect since May 26, 2015 (until February 18, 2016)
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 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 payment

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 modify certain conditions of the non-competition clause decided by the Board of Directors on February 24, 2010, approved in the eleventh resolution of the Shareholders' Meeting of June 3, 2010, and maintained by the Board of Directors of February 24, 2011 without any modification, on the recommendation of the Appointment, Compensation & Governance Committee.

The modified non-competition payment was adopted as a regulated commitment pursuant to Article L.225-42-1 of the French Commercial Code at the Shareholders' Meeting on May 26, 2015 in its fifth resolution. Jacques Aschenbroich's directorship was renewed by the Shareholders' Meeting of May 26, 2015, and his term of office as Chief Executive Officer was renewed at the first Board of Directors' meeting held after this Shareholders' Meeting. The non-competition payment described below became effective following the Board of Directors' meeting referred to above.

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

described above). The payment will be made in equal monthly installments over the entire period to which the non-competition clause applies.

If the Company decided to invoke the non-competition clause, the amount owed would be offset against his termination benefits. As a result, the maximum amounts that may be paid to the Chief Executive Officer in the form of a non-competition payment and/or termination benefits is equal to twice his annual compensation (fixed and variable). As Jacques Aschenbroich has waived his right to termination benefits effective as of February 18, 2016, the provisions linking the termination benefits and the non-competition payment no longer apply.

The Board of Directors will have to decide whether or not the non-competition agreement will be applied at the time the Chief Executive Officer leaves, particularly if he leaves Valeo to claim or after claiming retirement benefits. The Company reserves the right not to implement this agreement and to waive the non-competition clause, in which case no payment will be owed.

The following table provides an overview of the Chief Executive Officer's non-competition payment in effect as of May 26, 2015 and the previous commitment relating to the non-competition payment in effect until May 26, 2015.

	Non-competition payment approved at the Shareholders' Meeting of June 3, 2010 and in effect until May 26, 2015	Non-competition payment approved at the Shareholders' Meeting of May 26, 2015 and in effect since May 26, 2015
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		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 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)	2014	2015
Compensation	2,131,840	2,131,936
Value of stock purchase options allotted during the year	-	-
Value of performance shares allotted during the year ^{(1) (2)}	900,000	1,215,000
TOTAL	3,031,840	3,346,936

(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 2014 and 2015 are described in this section on pages 122 to 124.

(2) Total amount rounded up to the nearest hundred euros.

Summary of compensation paid to Jacques Aschenbroich

(in euros)	2014		2015	
	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	900,000	900,000	900,000	900,000
Variable compensation	1,215,000	1,215,000 ⁽²⁾	1,215,000	1,215,000 ⁽²⁾
Exceptional compensation	-	-	-	-
Attendance fees	-	-	-	-
■ o/w attendance fees paid by Valeo	-	-	-	-
■ o/w attendance fees paid by controlled companies	-	-	-	-
Benefits in kind ⁽¹⁾	16,840	16,840	16,936	16,936
TOTAL	2,131,840	2,131,840	2,131,936	2,131,936

(1) Company car, annual contribution to the unemployment insurance fund for Company managers and annual contribution to pension fund.

(2) Amount of variable compensation for the previous year.

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
06/24/2010	100,000	24.07

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
	03/26/2015	10,232	€1,215,000	03/26/2018	03/26/2020 ⁽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 2015 are described in this section on pages 122 to 124.

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	-

History of allotments of stock purchase or subscription options including to Jacques Aschenbroich – Information concerning stock purchase or subscription options (at March 24, 2016)

Date of Board meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013 ⁽³⁾	03/27/2014 ⁽⁴⁾
Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011	06/04/2012	06/04/2012
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	100,000	18,180	35,300	-	-
Number of stock purchase options and stock subscription options canceled or forfeited (cumulative)	149,912	126,190	37,150	-	-
Stock purchase options and stock subscription options remaining at year-end	155,236	84,430	255,357	-	-

(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. For information, the tenth resolution of the Shareholders' Meeting of June 4, 2012 was not renewed and was declared null and void on August 5, 2014.

History of allotments of free shares including to Jacques Aschenbroich – information concerning free shares allotted (at March 24, 2016)

Date of Board meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013	03/27/2014	03/26/2015
Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011	06/04/2012	06/04/2012	05/21/2014
Total number of free shares allotted	400,000	326,860	213,140	473,814	323,480	319,009
Vesting date of shares	06/24/2012	06/08/2014	03/27/2015	03/27/2016	03/27/2017	03/27/2018
End of holding period	06/24/2014	06/08/2016	03/27/2017	03/27/2018	03/27/2019	03/27/2020
Number of shares conditionally allotted to Jacques Aschenbroich ⁽¹⁾	50,000	15,600	11,400	25,634	10,505	10,232
Performance criteria – rate of achievement	100%	60%	100%	100%	-	-
Total number of shares purchased by Jacques Aschenbroich	50,000	9,360	11,400	-	-	-
Total number of shares canceled or forfeited	69,241	112,142	24,067	53,004	28,392	20,787
Free shares allotted remaining at year-end	0	88,151	36,032	420,807	295,085	298,222

(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 2014 and 2015 are described in this section on pages 122 to 124.

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: March 20, 2009 Start of current term of office: May 26, 2015 End of current term of office: Shareholders' Meeting called to approve the financial statements for the year ended Dec. 31, 2018		The pension plan covering Jacques Aschenbroich is detailed in "Pension plan" on pages 123 and 124. At December 31, 2015, 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 165,360 euros (it being specified that social security contributions at a rate of 32% are payable by the Company on annuities paid).	For a description of these benefits, see "Termination benefits and non-competition payment" on pages 124 to 126.	For a description of this benefit, see "Termination benefits and non-competition payment" on pages 124 to 126.

(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, 2015.

(2) Jacques Aschenbroich's variable reference compensation, which is the average of the last 36 months of variable compensation received, amounted to 1,068,000 euros at December 31, 2015.

3.3.2 Compensation of non-executive corporate officers

Non-executive corporate officers receive attendance fees for their presence at Board of Directors 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, February 21, 2013 and July 24, 2014, 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 2,700 euros per meeting attended; those who also sit on a Board Committee (including the Committee Chairmen) will be paid an additional variable fee of 2,700 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; and each Committee Chairman other than the Chairman of the Audit & Risks Committee will be paid a supplementary fixed fee of 12,000 euros per year. 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.

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.

At its meeting on January 21, 2016, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to ask the Shareholders' Meeting to be held on May 26, 2016 to change the amount of the budget for attendance fees to 1,100,000 euros for 2016 and subsequent years until a new decision of the Shareholders' Meeting. This recommendation is based on the fact that (i) according to a study of directors' compensation of companies belonging to the CAC 40 index, the average amount paid to Valeo's directors is lower than the average reported for these companies and was adjusted as indicated below, (ii) the number of directors eligible for attendance fees could increase if the Shareholders' Meeting approved the Board of Directors' recommendation on the appointment of directors and renewal of directorships, (iii) as from the end of his term of office as Chairman of the Board of Directors, Pascal Colombani will receive attendance fees as a director (which was not the case when he was an executive corporate officer) and (iv) the Lead Director, where applicable, receives additional attendance fees for the performance of his duties.

Regarding the adjustment of attendance fees, subject to the approval of the new budget for attendance fees by the Shareholders' Meeting of May 26, 2016, the Board of Directors at its meeting of January 21, 2016, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to change the rules for allocating attendance fees for 2016 and increase the amount of (i) the fixed and variable portions paid for attending Board of Directors' meetings (from 22,000 euros to 25,000 euros as fixed portion and from 2,700 euros to 3,000 euros per meeting attended as variable portion) and (ii) the variable portion paid to Committee members (from 2,700 euros to 3,000 euros per meeting attended), the other amounts remaining unchanged. The compensation of the Lead Director will be equal to the fixed portion and variable portion that he/she will receive as director for a given year, in accordance with the Board of Directors' decision of October 21, 2015.

The amount of attendance fees paid to each director in 2015 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 637,000 euros in 2015, compared with 555,400 euros in 2014. Attendance fees were distributed as follows:

(in euros)	Attendance fees		Other compensation (fixed, variable or exceptional compensation, benefits in kind)	
	2014	2015	2014	2015
Executive corporate officers				
Pascal Colombani	-	-	300,000	300,000
Jacques Aschenbroich	-	-	2,131,840	2,131,936
Non-executive corporate officers				
Gérard Blanc	47,700	54,400	-	-
Daniel Camus	67,600 ⁽¹⁾	74,800 ⁽¹⁾	-	-
Jérôme Contamine	52,100	61,000	-	-
C. Maury Devine	-	24,500 ⁽²⁾⁽³⁾	-	-
Sophie Dutordoir	45,000 ⁽⁴⁾	57,100 ⁽⁴⁾	-	-
Michel de Fabiani	64,100	76,000	-	-
Michael Jay	50,400 ⁽⁵⁾	24,500 ⁽⁵⁾	-	-
Noëlle Lenoir	52,600	57,100	-	-
Thierry Moulonguet	54,300	65,200	-	-
Georges Pauget	71,200	82,600	-	-
Ulrike Steinhorst	50,400	59,800	-	-
TOTAL	555,400	637,000	2,431,840	2,431,936

(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) Following Michael Jay's resignation from his directorship, at its meeting on April 23, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to appoint C. Maury Devine, as a director, for the remainder of Michael Jay's term of office.

(3) The amount corresponds to the gross amount of attendance fees subject to a 30% withholding tax, as C. Maury Devine is not a French resident.

(4) The amount corresponds to the gross amount of attendance fees subject to a 30% withholding tax, as Sophie Dutordoir is not a French resident.

(5) Michael Jay resigned from his directorship on April 23, 2015. The amount indicated 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, 2015 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) came to 10,725,923 euros in 2015 (compared with 10,601,994 euros in 2014), of which 6,239,087 euros in fixed compensation, 3,533,213 euros in variable compensation, 66,031 euros in benefits in kind, 16,580 euros in profit-sharing and incentive compensation bonuses, and 871,012 euros in retirement benefits.

At its meeting on March 26, 2015, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided not to allot stock purchase options in 2015 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 February 20, 2014 and disclosed to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on May 21, 2014. The Board of Directors therefore decided to allot 308,777 free shares or existing performance shares to employees and corporate officers, of which:

- 28,793 performance shares to the Operations Committee members (excluding Jacques Aschenbroich);
- 14,486 performance shares to the Liaison Committee members (other than the Operations Committee members);
- 66,848 free shares or performance shares to the main direct reports of the Liaison Committee members;
- up to 198,650 free shares not subject to performance criteria, including (i) 188,000 free shares to all Group company employees and (ii) 10,650 free shares to 213 middle managers with good potential.

In accordance with the principles adopted by the Board of Directors at its meeting on March 26, 2015, 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 section 3.3.1 "Stock purchase options and performance shares", pages 122 to 123).

All the performance shares allotted to the members of the Operations Committee are conditional upon the achievement of performance criteria measured over the 2015, 2016 and 2017 fiscal years. These criteria are an average pre-tax return on assets (ROA) ratio, 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 2015, 2016 and 2017 are met, all the performance shares initially allotted will vest;
- if two of the three criteria for fiscal years 2015, 2016 and 2017 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 2015, 2016 and 2017 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 2015, 2016 and 2017 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 26, 2015 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 2015, 2016 and 2017, all the performance shares initially allotted will vest;

- if only one of the two criteria is met for fiscal years 2015, 2016 and 2017, 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 2015, 2016 and 2017, 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 members of the Operations Committee and the Liaison Committee must not engage in hedging transactions over Valeo's securities (including performance and/or free shares).

The free shares or performance shares allotted to employees and corporate officers (including Jacques Aschenbroich) during 2015 had a limited dilutive impact and represented 0.40% of the Company's share capital at December 31, 2015. 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 2.59% of the Company's share capital at December 31, 2015.

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 of the new plan, including Jacques Aschenbroich. Entitlements under the old plan were frozen at December 31, 2009. At its meetings on February 21, 2012 and January 23, 2014, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to adjust the supplementary pension plan offered to the Group's senior executives.

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%, which complies with and is even lower than the maximum percentage recommended by the AFEF-MEDEF Code that establishes a maximum percentage of 45% of the fixed and variable compensation due for the reference period;
- cap on the basis for determining entitlements: total pension entitlements, all plans combined, are 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 – itself equal to the average variable compensation received over the last 36 months – received for working full time within the Group;
- 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.

In order to be eligible for the supplementary pension plan, 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 of the entitlements at the statutory

retirement age under the general social security regime. Jacques Aschenbroich was credited with five years of service upon taking up his tenure (see section 3.3.1 "Pension plan", pages 123 to 124).

Finally, following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, unanimously decided by the members of the Board of Directors on February 18, 2016 (Jacques Aschenbroich refraining from taking part in voting), Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, Jacques Aschenbroich's supplementary pension plan was amended to provide for performance criteria to comply with the provisions of law no. 2015-990 for Growth, Activity and Equality of Opportunities of August 6, 2015, known as the Macron law. The acquisition of conditional supplementary pension benefits under the supplementary defined benefit pension plan for the period of February 19, 2016 to December 31, 2016, will be subject to a condition related to the beneficiary's performance which is achieved if the variable portion of the compensation of the Chairman and Chief Executive Officer paid in 2017 for 2016 corresponds to 100% of the fixed compensation payable for 2016. The amended supplementary pension plan, which was authorized by the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, on February 18, 2016, will be submitted to the shareholders' approval at the Shareholders' Meeting of May 26, 2016.

3

3.3.4 Information about stock purchase or subscription options and performance shares

The stock purchase option, stock subscription option and performance share allotment policy is set out in section 3.2.5 of this Chapter, pages 111 to 112, and in section 3.3.1, pages 117 to 129 regarding allotments to executive corporate officers, as well as in section 3.3.3, pages 131 to 133 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 382 to 385.

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 2015 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 2015 by the ten employees of the issuer or other Group companies holding the greatest number of options	193,282	€28.08	11/14/2015 06/23/2018 06/07/2019 03/26/2020	11/15/2007 06/24/2010 06/08/2011 03/27/2012

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⁾	26,809	03/26/2015

(1) Valued at 118.74 euros on the grant date, under IFRS.

Pensions and other post-employment benefits and related provisions

At December 31, 2015, 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 (unchanged on the December 31, 2014 figure).

At December 31, 2015, 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, 2014) and 316,064 euros (as opposed to 329,541 euros at December 31, 2014).

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 Group Internal Audit and Control Director 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 system

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 was conducted to assess the compliance of Valeo's internal control system with the international framework's new requirements. It resulted in the development of procedures implemented to prevent, detect and deal with fraud and to strengthen middle-management's role in implementing the internal control process. In addition, the Group is looking at how to measure the robustness of sub-contractors' internal control systems for outsourced services.

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 Research & Development 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 22 languages, the Code has been sent out to all of the Group's employees. It is also available on Valeo's website (www.valeo.com).

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. This program uses annual and mandatory training campaigns for all Group engineers and managers.

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 Chief Financial Officer; the Group Risk Insurance Environment Director; the Group Accounting Director; the Group Internal Audit and Control Director; the Vice-President, Corporate Strategy and External Relations; the Chief Ethics and Compliance Officer; the Senior Vice-President, Human Resources; and the General Counsel, chaired by the Chief Operating Officer. This Committee met six times in 2015 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 24, 2015. Two risks were newly included: the (i) risk of regulatory non-compliance and (ii) risk related to a changing technological and competitive environment. A 2016 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 four main parts defining the rules of:

- internal control;
- management control;
- accounting: how the main items of the balance sheet and income statement should be measured and presented;
- cash management: payment procedures and cash from operations.

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 2015, 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:

- CPM Clean Project Management (CPM), including the Constant Innovation Charter, which defines the way to manage 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 Quick Response Quality Control (QRQC) 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 Chief Operating Officer 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 Internal Audit and 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 by the Internal Audit and 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 2015, 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 the application of business expense procedures, the tracking and follow-up of the order intake process, product quality control throughout the plant production life cycle and payroll management IT systems in China.

In 2015, the Fraud unit within the Internal Audit department also performed approximately forty 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. In addition to the whistleblower hotline, a Fraud Investigation Officer has been appointed. The Alert Committee, made up of the Chief Financial Officer, the General Counsel, the Senior Vice-President, Human Resources, the Chief Compliance Officer and the Group Internal Audit and

Control Director, was informed of the detailed findings of the investigations carried out by Internal Audit, which decides on the actions to take and sanctions to apply in the case of actual fraud. 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 and shared services centers, 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, 2015, these two standards had been awarded to 119 and 115 plants respectively, out of a total of 122 plants. The percentage of ISO 14001 and OHSAS 18001 certified plants is therefore 98% and 94%, 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, 2015, ten plants (8%) were ISO 50001 certified out of a total of 122 eligible sites.

3.4.4 Organization of internal control and description of the assessment process

At December 31, 2015, the Internal Control Department was made up of a team of ten persons, exclusively dedicated to internal control at Group and regional levels, reporting directly to the Internal Audit and Control Department. In 2015, the department was further developed with the appointment of three regional controllers whose main responsibilities are to assist the Group Internal Control Director in overseeing the internal control self-assessment campaign and ensuring 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.

In 2015, to assess entities' compliance with the internal control system, the Group used the rollout of a self-assessment questionnaire that focuses on the following seven processes: accounts closing procedures; sales, receivables management

and payments received; procurement, payables management and payments made; monitoring of assets; monitoring of inventories; payroll and human resources; and cash flow. The self-assessment campaign involved 251 operational entities including 20 shared services centers (Finance).

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 initiative implemented in 2015 was presented to the Audit & Risks Committee on November 24, 2015. The results highlight that the internal control standards must continue to be improved and assessed based on the department's improved visibility and efficiency as a result of the establishment of clear objectives, the increased use of information systems and a stronger department with the appointment of a risk manager and a fraud manager.

The areas for improvement for the Group's internal control and risk management procedures are presented in section 3.4.6 "Outlook", page 138.

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 accounts closing 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 2016, the Group will continue to develop its internal control policy.

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.

(1) See Financial Glossary, page 406.

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, 2015

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, 2015.

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 18, 2016

The Statutory Auditors

MAZARS

Lionel Gotlib

Gaël Lamant

ERNST & YOUNG et Autres

Philippe Berteaux

Gilles Puissochet

82,800
EMPLOYEES



RESEARCH AND DEVELOPMENT
SPENDING
1.3
BILLION EUROS

CODE OF ETHICS



98%
OF SITES CERTIFIED
ISO 14001



SUSTAINABLE DEVELOPMENT

4

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Interview with Jacques Aschenbroich

Chief Executive Officer

Chairman and Chief Executive Officer since February 18, 2016



What makes sustainable development central to Valeo?

A commitment to sustainable development is embedded in Valeo's DNA.

As a technology company, Valeo offers innovative products and systems that help reduce CO₂ emissions and promote the development of intuitive, connected and more autonomous driving.

Today, Valeo's strategic decision to contribute to the transition toward sustainable mobility has been validated by our customers, as demonstrated by the fact that innovative products have accounted for more than 30% of the Group's order intake since 2013.

Our strategy has also been endorsed by the market: the proportion of SRI⁽¹⁾ investors has increased greatly, and Valeo took first place in the automotive segment of the 2015 Low Carbon 100 Europe index launched by Euronext to coincide with COP21 in December 2015.

What are the key thrusts of the Group's sustainable development policy?

At Valeo, sustainable development is built on four key pillars: innovation, the environment, labor issues and society. It pervades all the areas where the Group interacts with stakeholders, both internally and outside the Group.

Since 2010, at my request, Valeo has established a dedicated sustainable development function. Its role is to coordinate initiatives inside and outside the Group, and to stimulate innovation. Other Group functions, including Research and Development, Risk Insurance Environment, Human Resources, Ethics and Compliance, and Purchasing, also make a direct contribution to its work in the field of sustainable development, and have developed the tools needed for this purpose.

Our sustainable development policy also reflects our desire to satisfy the demands of our stakeholders, from our employees, customers and suppliers to our shareholders.

⁽¹⁾ Socially responsible investment.

“ Our sustainable development policy also reflects our desire to satisfy the demands of our stakeholders, from our employees, customers and suppliers to our shareholders. ”

4

What were the highlights of 2015?

In a process of continuity, we deepened and intensified our commitment to developing more innovative products by extending and intensifying our efforts and investments in the field of research and development. In 2015, these investments accounted for more than 10% of original equipment sales.

For the environment, Valeo pursued its strategy and objectives in terms of reducing resource consumption and reining in CO₂ emissions. Since 2008, Valeo has significantly reduced its consumption (as a proportion of sales) of water (down 46%), energy (down 28%), packaging (down 25%) and waste (down 4%). Direct and indirect CO₂ emissions have been cut by 4% since 2009. Lastly, the process of certifying our sites continued. By the end of 2015, 98% of Group sites had ISO 14001 certification, and 94% had OHSAS 18001 certification.

For labor issues, health and safety at work remain a priority. Another focus is the diversity policy (gender, disability, generational, social and cultural), which was launched in 2013 and ushered in throughout the Group in 2015, with extensive training for our teams. The pursuit of this objective is one of the keys to retaining talent, and is at the core of the attractiveness of our Group.

In social terms, the Plants' Initiatives program, which has been in place on each of our sites since 2008, represents a wide range of social endeavors targeting both our employees and the neighboring local communities. Initiatives in this area are monitored closely by the Group, and are improving and flourishing.

Lastly, 2015 marked an increase in the recognition of our commitment to sustainable development:

- the Carbon Disclosure Project (CDP), which assesses the transparency and performance of companies in terms of their carbon footprint, awarded Valeo a score of 95 out of 100 on transparency, well above the average for the automotive supplier category (83 points), and a C for performance, in line with the industry average;
- after citing Valeo as an “industry leader” in 2014, Sustainalytics awarded the Group a rating of 76 out of 100, giving it the status of “outperformer” in the automotive suppliers category.

Recognition of this sort motivates us to continue our untiring commitment to sustainable development.

March 24, 2016

4.1 Valeo and sustainable development: strategy, policy and organization

4.1.1 Sustainable development challenges at Valeo

A global economic and industrial player dedicated entirely to the automotive sector, since 2014 Valeo has focused its sustainable development policy on seven themes:

- eco-responsible innovation for low-carbon 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.

In 2015, with a view to continuing its effort to analyze its sustainability challenges, Valeo conducted a materiality analysis to:

- give its research and development, environmental, labor-related and social data sharper focus on key issues of significance for the Group and its stakeholders;
- support the relevance and quality of information put forward by the Group;
- enable stakeholders to better comprehend their interactions with Valeo.

The materiality analysis shows internal ambitions in respect of sustainable development challenges through the lens of Valeo's stakeholder expectations. The completion of

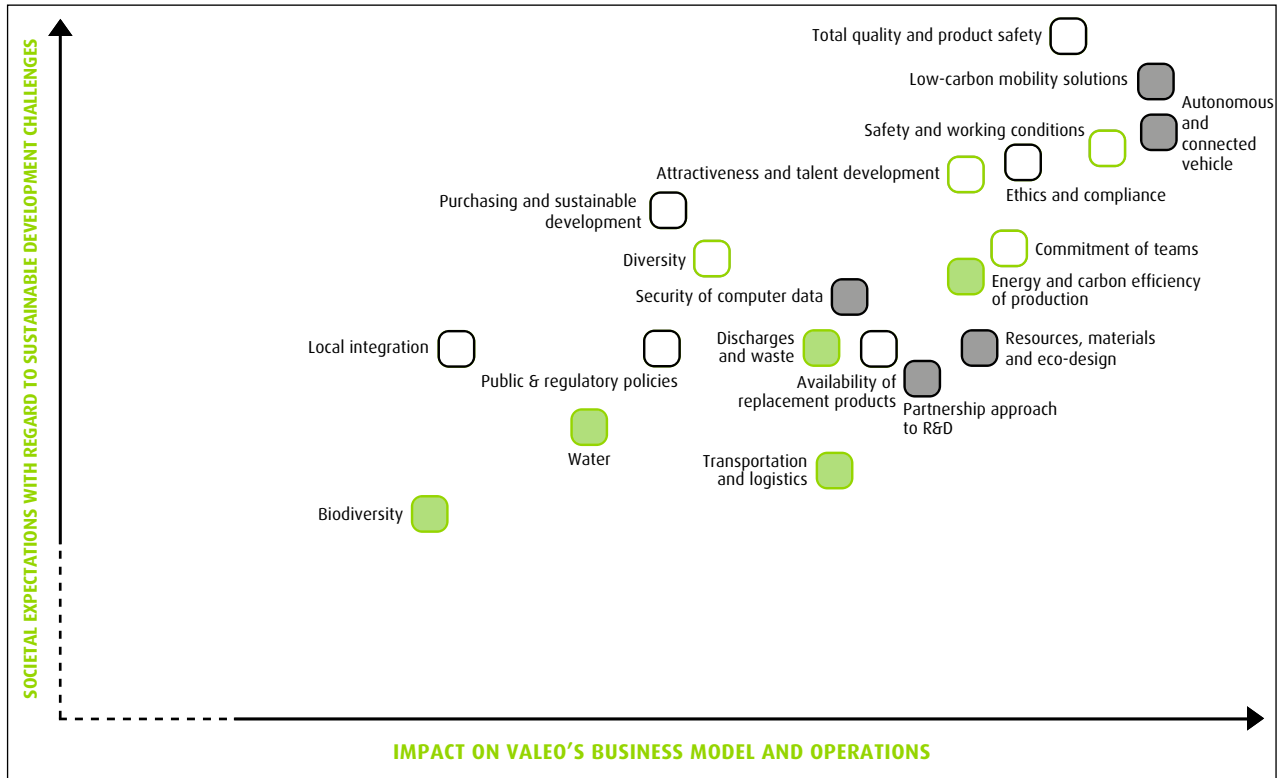
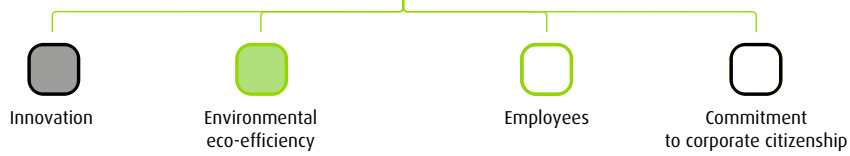
this analysis involved a series of interviews with various departments in all relevant networks (Purchasing, Risk Insurance Environment, Research and Development, Human Resources, Sales, Country managements), crossed with a documentary review (non-financial questionnaires, survey results, etc.), interviews and specific questioning of the Group's sustainable development stakeholders (automakers, civil society, trade press, CSR analysts, etc.).

This approach, which took shape in 2015, helped the Group in various ways gain input from its key stakeholders (unions and employee representatives, employees, customers, business partners, the financial community, national and European institutions, etc.).

The identification of relevant or so-called material challenges internally resulted in the preparation of a materiality matrix (below) structured around four axes: innovation, environmental eco-efficiency, employees and commitment to corporate citizenship. A total of 20 challenges were identified. For each of them, we describe in this chapter the importance and relevance of the challenge, our approach, our performance, the achievements of the year and the outlook. The chapter accordingly provides a description of all key sustainable development performance indicators and the main tools used within the Group.

**MATERIALITY MATRIX PLOTTING VALEO'S
SUSTAINABLE DEVELOPMENT CHALLENGES**

SUSTAINABLE DEVELOPMENT POLICY AXES



4.1.2 Sustainable development governance and structure

The organization of sustainable development at Valeo

Designed in line with Valeo's business objectives and policies, the sustainable development policy spans the entire Group.

The Sustainable Development and External Relations Department plays the role of pilot and coordinator for the Group's various networks and departments. The Human Resources, Risk Insurance Environment, and Ethics and Compliance Departments implement policies that contribute to improvements on labor-related, environmental and social aspects, the results of which are set out in this chapter. The Research and Development Department and operational

management (Purchasing, Quality, Industrial and Logistics) support and enable the deployment of sustainable development themes within the Group.

Review of the sustainable development policy by the Appointment, Compensation & Governance Committee

Wishing to take stock of 2015 in terms of sustainable development and to discuss the outlook for 2016, the Board of Directors' Appointment, Compensation & Governance Committee heard joint testimony from the Group Vice-President Sustainable Development and External Relations and the Group Human Resources Senior Vice-President in January 2016.

4.1.3 Sustainable development policy in the Group's business

Sustainable development policy

Valeo's sustainable development approach relies on a set of commitments broken down by policy and by department, providing support for the Group's ambition in this area and a framework for all employees in their day-to-day activities. Its central pillars are:

- the Valeo 5 Axes;
- the Code of Ethics;
- the Sustainable Development Charter;
- the Code of Conduct for Valeo partners.

Measuring the Group's overall sustainable development performance

Valeo is committed to a strategy of sustainable growth based on responsibility as an organization in respect of employees, the environment and society as a whole, as well as business conduct consistent with competition law and the fight against corruption, and has established tools to measure its performance.

Measuring progress involves identifying a major challenge for each theme, and evaluating the achievement of the associated targets through 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 the Group's priorities and the results of the materiality analysis. They have been formalized by means of a collaborative approach taken with the management of the relevant Business Groups.

Performance chart showing the objectives and key performance indicators of the Group's sustainable development policy

Themes	Challenges	Objectives	Performance indicators	Pages
Eco-responsible, low-carbon and sustainable innovation in research, methodology, products and solutions	Build a growth strategy based on innovative technologies for: - CO₂ emission reductions - intuitive driving (connected, automated and human-machine interfaces)	- Develop CO₂ emission reductions and intuitive driving technologies - Promote open innovation⁽¹⁾	Net research and development expenditure (as a % of sales)	153
			Research and Development headcount	153
			Number of customer projects managed	153
			Number of collaborative projects	153
			Number of patents filed	153
			Proportion of innovation in the order intake	153
Eco-efficient industrial processes	Continue the process of certifying environmental management systems in order to meet the commitment to reduce environmental impact	Achieve the 2020 targets (from the 2015 base): 6% reduction in water consumption 8% reduction in energy consumption 5% reduction in the production of hazardous and non-hazardous waste 8% reduction in direct and indirect GHG emissions⁽¹⁾ - ISO 50001 certification⁽¹⁾ of 20% of sites	Water consumption	172
			Energy consumption	172
			Packaging materials consumption	172
			Reduction in the production of hazardous and non-hazardous waste	172
			Reduction of direct and indirect greenhouse gas emissions (Scope 1 and Scope 2)	172
			ISO 14001 and ISO 50001 certification	172
Workplace health and safety	- Ensure the health and safety of employees, from the design of new production equipment, and throughout their careers - Continue the process of certifying safety management systems in order to meet the commitment to improve health and safety conditions for employees	Promote workplace health and safety conditions consistent with the goal of "zero accidents"	Frequency rate of occupational accidents	194
			Severity rate of occupational accidents	195
			Percentage of training hours devoted to health and safety	209
			Percentage of sites having implemented well-being initiatives	200
			OHSAS 18001 certification	173
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 Corporate Social Responsibility (CSR) central to stakeholder dialog (particularly between management and employee representatives) - Enhance employee satisfaction	Proportion of women engineers and managers hired	214
			Rate of absenteeism	197
			Number of training hours provided	207
			Number of Valeo employees registered as disabled (relative to the total population of a country)	217
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	Proportion of production suppliers involved in the evaluation (selected panel) as a percentage of the Group's production purchases	226
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	222
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	229
			Quality of institutional relations with various national stakeholders, both in Europe and internationally	228

(1) See Sustainable Development Glossary, page 407.

4.1.4 A sustainable development policy based on strong relationships with stakeholders

A multi-stakeholder approach

Valeo, as a global industrial and technology group, has relationships with the various stakeholder groups throughout the production process. This includes the design (research centers and universities, engineers), production (suppliers, employees) and sales (automakers, distribution networks) stages of the original equipment and aftermarket segments.

For 2015, Valeo offers a more detailed picture of its sustainable development policy on the basis of analysis of its relationships with stakeholders, specifying the type of stakeholder, the objectives and the form of dialog. The presentation in the table below underscores the Group's responsible approach, taking into account change in the automotive sector, demand from stakeholders and the Group's determination to meet the highest expectations laid down in the major international standards in this area.

Types of dialog with stakeholders

Sectors of interest	Stakeholders	Objective of dialog	Sample answers and types of dialog undertaken
Research and Development	- Research partners and subcontractors - Laboratories - Universities - Independent public organizations - Certification and control bodies	- Establish cooperative and industry-oriented Research and Development - Organize transfers and exchanges of expertise, techniques and know-how	- Scientific events (conferences and congresses) - Partnerships with universities and competitiveness clusters - Organization of technology days - Participation in technology 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 employers' associations - Annual survey of employee commitment - Diversity program - Well-Being at Work program
Customers	- Automakers - Distributors	Design, develop, manufacture and market innovative products and 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 - Credit and non-financial rating agencies - Banks - Insurers - Statutory Auditors	Adopt a dialog-based approach building on the relevance, rigor and transparency of information relating to the Group	- Meetings with investors and analysts - Annual Shareholders' Meeting - Presentation of financial results - Dialog with financial and extra-financial rating agencies - Shareholders' letters
Institutional	- Public authorities (states) - European Commission - International organizations (UN, FIT, IFC, OECD, etc.)	Conduct economic, industrial and social dialog in compliance with national, European and international laws and regulations	- Communication on Progress of the UN Global Compact (once every year) - Dialog with national authorities - Dialog with the European Commission
Environment and 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 has invested in the Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Equipementiers Automobiles*) Tier 2 – renamed Automotive Future Fund (*Fonds Avenir Automobile* – FAA) in 2015 – since its creation.

Along with other major industry suppliers, the Group supports tier-two, -three and -four suppliers, helping them consolidate their activities among customers.

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;
- in Germany, Valeo participates in working groups of the *Verband der Automobilindustrie* (VDA), the German automotive industry body;

- in Europe, Valeo is involved in European collaborative, precompetitive research through the European Road Transport Research Advisory Council (ERTRAC), the European Commission's technology platform for research on road transportation;
- 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

At its 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 4.5.3 "Application of sustainable development principles in purchasing processes", pages 223 to 227).

4.1.5 Methodology

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", pages 233 to 235). The validity of this methodology, its completeness and the sincerity of the data are audited by an independent third party⁽¹⁾, whose report appears on pages 248 to 249.

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, Valeo decided to review its action in 2015 on the basis of the Core reporting option of the GRI 4 (Global Reporting Initiative) guidelines⁽²⁾. A cross-reference table between the Global Reporting Initiative (GRI 4) standards and transparency requirements in respect of environmental, labor and social issues (Grenelle 2) is also provided on pages 236 to 243.

(1) Pursuant to Article R.225-105-2 of the French Commercial Code (Code de commerce).

(2) See Sustainable Development Glossary, page 407.

4.2 Research and Development at Valeo: from megatrends to innovation

Effectively meeting market demand today, designing the automobile of tomorrow, anticipating users' future needs and inventing new needs through innovation and technology are the fundamental principles of Valeo's Research and Development strategy.

4.2.1 Valeo's innovation policy

Challenges

The fundamental principles and challenges of the Group's innovation policy

Innovation policy guidelines

To ensure that its products meet market expectations and anticipate future needs, Valeo bases its Research and Development 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. The latest 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 make it possible to share expertise, reduce development costs and drive the commitment of its technical teams through partnerships with other players in the automotive industry or with universities and research centers, either within public/private partnerships or as part of European or French research programs.

Valeo's aim through this all-encompassing strategy is to be a catalyst, fostering the emergence of innovative technological solutions across its value chain.

Megatrends and the vehicle of tomorrow

Global trends indicate that the world population is set to grow, age, migrate, become more urban and adapt to 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, autonomy, 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 tighter legislative requirements worldwide (European standards, for instance, cap emissions at 95 g of CO₂/km by 2021).

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. 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. Automotive suppliers, led by Valeo, and especially its Powertrain Systems (combustion engines, electric motors and transmissions) and Thermal Systems (climate control and engine cooling) Business Groups, can play a critical role alongside automakers in rising to these new challenges and meeting 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 also takes care to make eco-design a Research and Development priority. Using recycled materials, reducing the use of scarce materials and improving the carbon footprint of the supply chain are the teams' constant focus, as is reducing the weight of all products designed by Valeo. The objective 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.

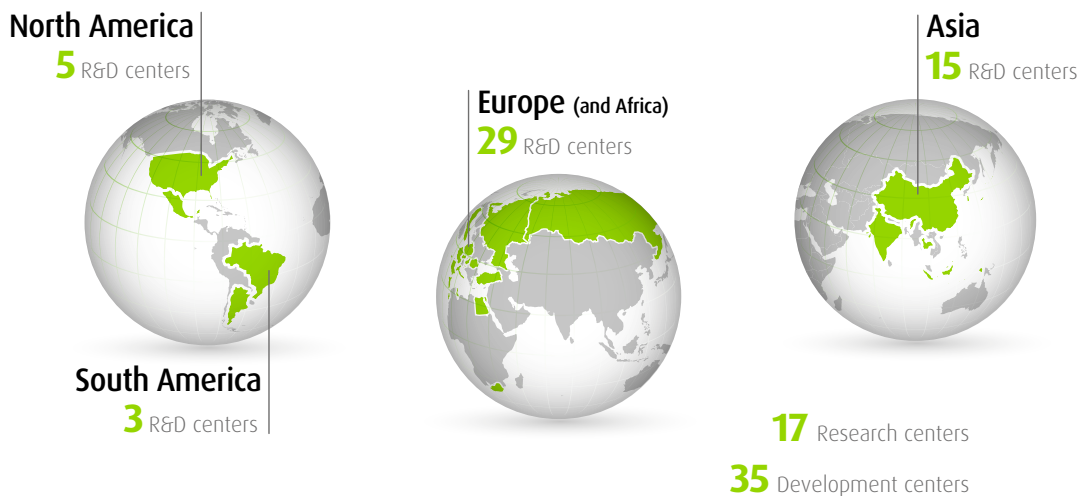
The Group's roadmap in this area is based on a detailed analysis of the need (limit manual driving in demanding situations) and the capacity of consumers to accept new solutions, with the desire to introduce technology in all vehicle segments. The main objectives are to allow the vehicle to take over driving in specific and demanding situations (highway driving, traffic jams) and/or at low speeds (peri-urban environments), thereby increasing security. The systems developed are structured around the goals of connectivity and automation, based on a human-machine interface designed to allow the user to enjoy 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 decision-making autonomy, thereby increasing safety.

Approach

Research and Development organization to support the Group's innovations and assist its customers worldwide

Research and Development worldwide in 2015



By identifying five major types of Research and Development centers and by combining activities by project and by competency, Valeo uses a functional and operational organization allowing each center to appropriate and contribute to the Group's objectives:

- research centers are dedicated to basic research, advanced engineering and the formulation of new product standards. There are currently 17 such 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 35 such 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;
- technical service centers possess specific cross-disciplinary competencies, 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 2015, Valeo's Research and Development teams managed nearly 2,500 projects – a direct result of the Group's strong presence in all automotive markets worldwide.

Valeo maintains a high level of effort in Research and Development in order to offer its customers, year after year, the best technological innovations to meet identified needs. In 2015, the Group's gross Research and Development expenditure was 1.3 billion euros, or more than 10% of its original equipment sales.

Promoting talent dedicated to Research and Development by providing ongoing training and adapting locally

Globally, the number of people working in Research and Development increased by 12% from 10,400 in 2014 to 11,620 in 2015. Its strong presence in France, where a significant portion of its research centers are located, meant that there were 3,194 employees dedicated to Research and Development in France in 2015.

A network of experts and key training to foster innovation

Valeo has set up its own three-level network of Experts: "Expert", "Senior Expert" and "master Expert". The Group has 834 Experts, representing 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 intended to foster innovation at all levels. As a result, the number of hours of training received by engineers recorded yet another year-on-year increase in 2015.

Change in the number of hours of technical training for technicians and engineers in technical positions between 2013 and 2015

	2013	2014	2015	Change (2015/2014)
Hours of face-to-face training	126,300	156,600	161,231	+3%
Hours of technical e-learning	3,700	4,250	9,902	+132%
TOTAL TRAINING HOURS	130,000	160,850	171,133	+6.4%

Valeo has stepped up its training program for its technicians and engineers, with hours of training increasing by 6.4% from 160,850 in 2014 to 171,133 in 2015. This year, training efforts focused on newly hired engineers on sites located in high-growth markets. This result shows how valuable Research and Development is to Valeo, which has become one of the world's most innovative automotive suppliers by tirelessly instilling its best standards and practices among its teams, notably through the Valeo Technical Institutes. These

institutes, backed up by 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. Calling on internal and external experts, and offering a large spectrum of training to Valeo Research and Development 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

Valeo prefers to hire its engineers locally. The idea is that local engineers can use their first-hand knowledge of local society, lifestyles and consumption patterns to analyze the needs of local 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 Research and Development capacity is growing in such areas as Central and Eastern Europe, Turkey, China, India, Southeast Asia, the United States and Mexico.

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 Research and Development activity on competitively priced design solutions in emerging countries using standardized practices that boost both efficiency and quality. As such, engineers at the VIPL (Valeo India Partnership Limited) Technical Services Center in India aim to develop low-cost projects designed for specific markets (Russia, India, Brazil, China, etc.).

Performance**The Group's key Research and Development performance indicators**

	2013	2014	2015	Change (2015/2014)
Net research and development expenditure (as a % of sales)	5.3% ⁽¹⁾	5.4%	5.5%	+0.1 pts
Research and Development headcount	9,200 ⁽¹⁾	10,400	11,620	+12%
Number of customer projects managed	2,200	2,300	2,500	+9%
Number of collaborative projects	>60	>50	>50	N/A
Number of patents filed	786	1,108	1,406	+27%
Proportion of innovation in order intake	30%	35%	37%	+ 2 pts

(1) 2013 data have been restated to reflect the impact of IFRS 11 on the scope of consolidation.

An acknowledged Research and Development process: Valeo boasts a leading patent portfolio

Innovation is central to Research and Development activities, resulting in major orders and a growing patent portfolio. In 2015, the Group had 37,000 patents, of which 1,406 were filed during the year, a 27% increase on 2014, which was already a year of strong growth.

Awards: PACE AWARD for the EG alternator

Valeo won a 2015 Automotive News PACE (Premier Automotive suppliers' Contribution to Excellence) award for its EG efficiency alternator allowing a significant reduction in CO₂ emissions. Valeo's high-output alternator had already obtained "eco-innovation" recognition issued by the European Commission.

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 that improves the performance of the alternator while also reducing the energy losses of the machine as a whole. The energy saved can then be converted into electricity. In the approval cycle alone, the gains made by the Valeo alternator are greater than 1 g of CO₂/km. When used in practical situations by the end consumer, gains can reach up to 3 g of CO₂/km because of the vehicle's many instances of regenerative braking, especially in urban and peri-urban areas.

2015 highlights

Valeo presented its main innovations at several trade shows in 2015, including the Consumer Electronics Show (CES) in Las Vegas (United States), the Beijing Motor Show (China) and the IAA (*Internationale Automobil Ausstellung*) Motor Show in Frankfurt (Germany). In its role as innovator, Valeo also attended various international research and development conferences, including an ITS (Intelligent Transport System) conference in Bordeaux (France) and the Automated Vehicles Symposium (United States) to name the best-known events.

4.2.2 Solutions that contribute to CO₂ emissions reduction and to autonomous and intuitive driving

Challenges

To meet changing and increasingly stringent laws globally (in Europe, emissions capped at 95 g of CO₂/km in 2021, tougher safety regulations with Euro NCAP⁽¹⁾), as well as market trends (see above), Valeo designs, develops, manufactures and markets products and solutions that help reduce CO₂ emissions and promote intuitive driving. These activities are split between the four Business Groups (see Chapter 1, section 1.3 “Businesses”, pages 36 to 58).

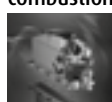
Approach

Thirty-seven percent of Valeo's 2015 order intake is made up of innovations, i.e., products or technologies that have been in series production for less than three years.

The innovations listed in the table below met this definition in 2015, and contribute to sustainable mobility:

- the reduction of CO₂ or other pollutant emissions (environmental dimension);
- driving assistance for a safer, more connected and more autonomous vehicle (driving comfort and safety).

Summary of the main innovations and their impacts

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.	5% to 10% reduction in fuel consumption depending on the application and measuring cycles.	
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. Coupled with a micro or mild-hybrid system, it uses electrical energy recovered in braking phases.	With 12V architecture, fuel savings of between 8% and 10% through engine downsizing. Combined with a 48V mild-hybrid system, the saving can be as high as 20%.	Faster acceleration, safer overtaking.
F910 dry dual-clutch facings 	Dry dual clutch transmission is the most effective, but the facings come under greater stress than in conventional clutches. The use of compressed powder (instead of woven fibers) gives better thermal results and excellent reliability.	Dual clutch transmission reduces CO ₂ emissions by as much as 3% compared with modern hydraulic automatic transmission.	Greater driving comfort, preventing jolting when starting the vehicle and improving the quality of shifting.
Air intake module of internal combustion engines 	Improved management of combustion through lower temperature, with variations better controlled.	Potential reduction of 2% to 3% in NO _x emissions on diesel vehicles through better distribution of the gas mixture from cylinder to cylinder.	Reduction of turbo lag (and greater driving pleasure) of up to 500 ms.

(1) Euro NCAP provides consumers with a realistic and independent assessment of the safety performance of European cars.

Innovation and technical features	Description	CO ₂ impact or eco-design	Driving assistance for a safer, more connected and more autonomous vehicle
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 on high beam at all times without blinding other drivers.	Reduced electricity consumption.	Improved visibility without blinding other drivers. Automated function.
Remote Clean4U™ 	Improved windshield washing by a remote-controlled system that de-ices the windshield in less than 1 and a half minutes, and a debugging system to wash away insects with a specific cleaning fluid and adjusted movement of the wiper blades.	This function is based on the AquaBlade® wiper system that aims to halve the volume of cleaning fluid required, resulting in a weight gain of 2 kg.	Improved visibility in rainy conditions, reduced braking distance. Automated function.
Valeo InBlue® 	Start-access system to lock, unlock and start the car, with remote control of its various applications (using Bluetooth®).		Remote control of functions, key sharing.
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.

Achievements

A high efficiency on-board charger for electric and hybrid vehicles

At the IAA Motor Show in Frankfurt in 2015, Valeo presented a 3.5kW on-board charger with an 8-hour recharge time and minimal energy loss. Valeo's on-board charger offers optimum charging time for electric or hybrid vehicles. This technology prevents the loss of energy: its 96% power conversion efficiency rate means virtually no energy loss. Valeo's electric and hybrid vehicle charger is the most efficient on the market today.

The simplest design possible was used for the charger, which is suited to different battery technologies. Its compact size and shape dramatically reduce volume, allowing it to fit snugly into any available space in an EV or plug-in hybrid. Its reduced bulk also means less weight – a key issue for electric vehicles.

Valeo Mobius™ 2

Valeo Mobius™ 2 takes technology from a number of the Group's innovations and combines them on the dashboard, allowing motorists to switch smoothly from automated to manual driving mode in complete safety, while offering a host of new services for drivers to use when the car is driving itself.

The main aspects of the second generation of the Mobius™ 2 cockpit are:

- a smooth transition from automated to manual driving: in phases suited to automated driving, Valeo Mobius™ 2 offers to take over;
- use of reconfigurable digital dashboard screens as an extension of a tablet or smartphone;
- enhanced safety during transitions between automated and manual driving by keeping the driver's hands on the wheel and his eyes on the road, with real-time information on the driving situation and a non-vigilance detection system to alert the driver if he starts falling asleep or loses attention.

Valeo SCALA™

The Valeo SCALA™ laser scanner is a key enabler. Functioning perfectly both day and night, at high speeds as well as low speeds, Valeo SCALA scans the environment in front of the vehicle and detects with extreme precision any obstacles in its path. This includes static objects like trees, parked cars and safety barriers, as well as moving ones like motorcycles, other cars and pedestrians. Using these data, the scanner creates a map of the surrounding environment allowing it to analyze and anticipate events around the vehicle. This technology serves to enhance active safety by initiating measures like collision-avoidance maneuvers and emergency braking when vehicles or pedestrians appear in front of the vehicle. The scanner also collects information that is essential for highly automated driving systems and automated valet parking.

Valeo SCALA™ facilitates highly automated driving using Drive4U®, presented in demonstration in real traffic conditions. The Valeo Cruise4U® autonomous vehicle, which was tested for five days under real traffic conditions on the Bordeaux ring road, now has more than 10,000 kilometers under its belt after a journey of over 4,000 kilometers across France, both day and night, in November 2015. In automated mode, the system was able to take full control of the vehicle's steering, acceleration and braking.

Remote Clean4U™

At the 2015 Frankfurt Motor Show, Valeo unveiled its Remote Clean4U™, a revolutionary windshield de-icing and cleaning system controlled by a smartphone application.

The advantages of this system are ease of use for the driver, efficiency and enhanced safety. It was designed to meet expectations in respect of new windshield cleaning solutions. According to a 2014 study conducted by Valeo in the United States, most drivers continue to de-ice by hand using a scraper together with the car's de-icing function with the engine running. 97% of end-users are not satisfied with this time-consuming, dirty, ineffective and physically demanding method.

The Remote Clean4U™ system has two innovative functions that the user can control remotely from a smartphone: de-icing, which automatically defrosts a windshield in less than 90 seconds, and debugging, which washes away insects stuck to the windshield in record time.

4.2.3 Resources, materials and eco-design

Challenges

Pursuing the objective of designing, developing, manufacturing and marketing products incorporating sustainable development principles, especially in respect of the environment and the health and safety of users, Valeo has built its entire Research and Development approach on an action plan geared toward:

- reducing the carbon footprint of its products;
- limiting the consumption of raw materials and chemicals;
- using recyclable and recycled materials.

In connection with the goal of reducing vehicle CO₂ emissions (and reducing vehicle weight), Valeo is committed to a process of eco-design and to reducing its consumption of raw materials.

Approach

The Group's eco-design approach is based on various design support tools, but also on the creation of tools to assist in respecting legal and regulatory obligations governing the fight against hazardous substances.

Tools for integrating eco-design

In 2007, Valeo adopted an EcoDesign Standard Directive and eco-design guidelines by product line. These documents enable engineers to assess the major environmental impacts of products at all stages of their life cycle:

- 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 in sustainable development constraints during the use of the product, a phase that accounts for 90% of the total impact.

To ensure the directive's circulation and implementation, Valeo has published an EcoDesign Checklist designed to monitor the application of the criteria in 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 sustainable development criteria.

The EcoDesign Checklist has been rolled out at every level of the Group's Research and Development activities 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, hazardous materials use and component weight to reduce the amount of components and materials that do not benefit the environment or the consumer.

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, or 95% when incinerating. As a result, automakers have established increasingly higher standards with their suppliers to gradually raise the recycling rate of their products.

Examples of recyclability of two Valeo products

- the new generation Valeo i-StARS starter-alternator has a recycling rate of 98.2% and a recovery rate of 99.5%⁽²⁾ (based on an internal evaluation);
- the Valeo e-supercharger has a recycling rate of 94.8% and a recovery rate of 97.6% (based on an internal evaluation).

Integration of Lifecycle Analysis (LCA) criteria into EcoDesign Checklist

In the automotive sector, the automaker or order-giver is responsible for performing the Lifecycle Analyses (LCA). Consolidated data on components and modules are available through the LCAs performed by automakers.

Based on the information listed and monitored in its EcoDesign Checklist database, the Group estimates that it has now identified and made available nearly 80% of the data required for a product LCA. This information is used to create and develop products with less impact on the environment.

Compilation and use of the information is managed in the Product Lifecycle Management (PLM) system, which lists the components of products and systems used in their design, and requires compliance with clearly defined standards. Any departure from the procedures (in particular the use of non-documented materials) must be justified. By systematically referring to the standards, Valeo demonstrates its determination to embed eco-design (including CO₂ impact analysis) as far upstream as possible in the product development phase.

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.

The sheer size of Valeo's portfolio rules out the performance of LCAs on the entire product range.

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:

- set 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;

(1) See Sustainable Development Glossary, page 407.

(2) The recovery rate is defined as the sum of recycling and energy recovery rates.

- 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 2015, over 8,000 product and process standards were in place and maintained in the various Product Groups. They are applied day-to-day in designing new products and their manufacturing processes.

Special training programs (core RAISE training courses on design reviews, risk analysis and reliability) are continuously provided for Research and Development 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

The Group also gives high priority to eliminating hazardous substances in its products.

The European regulation commonly known as REACH has established a single system for the Registration, Evaluation, Authorization and restriction of CHemicals. 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.

REACH covers nearly 30,000 substances out of some 100,000 currently on the European market. Of these, 1,500 are deemed particularly 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 has been progressively subjected to approval since 2014. They notably include solvents, primarily used during procedures involving materials and plasticizers, or to soften polymers and perform surface treatments. This approach continued in 2015.

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. REACH representatives are in place within each entity affected by REACH regulations and at every Valeo plant. This has created a network of REACH managers covering each Group site and Technical Services Center. The Research and Development, 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 particular via the International Material Data System (IMDS).

In 2013, the Group issued a set of standardized documents from local REACH network correspondents to enhance the spread of Research and Development standards in this field and to support prevention and response work as regards the substances used.

These documents include a reference database created by Valeo of banned or restricted substances that are in the automotive industry. The database was updated in 2014 and 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 with less environmental impact. Valeo has set an ambitious target of eliminating any substance requiring authorization from its products and markets. It will work with its suppliers to find alternative solutions to avoid using SVHCs, and has a substitution plan in place for products containing DEHP⁽²⁾, a phthalate widely used as a plasticizer.

Valeo is working on gradually replacing these substances in response to consumer concerns about their presence in vehicles.

(1) See Chapter 1, section 1.1.5 "The 5 Axes" page 16.

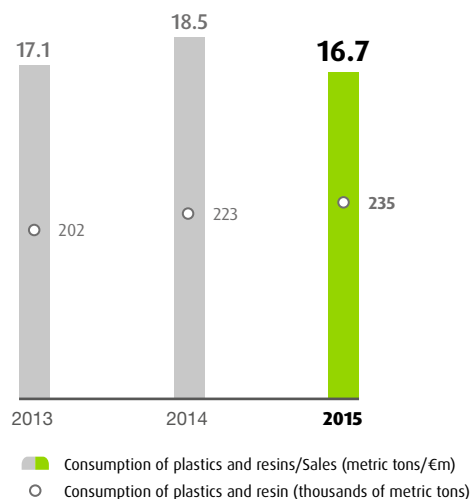
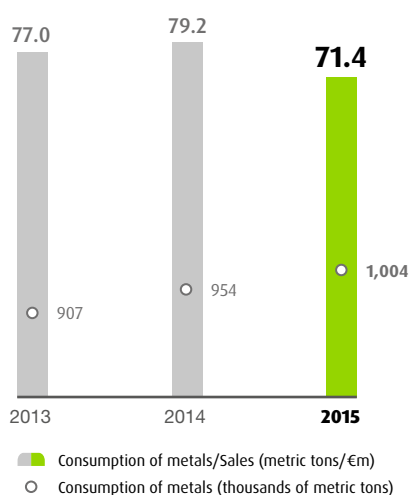
(2) Diethylhexyl phthalate or di-2-ethylhexyl.

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). 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 of the Automotive Industry Platform, which aims to identify materials and substances that have a negative impact on the environment. The purpose of this work is to help anticipate change and modify choices in respect of materials and/or substances upstream.

Performance

Consumption of raw materials



In 2015, total consumption of metals, plastics and resins as a proportion of Group sales each fell by 10% compared with 2014. Despite significant growth during the year, Valeo has been able to keep its consumption of raw materials under control, thanks mainly to the eco-design tools that have been rolled-out across the Group.

Consumption of chemicals

The Group's consumption of heavy metals has been steadily declining for more than five years (11.8 metric tons in 2015, down 38% since 2012).

Chlorinated solvent consumption fell by 14.7% from 240.5 metric tons in 2014 to 205.2 metric tons in 2015.

Consumption of carcinogenic, mutagenic and reprotoxic (CMR) substances increased from 168.1 metric tons in 2014 to 361.6 metric tons in 2015. This increase reflects a better

understanding of the products used by sites and changes to product classification by chemical suppliers.

Use of recycled input materials

To reduce its environmental footprint, Valeo pays particular attention to the use of recycled materials. Purchases of recycled plastics totaled 11,527 metric tons in 2015, an increase of 20% compared with 2014.

4.2.4 A partnership approach to Research and Development

Challenges

A global player in Research and Development in Europe and worldwide, Valeo has adopted a partnership approach with various stakeholders. With its strong position as a tier-one supplier in the value chain, the Group strengthened its partnerships in 2015 in an automobile industry where the scope of services and products is constantly expanding.

Approach

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 Research and Development in the automotive sector.

Valeo's partnership approach is precompetitive; it is rooted in a research ecosystem that is both industrial and academic.

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, which has been in operation for more than 10 years, is responsible for steering and coordinating land-transportation research policy (excluding railroads) 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 technological content and social choices.

ERTRAC is built around public and private bodies (national governments and city associations promoting mobility, the environment and consumers), the competent European Commission directorates, industry (automakers, suppliers) and public and private research bodies.

In 2014 and 2015, Valeo contributed through ERTRAC to the formalization of the world's first multi-stakeholder roadmap on vehicle automation written by a technology platform, building on the strategic Research and Development issues identified by the Group and thereby allowing the European automotive sector to position itself on this issue.

The timeline for drafting this roadmap included the following steps within a working group:

- March 2014: approval of the theme by the European Commission;
- March 2014 to October 2014: drafting of the joint roadmap;
- October 2014: publication of a first draft roadmap for debate;
- July 2015: publication by ERTRAC of the first joint roadmap on vehicle automation for automakers, automotive suppliers, research suppliers, infrastructure providers, cities, users, EU member states and the Commission.

The working group's findings and the roadmap will form the basis for calls for projects to be launched by the European Commission in 2016 (Horizon 2020 Framework Program).

As part of the multi-year research plan for Horizon 2020⁽¹⁾, ERTRAC continued to give recommendations and guidance on calls for projects on the following topics:

- internal combustion engines;
- road safety;
- global competitiveness;
- urban mobility;
- logistics;
- infrastructure;
- socio-economic 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 and 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, particularly in the area of comfort and driving assistance, as described in Chapter 1, section 1.3.1 "Partnerships and acquisitions", pages 39 to 40.

For example, 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.

This Research and Development alliance brings together two innovative groups in their respective technologies in markets as distinct as the automotive industry on the one hand, and the aerospace and defense sectors on the other. It will develop new innovations in vehicle driving aid, as well as self-driving and self-piloting solutions for automobiles, military vehicles and aircraft.

⁽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.

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 2015, Valeo and Safran worked together on the various projects identified within the framework of their cooperation. The results were presented at the Eurosatory trade fair in Paris in June 2014, the Paris Motor Show in October 2014 and the IAA Motor Show in Frankfurt in 2015.

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 consideration.

Autonomous vehicles not only involve the technical aspects of 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 activities 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 Research and Development centers (most recently in India, China and Egypt).

The academic and scientific partnerships established by Valeo in 2015 are in line with the global mobility challenges identified by the Group (CO₂ emissions reduction and intuitive driving).

Funding of doctoral theses

The Group is providing 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 bodies 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, North America, Europe);
- a chair for low-carbon vehicles, known as the Matinnov Chair, 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 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.

Achievements

Valeo Innovation Challenge

2015 saw the second edition of the Valeo Innovation Challenge, a competition allowing university and engineering students from around the world to play an active role in automobile innovation by designing products or systems that will create smarter, more intuitive cars by 2030.

For four months, the participants formed teams of between two to five people, with the possibility of opening their teams up to students of other disciplines, including design, sociology, philosophy, urban planning, architecture and biology. More than 1,300 teams from 89 countries registered to propose and develop bold and revolutionary solutions for the car of 2030.

To select the 20 best projects, 60 Valeo Experts and independent scientists vetted the proposals received, on the basis of the following selection criteria:

- the boldness, inventiveness 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 prototype.

Twenty teams from 12 countries were nominated for the prototype phase. Valeo awarded each of them 5,000 euros to put toward building a working prototype within four months.

After a second evaluation by the Valeo Experts and independent scientists, Valeo announced the six teams selected to present their project before an international panel in Paris. The shortlisted teams came from four countries on two continents: China, Germany, India and Spain.

The Group's Experts reviewed a large number of original, innovative, diverse and high-quality projects. The technical solutions submitted reflected specific concerns in each country, such as safety and the reduction of energy, or life on board the vehicle.

The first prize, a check for 100,000 euros, was awarded to the Chinese team from Beijing University for algorithms designed to improve the visual detection of other vehicles. The Indian team from the University of Sri Aurobindo International Centre of Education and the German team from Saarland University were equal runners up, each receiving the sum of 10,000 euros.

In September 2015, after nearly a year's work, the panel, chaired by Jacques Aschenbroich and comprising personalities from the world of science and Valeo executives, handed over the prizes and launched the third edition of the Valeo Innovation Challenge, which will award not only the best technological innovation but also the project offering the best new way of using cars. A cash prize of 100,000 euros will be awarded to the winners in each category. The third edition is open to all students, regardless of their field.

Collaborative projects

Valeo takes part in collaborative research programs in the automotive industry in the various countries and regional groupings where it operates.

"2l/100km vehicle" program

In France, the Group is part of the PFA (Automotive Industry Platform) "2l/100km Vehicle" program, which aims to reduce CO₂ emissions at an acceptable cost to the end consumer, the target being certified consumption of approximately 2 liters/100km 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 the 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.

Forty-Eight project: development of a dual-voltage network on a mild-hybrid vehicle

As part of the “Vehicle of the Future” call for projects included in the Investments for the Future program established by the French authorities, Valeo has partnered with Renault, PSA, Leoni and TEC Connectivity around a project designed to increase the efficiency of accessories that consume large amounts of energy.

Based on the introduction of 48V mains voltage on mild-hybrid vehicles, the project aims to bring as large a number as possible of accessories consuming large amounts of energy on to the new voltage. The reduction in amperage stemming from this change will minimize electrical line losses (heat loss) and lessen the weight and cost of wiring. The main benefit will come from the 48V/12V converter, which will be slimmed down to achieve not only a reduction in weight – and price – but also a performance gain.

The project will be an opportunity to develop new technology components with a significant electronic content. To contain their cost and facilitate swift market penetration, as many synergies with 12V components as possible will be sought so as to ensure maximum interchangeability on the platforms of vehicles with different powertrains.

The participation of the two automakers, with the drafting of joint specifications in collaboration with Valeo, gives Valeo a scale advantage in its role as supplier for the future integration of its products on the market.

LowCO₂Motion+ project

As part of the “Vehicle of the Future” call for projects included in the Investments for the Future program established by the French authorities, Valeo has launched a key competitiveness

cluster project (*Projets structurants des pôles de compétitivité* – PSPC) overseen by Bpifrance. It has been certified by the Mov’eo, i-Trans and Vehicles of the Future competitiveness clusters.

Built around a multidisciplinary team combining players from academic research (ENSAM in Lille and Metz, TEMPO, GREEN and GRETA), industry, SMEs (Technomecanic, Optimprocess) and mid-sized companies (R. Bourgeois, Mader and Eolane), the project fits into the design and manufacturing chains of new generation starter-alternators. Recognized as a major industrial player in hybrid vehicles, Valeo is the project leader.

The project has three themes:

- new manufacturing processes necessary to maintain the competitiveness of all products developed for electric machines dedicated to mild-hybrid vehicles;
- new solutions based on starters with a high measure of technological content while being extremely competitive in terms of cost on the Stop-Start function;
- modification of the i-StARS starter-alternator system by adding new features compatible with mild-hybrid systems.

From a scientific point of view, the expected benefits range from better knowledge of electrical machinery, materials and their use, to the development of more sophisticated modeling, optimization and capitalization methods in the field of electrical machines. From an industrial point of view, Valeo aims to strengthen its leadership in the field of hybrid vehicles and to position itself with very innovative and competitive offers in the short to medium term. Lastly, the very large number of vehicles impacted by the new systems developed under the project means the promise of significant economic benefits for all players involved in the project.

4.2.5 Security and use of computer data

Challenges

Information systems and the data they contain are important for the Group’s smooth running. They embody the intellectual capital formed from the Group’s Research and Development strategy, expertise and creativity – and the resulting patents. Protecting them is a major challenge for Valeo.

Approach

The risks are many, and can cause varying degrees of economic, operational, legal and reputational damage. The Group must maintain full compliance with numerous regulations regarding its business and the personal data of its employees.

Today, the security of the information system is of paramount importance, because it provides good service quality and

reassures customers and partners by providing the ability to anticipate, reduce its vulnerabilities and manage any major incidents and risks that may arise.

The protection of this asset – information technology or simply information itself – is hinged on the implementation of the most advanced technical measures, constantly updated. These technical measures only have meaning if Valeo employees individually contribute every day to the approach through their understanding of the challenges and threats, their vigilance, discretion and commitment to reducing vulnerabilities, and by exercising their duty to blow the whistle. With the emergence of new uses (social networks, smartphones, mobility, etc.) and new risks (cyber attacks, criminalization of attacks of all kinds, etc.), Valeo must take into account the human factor in its full dimension. Valeo employees have access to the information they need, but not to all the data available within the Group.

Achievements during the year

To this end, and in view of the Company's increasingly extensive digitization, Valeo revived a comprehensive plan aimed at raising the IT security awareness of its employees worldwide. All employees received Valeo's new Charter for the Use of Information Technology and the Valeo Privacy, Image and Social Media Policy.

Employees connected to Valeo's information system also received a copy of "My IT Security Booklet", a short guide featuring chapters devoted to major problems such as "Working in situations of mobility", which aims to raise awareness through examples of risks arising from inappropriate human behavior and to promote best practices designed to avoid such conduct.

Automation (cobots and AGVs) and digitization

The Group's profitable growth involves a tireless search for levers that increase its competitiveness. In this context, Valeo seeks to implement innovative policies in the field of automation and digitization, enabling the Group to improve its profitability while maintaining the same number of jobs.

The appearance on the market of new automation technologies (including cobots, short for collaborative robots, and AGVs, or automated guided vehicles) allows production facilities and logistics the chance to take automation to new heights, improve workstation ergonomics and increase their competitiveness. Promising tests are underway in several plants. Their results will serve to set standards. Each site will deploy its automation plan in accordance with its possibilities, its resources and its strategy.

At the same time, in the field of digitization, Valeo has launched its "Plant of the Future" initiative taking into account the current possibilities offered by process digitization and automation. The aim is for Valeo to make progress through digital tools available to everyone without compromising the reliability and effectiveness of existing standard processes.

Outlook

In 2016, online training in IT security will be held throughout the Group to help employees understand the risks and issues, and apply good behavior.

The issues of data security and information systems are also a major challenge in the gradual automation and connectivity of production lines ("Plant of the Future" or "Industry 4.0").

The main feature of a digitized plant, often referred to in the media as "Industry 4.0", is that there is no discontinuity in the transmission of information and data, or in the flow of products.

The purpose of the "Plant of the Future" project is to define new material and information flow management tools from the supplier's loading platform to the customer. It allows the simplification and automation of the supply chain: VRO (Visual ReOrder) and BTT (Build To Truck).

Another supplier data interchange (SDI) project aims to streamline and automate information flows between Valeo and its suppliers, from order to payment, by the generalization of electronic data interchange (EDI).

These projects will enable Valeo to be more competitive in terms of its development and production costs so as to promote growth.

4.3 Environmental management and performance of Valeo's sites

4.3.1 Environmental policy

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 or health.

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
- 2015: Setting of new environmental targets for 2016-2020

4

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, in order to target the environmental issues facing each site.

	Number of sites	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Valeo Service
Businesses	117	18	26	33	31	9
Assembly/installation	105	18	25	31	29	2
Processing	67	6	21	18	20	2
Injection molding	50	10	3	16	21	0
Heat treatment (ovens, furnaces)	71	9	22	18	21	1
Painting/varnishing	49	9	10	8	22	0
Welding	64	11	18	15	18	2
Use of vanishing (VOC-emitting ⁽¹⁾) oils	24	2	3	15	4	0
Degreasing (surface cleaning)	45	3	14	16	12	0
Surface treatment (altering the surface properties of a part)	31	1	7	4	19	0

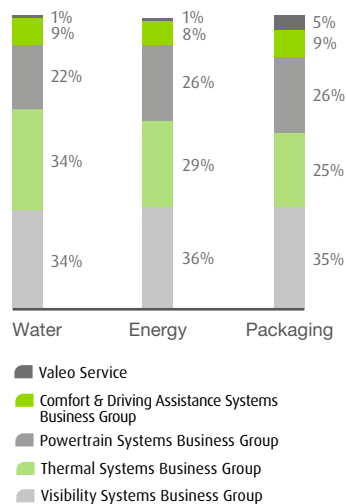
(1) See Sustainable Development Glossary, page 407.

This table shows that the Powertrain Systems, Thermal Systems and Visibility Systems Business Groups house the Group's most resource-intensive industrial activities (water, energy, packaging), and also those most liable to generate discharges (effluents, volatile organic compounds, waste and greenhouse gases). The Thermal Systems and Visibility Systems Business Groups represent the majority of plastic injection molding operations. Thermal Systems (due to the use of evanescent 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.

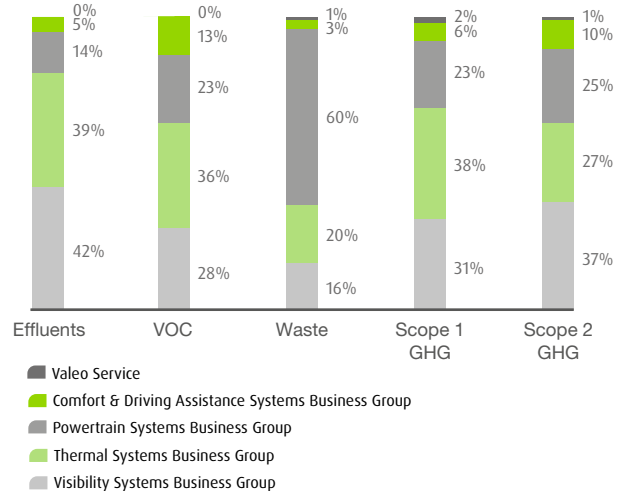
(1) See Sustainable Development Glossary, page 407.

The following two charts show the breakdown of resource consumption and emissions by the Business Groups and Valeo Service, reflecting the analysis contained in industrial mapping.

Breakdown of resource consumption



Breakdown of emissions, discharges and waste



This chart clearly shows that the Thermal Systems and Visibility Systems Business Groups account for approximately two-thirds of the Group's consumption of resources, confirming the low level of resource consumption of the Comfort & Driving Assistance Systems Business Group and Valeo Service.

Similarly, Thermal Systems and Visibility Systems are the Group's biggest emitters. By contrast, the Powertrain Systems Business Group is by far the biggest producer of waste.

Key environmental challenges for Valeo

Based on Valeo's challenges identified in the materiality analysis and the above mapping, they can be broken down by Business Group as follows:

Challenge/Business Group	Comfort & Driving Assistance Systems Business Group	Powertrain Systems Business Group	Thermal Systems Business Group	Visibility Systems Business Group	Valeo Service
Energy and carbon efficiency of production		- Energy consumption - Indirect GHG emissions⁽¹⁾	- Energy consumption - Direct and indirect GHG emissions⁽¹⁾	- Energy consumption - Direct and indirect GHG emissions⁽¹⁾	GHG emissions⁽¹⁾ related to the transportation of goods
Discharges and waste	VOC emissions⁽¹⁾	- VOC emissions⁽¹⁾ - Management of chlorinated solvents - Production of waste	Management of refrigerants		
Transportation and logistics				Packaging consumption	Packaging consumption
Water		Water consumption	Water consumption	Water consumption	
Biodiversity					

(1) See Sustainable Development Glossary, page 407.

Commitment to transparency

In the interests of transparency and openness toward 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 related to its extra-financial performance from national and international bodies.

In 2015, the Group once again took part in the Carbon Disclosure Project (CDP)⁽¹⁾ survey, which assesses companies on the transparency of their communications on climate impact. Valeo scored 95 out of 100, well above the average of 83 among automotive suppliers. Valeo's performance grade was C, in line with the industry average.

(1) See Sustainable Development Glossary, page 407.

Valeo's environmental performance is also evaluated by international rating agencies, such as RobecoSAM (Sustainable Asset Management⁽¹⁾), as part of the ranking on the Dow Jones Sustainability Indexes (DJSI). The Group obtained a score of 64 out of 100 on environmental issues in 2015, well above the sector average of 52.

The French Business Information Center (*Centre Français d'Information sur les Entreprises* – CFIE⁽¹⁾) each year analyzes the quality of environmental performance information provided by 42 French companies. In 2015, Valeo took sixth place in the rankings for the environment.

Sustainalytics⁽¹⁾, another leader in analysis and research on sustainable development, gave Valeo the score of 76 out of 100 and described the Group as an “outperformer”, indicating that its performance in the field of sustainable development is above the market average.

Lastly, in December 2015, Valeo joined the FTSE4Good Global Index⁽¹⁾ with a score of 4.1 out of 5. It ranks among the best companies in its sector.

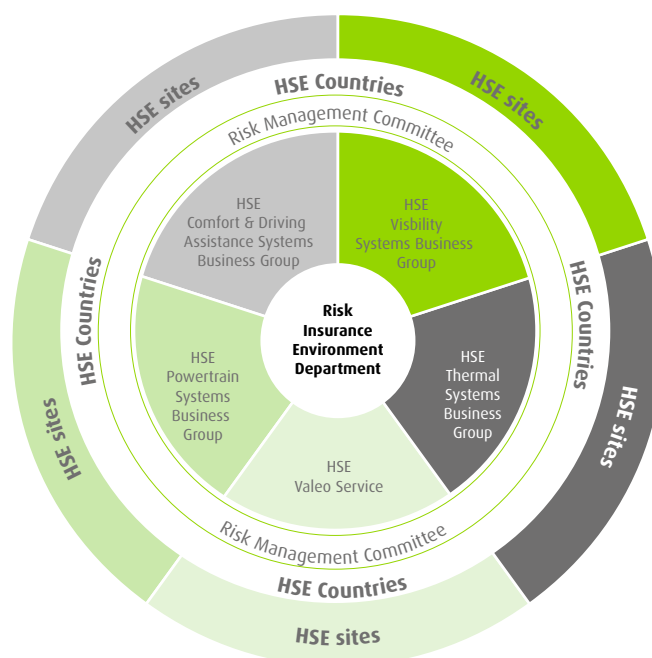
The Group pays close attention to shifts in its ratings from one year to the next, with a view to achieving continuous improvement in its environmental reporting. Valeo takes into account all the remarks of these agencies, and will pursue its efforts in respect of transparency further in 2016.

Resources devoted to the prevention of environmental risks and pollution

The Group has developed working and assessment tools 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.

Valeo's environmental management organization

Valeo's environmental management is based on continuous improvement driven by the RIE Department, which has its roots in an **organization structured around business groups, countries and sites**: a network of Health, Safety and Environment (HSE) managers is fielded to ensure compliance with Valeo's environmental policy and fulfillment of its objectives.



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 “Risk management assessment and procedures”, pages 135 to 136).

The **Risk Management Committee** is the central steering body of the RIE Department. Comprising the Head of the RIE Department, the Group HSE manager, 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 2015, the Risk Management Committee notably worked on the new “Risk Hunting” Directive intended to draw all Valeo employees, both operational and managers, into a process of detecting non-compliance with the environmental and safety requirements laid down in Valeo's operational guidelines.

The committee reviews industrial projects (construction of new plants, extensions, etc.) on a monthly basis to determine requirements as regards environmental and safety concerns. The RIE Department uses standardized tools to monitor progress on all these projects to ensure 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.

The RIE Department relies on a **network of Health, Safety and Environment (HSE) managers** mirroring the Group's matrix-based organization.

(1) See Sustainable Development Glossary, page 407.

Within the RIE Department, a **Group HSE manager** is tasked with the development and implementation of HSE policy. This includes the definition of standards and the design of Group-wide tools in respect of workplace health and safety, environmental aspects, and the security and safety of buildings and facilities. These standards result in the development of written operational guidelines, which have the force of directives applicable across all of the Group's sites.

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.

At each plant, a **site HSE manager** is tasked with overseeing the practical implementation of Group standards in respect of workplace health and safety, environmental aspects, and the security and safety of buildings and facilities. 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.

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, and promote exchanges between HSE managers in the relevant country. Their proximity to the sites further strengthens the sharing of best practices and enables the completion of cross-disciplinary work such as the 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.

The Group 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 2015, nearly 49,400 hours of environmental training were provided across all sites by the HSE network.

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 2015, the RIE Department continued publishing the Group's operational directives, including the "Risk Hunting" Directive aimed at raising awareness among employees of how to detect breaches of Group standards: when non-compliance is identified, the employee is required to report the issue on a monitoring board displayed on each production line. Reported instances of non-compliance are monitored daily during "5-minute meetings" until they have been resolved. The new directive requires the management of each site to establish an organization aimed at bringing all of the site's employees into the process.

The RIE Department aims to maintain binding requirements that meet or exceed 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 simplify the system and make it more effective, Valeo upgraded VERM based on crisis management and business recovery plan feedback from sites, and released the new version, known as "HSE VERM" in June 2015. The new version imposes mandatory crisis scenarios for sites, covering events including fire, explosions or accidental pollution. Each site is required to establish procedures, response sheets or lists of contacts to use in the event of a crisis, and for each phase of a crisis from the alert phase to the resumption of activity, including the intervention phase and the phase devoted to securing people or the site.

(1) See Sustainable Development Glossary, page 407.

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.) that could, through a domino effect, endanger Valeo's sites;

- in 2011, the risk of tsunamis was 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 commissions intrusion tests to verify effectiveness.

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 hurricane-resistant roofing, flood protection and the elevation of land prior to 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.

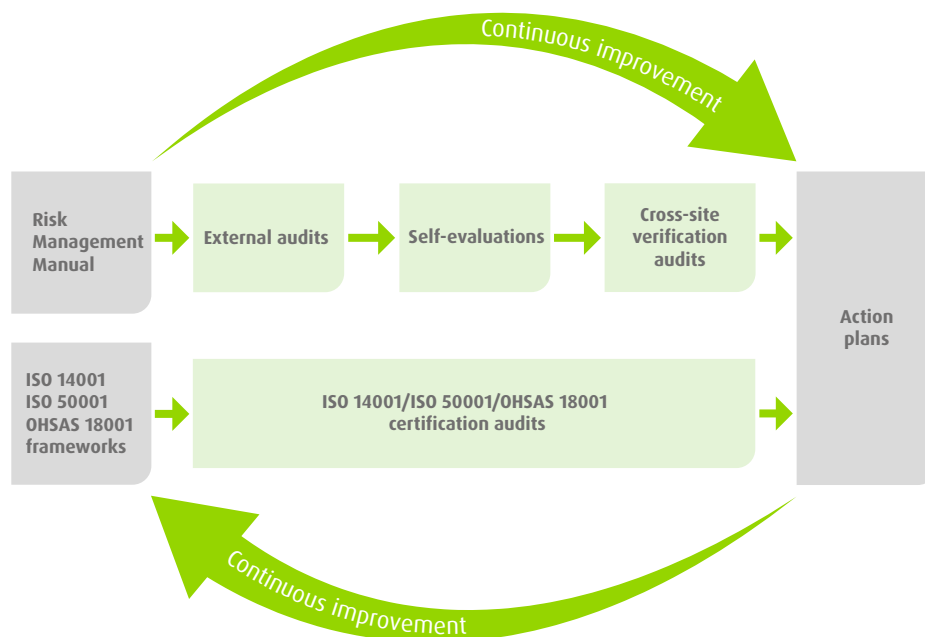
Noise and other forms of pollution

Valeo strives to follow up all complaints addressed to its sites on environmental issues. In 2015, 19 complaints were registered across the Group as a whole, all concerning noise and odors. The sites concerned are required to implement the appropriate measures.

Evaluation and certification processes

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.



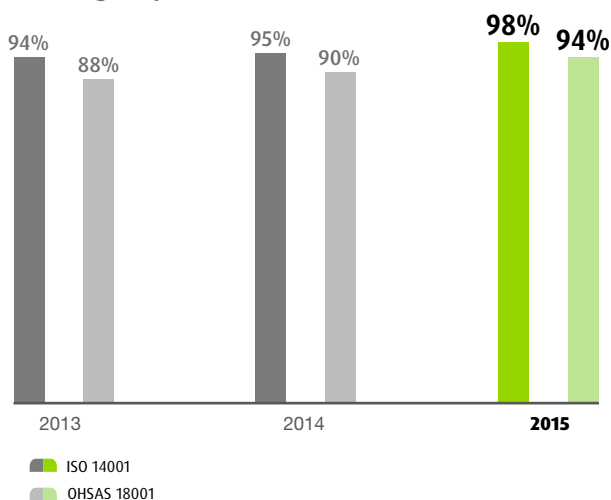
(1) See Sustainable Development Glossary, page 407.

ISO 14001, ISO 50001 and OHSAS 18001 certification audits

More than 15 years ago, the Group 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 workplace 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 2015, 98% of Valeo sites had obtained ISO 14001 certification and 94% OHSAS 18001 certification.

Percentage of plants certified 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.

In 2015, initial ISO 14001 and OHSAS 18001 certification was obtained by the following sites that recently joined the Group:

- Guangzhou (Comfort & Driving Assistance Systems, China): OHSAS 18001;
- Shenyang (Visibility Systems, China): ISO 14001;
- Wuhu (Visibility Systems, China): ISO 14001 and OHSAS 18001;
- Chennai Oragadam (Powertrain Systems, India): ISO 14001 and OHSAS 18001;
- Wuxi (Powertrain Systems, China): ISO 14001 and OHSAS 18001.

ISO 50001 certification

In line with its objectives on improving environmental performance during the 2013-2015 period, Valeo aimed to see 10% of its sites obtain ISO 50001 energy management certification by the end of 2015.

Three sites received ISO 50001 certification in 2015:

- Bietigheim (Visibility Systems, Germany);
- La Suze sur Sarthe (Thermal Systems, France);
- Neuses (Visibility Systems, Germany),

bringing the number of certified sites to ten.

8% of sites had obtained ISO 50001 certification by the end of 2015. The target of 10% was not achieved because the certification of two sites (Angers and Châtellerault, Visibility Systems, France) was delayed until early 2016. Valeo has set itself the target of achieving ISO 50001 certification for 20% of its sites by the end of 2020.

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, workplace 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.

Audit standards based strictly on HSE requirements laid down in the Group's operational guidelines ensure that sites address all of Valeo's HSE requirements, and also provide a sounder basis for comparison between sites and generate a greater amount of feedback.

A detailed report is presented at the end of each audit and a score is given based on objective criteria periodically revised by the RIE Department.

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 2015, the RIE Department implemented bi-monthly reviews of all action plans in place on Valeo sites with the Business Group HSE managers to check on their progress. The findings of these reviews are presented in reports issued to all Business Group operational managers to give them an accurate scorecard of progress made by each site and to allow them to take action if necessary.

In 2015, **188 external audits** were performed, in addition to 136 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.

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.

Centralized environmental reporting

Over the past ten years, Valeo has used 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).

Responses from all sites are consolidated and undergo in-depth verification by an external service provider to ensure their quality. To ensure the highest possible reliability for the final indicator value, this verification includes questions asked to sites reporting significant year-on-year changes in any item. In all, nearly 100,000 data items are 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 "Environmental reporting methodology", pages 233 to 234.

External audit imposed by the "Grenelle 2" regulation

Article 225 of the Grenelle 2 law of 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 ruling 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.

There were three stages to this engagement:

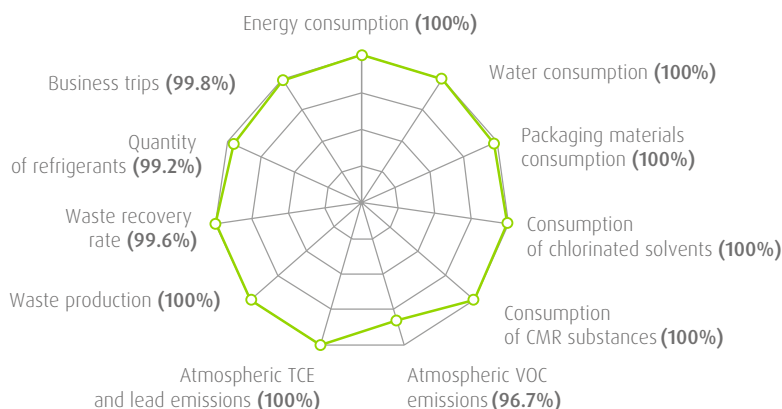
- in the first stage, the reporting process (scope, definitions of indicators, methods of calculation, consolidation process and controls) was reviewed;
- in the second stage, site audits were performed to verify the proper implementation of reporting procedures and the relevance of the information reported. This stage was rounded out by a review of consolidated information (review of the completeness and accuracy of the information);
- in the third stage, the independent verifier produced a summary 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 contained in the management report in respect of 2015. This report appears in section 4.8, pages 248 to 249.

In 2015, five sites were audited in South Korea, Spain, the United States, France, Hungary and Thailand. In addition, two sites audited in 2014 underwent follow-up audits.

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 2015, 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 rates for main indicators in 2015



Achievements

To meet the continuous improvement challenges of its sustainable development policy, which focuses on the seven themes described in section 4.1.1 "Sustainable development challenges at Valeo", pages 233 to 234, and specifically those of

the second theme on the eco-efficiency of industrial processes, the RIE Department sets goals for improving environmental performance. 2015 saw the completion of the **2013-2015 three-year plan** to reduce the Group's environmental impacts. This was the third plan aimed at improving environmental performance; the first dates back to 2008.

Review of the 2013-2015 performance

Objectives	Unit	2015 target (base = 2012)	2012 results	2013 results	2014 results	2015 results	2015 results (base = 2012)
Sustainable use of resources							
Water consumption	cu.m/€m	-10%	215	211	219	198	-8%
Energy consumption	MWh/€m	-10%	158	158	156	143	-9%
Packaging materials consumption	kg/€m	-7%	6.1	6.6	6.3	5.6	-8%
Production of waste							
Production of hazardous and non-hazardous waste	metric t/€m	-7%	17.0	17.0	17.1	16.4	-3%
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	57.3	+1%
Management systems							
ISO 14001 certification (environmental management)		100%	96%	94%	95%	98%	+2 pts
OHSAS 18001 certification (workplace health and safety)	% of sites ⁽²⁾	100%	88%	88%	90%	94%	+6 pts
ISO 50001 certification (energy management)	% of sites	10%	-	2%	5%	8%	+8 pts

(1) See section 4.3.2 "Reducing greenhouse gas emissions", pages 176 to 178 for a description of the scope of the objective.

(2) For new sites, ISO 14001 and OHSAS 18001 certification to be obtained in the third year following their entry into the Group.

The three-year targets set by the Group in 2013 for reduction of its environmental footprint were particularly ambitious. They were exceeded in respect of packaging materials, and nearly achieved in respect of water and energy consumption, as well as for ISO 14001, ISO 50001 and OHSAS 18001 certification.

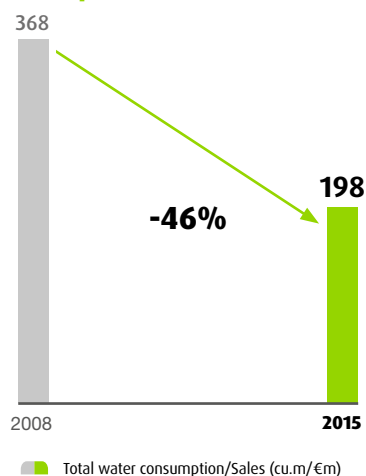
Valeo missed its goal of reducing its direct and indirect greenhouse gas emissions in proportion to its sales (Scopes 1 and 2), but has virtually stabilized them. This stabilization

resulted from a 23% reduction in direct emissions as a proportion of sales (Scope 1), combined with a 9% increase in indirect emissions as a proportion of sales (Scope 2), which represent a much larger part of total emissions (see section 4.3.2 "Reducing greenhouse gas emissions", pages 176 to 178).

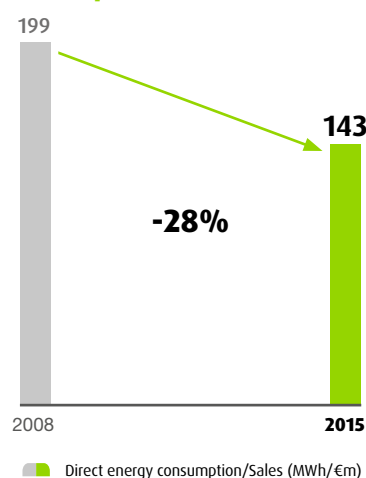
Waste production was reduced, but insufficiently. Further work will be required in the coming years.

Review of the 2008-2015 performance

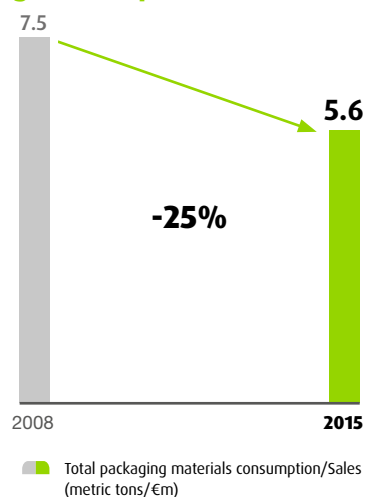
Water consumption



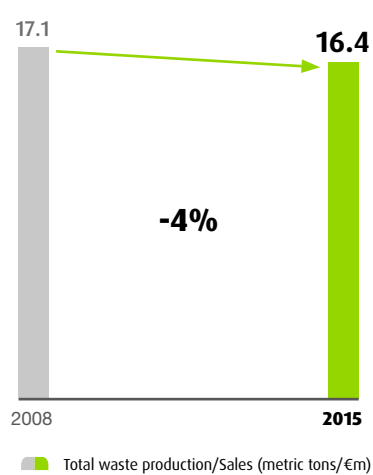
Energy consumption



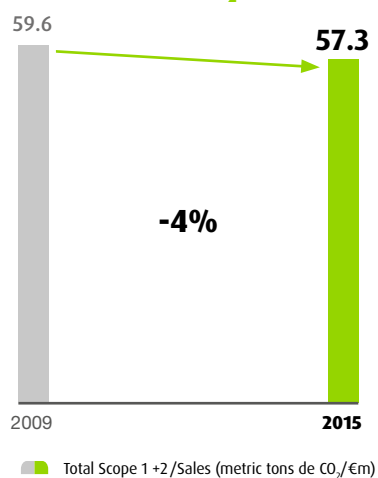
Packaging consumption



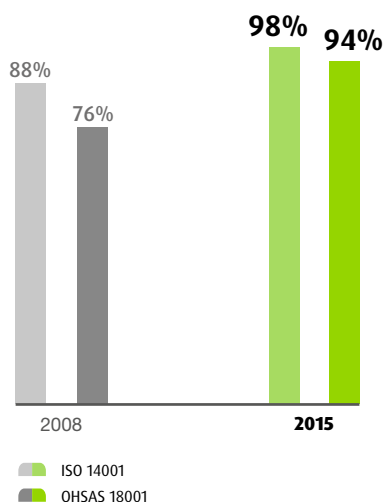
Waste production



Direct and indirect CO₂ emissions



ISO 14001 and OHSAS 18001 certification



The charts above show the very significant reductions achieved by Valeo since 2008 in its water, energy and packaging consumption and waste production in proportion to its sales (reduced by 46%, 28%, 26% and 4% respectively), as well as progress on the objective of having all of its sites certified (the scope of the objective is provided in section 4.6.1 "Environmental reporting methodology", pages 233 to 234).

Since 2009, Valeo has also reduced its direct and indirect CO₂ emissions as a proportion of sales by 4%.

Environmental expenditure and investment

Total environmental protection expenditure and investment

Operating expenses relating to the environment amounted to 21.9 million euros in 2015. They include the cost of waste treatment, analysis of effluents, operation of internal treatment plants and environmental studies. In addition to these expenses, 3.2 million euros were spent on clean-up costs on active sites.

In 2015, Valeo invested 3 million euros for the protection of the environment on active sites. This amount includes 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

None of the Group's sites was the subject of significant administrative sanctions by the authorities in 2015.

Amount of provisions and guarantees for environmental risks

Provisions set aside for site remediation or for the environment amounted to 14 million euros at December 31, 2015.

Outlook

2016-2020 performance objectives

Based on the results achieved during the last three environmental performance plans between 2008 and 2015 and the scope for improvement identified (see sections 4.3.2 to 4.3.7), Valeo intends to continue reducing its environmental footprint. The Group has accordingly set itself the following objectives for the 2016-2020 period:

Objectives	Unit	2020 target (base = 2015)
Energy consumption	MWh/€m	-8%
ISO 50001 certification (energy management)	% of sites	20%
Direct and indirect greenhouse gas emissions (Scope 1 and Scope 2) ⁽¹⁾	metric t CO ₂ /€m	-8%
Production of hazardous and non-hazardous waste	metric t/€m	-5%
Water consumption	cu.m./€m	-6%

(1) See section 4.3.2 "Reducing greenhouse gas emissions", pages 176 to 178 for a description of the scope of the objective.

4.3.2 Reducing energy consumption and greenhouse gas emissions

Reducing energy consumption

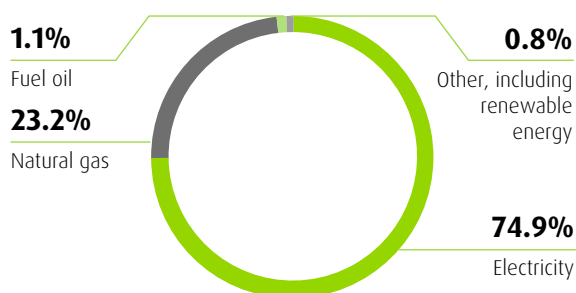
Challenges

Valeo sites use the following three types of energy for industrial and domestic purposes:

- direct energy in the form of 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.

Breakdown of energy sources



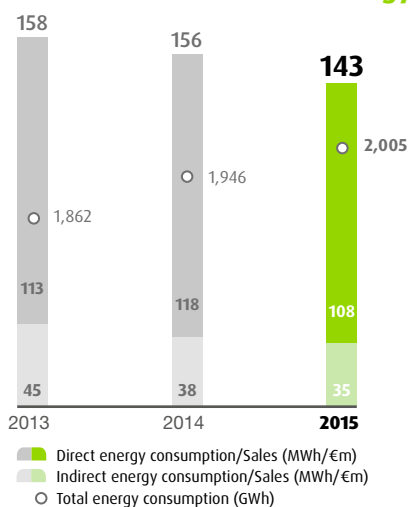
Approach

Valeo is working to reduce its energy consumption by implementing measures such as those described below in "Achievements during the year".

Performance

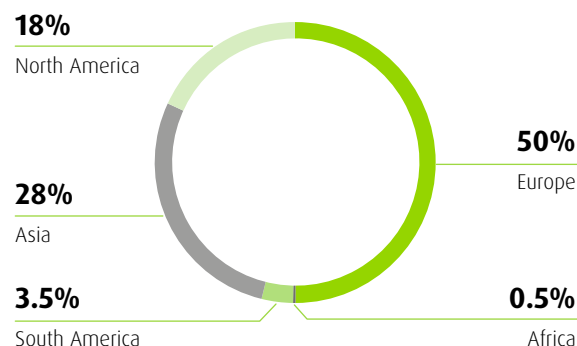
Total energy consumption was broadly stable. As a proportion of sales, it was **down 9% compared with prior year**. The decrease was evenly split between direct and indirect energy, and continued a downward trend dating back to 2013.

Total direct and indirect energy consumption

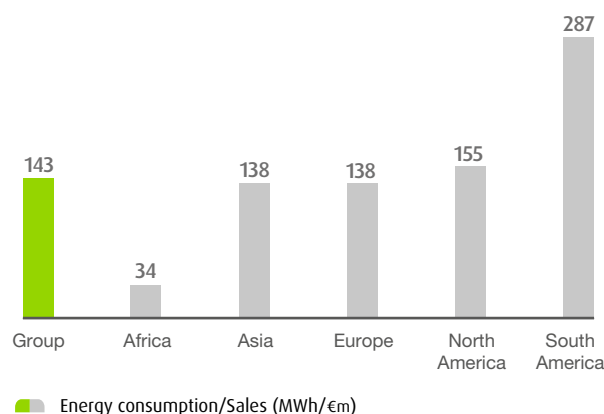


Analysis of the geographic breakdown of energy consumption

Geographic breakdown of total energy consumption



Energy consumption as a proportion of sales by geographic area



The Group's sites in Europe, Asia and North America account for 96% of total energy consumption. However, energy consumption as a proportion of sales at the Group's South American sites is markedly higher than in Africa, Asia, Europe and North America. Efforts to improve energy consumption are therefore required at the South American sites.

Achievements during the year

The indicator used by Valeo for quantifying savings is the energy intensity ratio (MWh/€m), which decreased by 9% between 2014 and 2015.

This was achieved thanks to numerous initiatives at individual sites, including:

- Chonburi (Comfort & Driving Assistance Systems, Thailand): the site invested approximately 100,000 euros to replace 1,268 40W neon light bulbs with 22W LED light bulbs and to replace 213 400W mercury light bulbs with 200W LED light bulbs. The site expects these changes to save 700 MWh each year, and anticipates a return on investment in under two years.

The replacement of conventional fluorescent or metal-halide lights by more energy-efficient LEDs is widespread within the Group. In 2015, 21 Group sites reported having made such a change.

- Zembrak (Thermal Systems, Czech Republic): the site installed a heat recovery system in the compressor room. The heat recovered is used for hot water and to heat the production workshops. This investment of roughly 40,000 euros saves nearly 1 GWh of gas and electricity, enabling a return on investment in less than two years.
- Several other Group sites also took this measure to optimize heat recovery in the compressor room: noteworthy examples include Abbeville and Amiens (Powertrain Systems, France).

Sites are also investing in major thermal insulation projects on buildings. Examples include Bobigny (Visibility Systems, France), which continued to replace its bay windows and its faulty heating system, and the Strykow logistics site (Valeo Service, Poland), which installed insulating curtains in different parts of the warehouse to prevent heat loss when loading trucks.

A total of 70 sites declared the start of new energy efficiency projects in 2015. They aim to achieve combined energy savings amounting to 2% of the Group's total energy consumption in 2015, i.e., approximately 41.9 GWh.

In 2015, Valeo continued the rollout of the ISO 50001 energy management standard at its sites. By the end of 2015, ten sites, or 8% of the total number, had obtained this certification.

French regulations also impose the performance of energy audits on a number of sites that are not already involved in the ISO 50001 approach. Valeo accordingly commissioned ten energy audits. Their results, as well as those of action plans designed to reduce site consumption, were sent for information to the prefects of the regions concerned.

Outlook

Pilot on the Angers site

The Group is determined to reduce its total energy consumption even further. To this end, Valeo has chosen to conduct a pilot project on a site that has already achieved significant reductions in energy consumption in order to identify new areas for improvement and, if conclusive, to roll them out more widely across all sites.

The Angers site (Visibility Systems, France), identified as a Center of Excellence for the conservation of energy, has been selected as the pilot site. The project involved the installation

of innovative measurement devices on the site's various electrical junction boxes. Continuous measurements over a three-month period resulted in the following observations:

- There are periods with no production, during which energy consumption is reduced, but not to zero due to some residual consumption such as energy used for heating: this results in so-called base energy consumption that must be minimized.
- Energy consumption varies very little during the day, unlike the number of parts manufactured, which is much more variable. Accordingly, when production rates are very high, it takes little energy to manufacture a part (often less than 2 kWh per part); by contrast, when the number of parts falls, it takes more energy to manufacture a part (sometimes more than 6 kWh per part).

Based on these findings, the pilot project has identified two areas for improvement:

- To reduce base energy consumption, the site has designated an Energy Officer tasked with turning off all unused equipment at the end of the day and on weekends.
- The implementation of an alert system triggered when the level of production declines, informing the Energy Officer of areas where machines should be turned off. In periods of slow activity, it is best to stop some machines and wait until demand picks up before resuming production, thereby reducing energy consumption per unit manufactured.

The project points to a possible reduction in current total consumption of between 10% and 15%, implying potential annual savings of a little over 300,000 euros for the site.

In 2016, Valeo will investigate the feasibility of adopting this method on other Group sites.

Valeo has set itself the goal of reducing its total energy consumption as a proportion of sales by 8% between 2016 and 2020.

Reducing greenhouse gas emissions

Challenges

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 2015, 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).

Approach

Valeo is actively working to reduce its consumption of energy and resources in order to decrease its greenhouse gas emissions.

Performance

Scope 1

Direct GHG emissions as a proportion of sales fell by 23.5% between 2014 and 2015.

Direct GHG emissions (kt CO ₂)	2013	2014	2015
Emissions generated by fuel oil and gas combustion at sites (kt CO ₂)	131.8	115.9	118.0
Direct emissions from non-energy processes ⁽¹⁾ (kt CO ₂)	14.9	19.3	1.9
Emissions caused by Valeo's vehicle fleet ⁽²⁾ (kt CO ₂)	7.6	12.0	7.4
Fugitive emissions (refrigerant leakage) (kt CO ₂)	14.1	17.5	14.5
TOTAL DIRECT EMISSIONS (kt CO₂)	168.4	164.7	141.8
TOTAL DIRECT EMISSIONS/SALES (t CO₂/€m)	14.3	13.2	10.1

(1) Data on direct emissions from non-energy processes were monitored very precisely in 2015, which brought to light the overestimation of these data in 2013 and 2014.

(2) As of 2013, the figure for emissions from the Valeo vehicle fleet also includes emissions from gas-powered handling equipment.

Scope 2

Valeo's indirect GHG emissions as a proportion of sales were reduced by 6% between 2014 and 2015.

Indirect emissions from consumption of electricity ⁽¹⁾ and other energy such as steam, compressed air, etc.)	2013	2014	2015
TOTAL INDIRECT EMISSIONS (kt CO₂)	534.1	627.7	663.8
TOTAL INDIRECT EMISSIONS/SALES (t CO₂/€m)	45.35	50.25	47.22

(1) The calculation takes into account the primary energy sources used to generate electricity in each country.

Geographic breakdown of direct and indirect greenhouse gas emissions (Scopes 1 and 2) associated with energy consumption in 2015



The chart shows the geographic breakdown of direct emissions related to gas and fuel oil combustion at sites and indirect emissions related to electricity consumption. The comparison of this chart with that of the geographic breakdown of total energy consumption (see page 175 of this section) shows that while Valeo's European sites consume 50% of the Group's total energy, the associated GHG emissions account for just under 38% of the Group total. By contrast, sites in Asia consume nearly 28% of the Group's total energy but emit approximately 42% of its total GHG emissions. The difference stems from the fact that the power plants that provide energy to Valeo's sites in Asia are mainly fired by coal, which emits substantial quantities of GHG. The Group's growth in Asia accordingly results in an increase in absolute terms in indirect emissions of greenhouse gases.

Scope 3

The 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.

Other relevant indirect GHG emissions (kt CO ₂)	2013	2014	2015
Emissions generated by the production of the main materials used in industrial processes of which:	4,680	5,122	5,614
Materials (metals)	3,050	3,250	3,416
Materials (other)	1,630	1,872	2,198
Emissions generated by logistics of which:	156	242	237
Road/rail/sea transportation	97	157	174
Air/express transportation	59	85	63
Emissions generated by employee travel of which:	139	125	139
Work commutes	99	97	108
Business trips	40	28	31
TOTAL OTHER INDIRECT EMISSIONS (kt CO₂)	4,975	5,489	5,990
TOTAL OTHER INDIRECT EMISSIONS/SALES (t CO₂/€M)	422	439	426

Scope 3 emissions as a proportion of sales fell by 3% between 2014 and 2015.

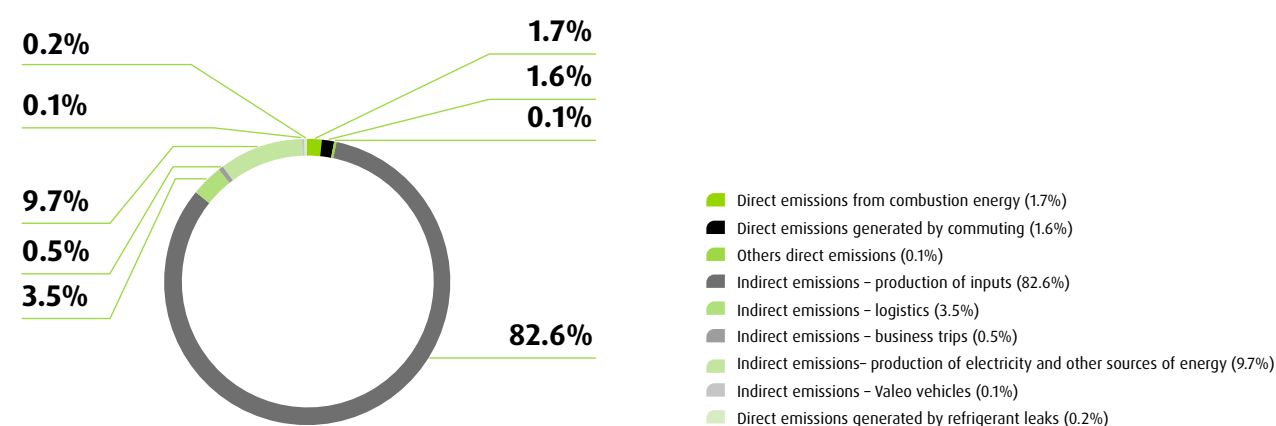
The Group's carbon footprint

The Group's overall carbon footprint (Scopes 1, 2 and 3) totaled approximately 6.8 million metric tons of CO₂ equivalent, an increase of 8.3% compared with 2014.

As a proportion of Valeo's sales, the 2015 carbon footprint (Scopes 1, 2 and 3/sales) fell by 3.9% compared with 2014.

The chart below shows the preeminent contribution of materials used in industrial processes to the Group's overall carbon footprint (approximately 83%, of which two-thirds for metals), whereas direct emissions represent only 2% of the overall footprint.

2015 breakdown of main GHG emissions



Outlook

Valeo has set itself the goal of reducing its direct and indirect greenhouse gas emissions (Scope 1 and Scope 2) as a proportion of sales by 8% between 2016 and 2020.

4.3.3 Discharges and waste

Valeo's activities are liable to generate the discharge of substances into the air or soil that could impact the environment. Such discharges must be tightly controlled so as to avoid pollution.

To this end, Valeo sites are required to identify any substances prohibited or regulated by local regulations or by customers in its buildings, manufacturing equipment or products.

All such prohibited or controlled substances are listed in a database known by the acronym BRDS ("Banned, Regulated and Declared Substances") established by the Group.

The Group also prohibits the use of the following substances:

- asbestos;
- PCBs (polychlorinated biphenyls);
- refrigerants such as halons, CFCs, etc.;
- RCFs (refractory ceramic fibers);
- radioactive substances.

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 hydrochlorofluorocarbons (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.

Because of their danger and their legacy use in industrial processes on its sites, the Group also works to reduce the consumption of heavy metals (lead, mercury, chromium VI, cadmium), chlorinated solvents and substances classified under European regulations as carcinogenic, mutagenic and reprotoxic (CMR).

Prevention of air emissions

Approach

Each site must establish an organization to ensure compliance with regulatory requirements in respect of air emissions.

This organization requires the establishment by each site of an emissions inventory aimed at:

- identifying the sources of air emissions based on a comprehensive review of the site's processes and activities, and facilities for the treatment of these emissions;
- describing the nature of emissions on the basis of their origin (emissions from combustion plants or related processes);
- quantifying emissions in order to determine the need to obtain operating permits in accordance with applicable regulations.

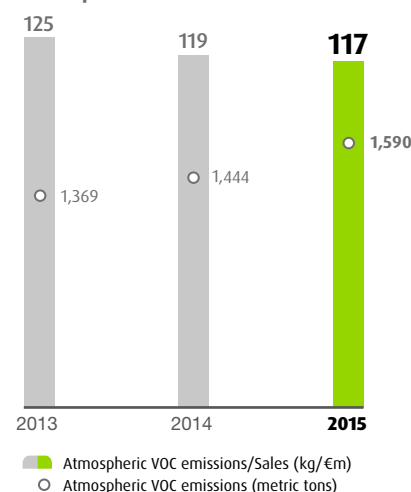
Each Valeo site assesses, particularly whenever any processes are changed, potential ways of reducing atmospheric emissions of pollutants at source, focusing primarily on processes that do not require the installation of treatment facilities.

Performance

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.

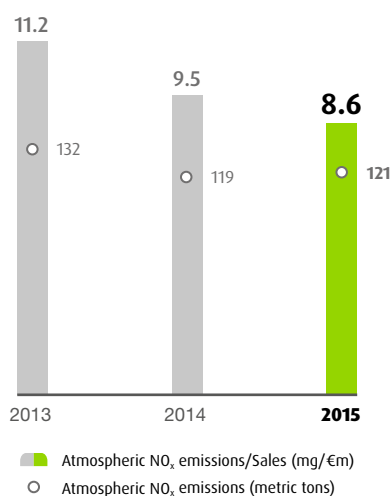
Atmospheric VOC emissions



VOC emissions fell by 1.7% as a proportion of sales in 2015.

The Comfort & Driving Assistance Systems Business Group was the main source of the reduction. VOC emissions increased as a proportion of sales in the other three Powertrain Systems, Thermal Systems and Visibility Systems Business Groups; Valeo Service does not emit VOCs.

These increases can be attributed in part to the use on virtually all Valeo sites, of the reporting methodology for this indicator, which was developed by the RIE Department and increases the reliability of the reported figures. In 2015, Valeo also conducted an inventory of VOC-emitting industrial activities, which was particularly useful during the validation phases of the indicators and has helped improve the reliability of the readings obtained.

Atmospheric NO_x emissions

NO_x emissions are estimated on the basis of consumption of oil and gas, mainly used for heating, heat treatment processes and VOC incinerators.

NO_x emissions as a proportion of sales fell by 9.5% between 2015 and 2014.

Lead and TCE emissions

The Group monitors the release into the atmosphere of lead and TCE, two substances used in legacy production processes.

Lead emissions are not material: 16 kg in 2015, down 5.9% compared with 2014.

Consumption of TCE, still used by a single Group site (Daegu, South Korea), totaled 22.5 metric tons in 2015.

Emissions of ozone-depleting substances

In the interests of transparency, the Group again performed an overall estimate of CFC and HCFC emissions in 2015: 608 kg of CFC-11 equivalent (the reference component for measuring the potential to deplete the ozone layer), a decline of 3.8% compared with 2014.

Achievements during the year

Several sites took action to reduce their air emissions. They include:

- Jedeida (Powertrain Systems, Tunisia): the site replaced its old air conditioning system operating with R22, an ozone-depleting substance, with a new system running on the more environmentally friendly R410;
- Shenzhen (Comfort & Driving Assistance Systems, China): the site elected to install a new VOC emission treatment system for its paint booths. It has invested in a VOC treatment system using cold plasma and UVs. The new technology does not require the addition of any chemicals, and costs very little to run in comparison with conventional systems.

Prevention of discharges into the soil

Approach

Although Valeo does not generate industrial wastewater containing large amounts of pollutants, **each site is required to manage its effluents**. Their management is addressed in a specific directive. The main requirements are as follows:

- effluents whose composition exceeds the regulatory thresholds must go through **treatment plants located directly on Valeo sites** so as to limit their impact on the receiving environment;
- as far as possible, effluent networks are connected to the public network;
- sites' rainfed networks receive only rainwater;
- the direct discharge of industrial effluents into groundwater is strictly prohibited;
- water from fire extinguishers must be separated and analyzed prior to proper disposal.

As part of their environmental management system, and in accordance with Group directives, **sites are equipped to prevent accidental spills into the environment**:

- **The loading/unloading** of tankers can cause numerous accidents with serious consequences for the environment. To prevent spillage during these operations, Valeo sites are required to draft a specific transferring procedure appropriate to the nature and risks of the products in question, notably including the vehicle circulation plan, the list of people approved for unloading, the method of verifying the nature of the product and its compatibility with the recipient container, and instructions in case of spillage.
- **The storage of hazardous products** can be another source of spillage. The Group has laid down rules for the design and construction of retention systems and tanks, specifying notably the minimum volume for retention systems, what materials to use to ensure the sealing of tanks and retention systems based on the nature of products stored, and how to structure warning systems in case of overflow.
- **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.
- **Internal landfills are prohibited** on all sites regardless of their location.
- For cases of **accidental spillage**, the Group has published a directive entitled "Means of intervention and limiting the consequences", which focuses on the human and material resources to be put in place on sites to prevent, detect and limit the consequences of emergencies liable to have a direct impact on human health or the environment.
- Furthermore, **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.

Performance

In 2015, the total volume discharged by the Group's sites was 724,000 cubic meters, a decline of 11% compared with 2014.

The amount of heavy metals discharged from internal treatment stations totaled 24 kg in 2015, as opposed to 253 kg in 2014, a reduction of 90.5%. This substantial reduction was partly attributable to the inclusion of zinc in earlier data by a Thai site, which is not included in the indicator.

No significant spills were recorded in 2015.

Waste

Challenges

The main challenges in respect of waste are first to optimize the manufacturing process in order to limit its production, and second to recycle everything that can be reused in the manufacturing process, without compromising product quality.

Each site is responsible for:

- collecting and storing waste in conditions that minimize risks to the health and safety of people and the environment;
- ensuring that elimination channels comply with local regulations and guarantee safe waste treatment.

Approach

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.

To manage waste in a consistent manner on all the sites, the Group has an operational directive setting rules:

- minimizing the production of waste: reductions in the production of hazardous and non-hazardous waste can be achieved by:
 - reducing the weight of packaging,
 - substituting raw materials,
 - changing procedures or processes;

- collecting and storing waste: waste containers identify the type of waste and characteristics of the hazard (e.g., flammability);
- transporting waste: waste must be transported in optimal safety conditions by selected contractors;
- disposing waste: landfills and incineration of waste are strictly forbidden on Valeo sites;
- ensuring the traceability of waste: each shipment must be accompanied by a waste tracking form summarizing:
 - the characteristics of the waste shipped,
 - the company responsible for transportation,
 - the company responsible for disposal and processing.

To ensure systematic monitoring of waste, each site has a "waste production and disposal register";

- controlling and monitoring waste storage areas.

Valeo prioritizes waste disposal as follows:

- first to the recycling industry;
- if this is not possible, to recovery;
- in the absence of both sectors, to disposal.

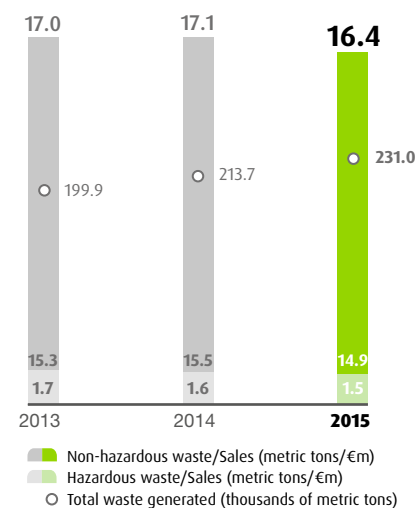
In the absence of a reliable sector in any country, Valeo exports its waste to another country.

The Valeo Risk Indicators reporting tool is used to track the amount of waste sent to each of these sectors.

Performance

Quantities of waste produced

Production of hazardous and non-hazardous waste

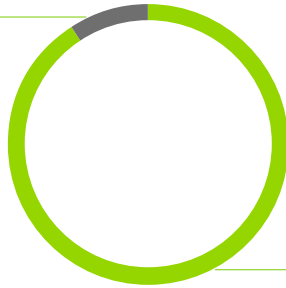


In 2015, the total amount of waste as a proportion of sales fell by just over 4% compared with 2014.

Characteristics of waste produced

9%

Hazardous



91%
Non-hazardous

The proportion of waste recovered increased from almost 86% in 2014 to 90% in 2015.

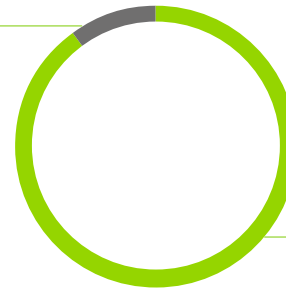
The proportion of hazardous waste was stable at 9% of total waste.

Exported waste

In 2011, the Group began monitoring the amount of hazardous and non-hazardous waste exported by its sites. Sites reporting waste exports were Juarez (Visibility Systems, Mexico), which exports the majority of its waste to the United States, and Rio Bravo (Comfort & Driving Assistance Systems, Mexico), which also exports some of its waste to the United States. The La Suze-sur-Sarthe site (Thermal Systems, France) exports a small amount of waste to a company specializing in solvent regeneration in Germany. Exports totaled 1,596 metric tons in 2015.

10%

Not recovered



90%
Recovered

Achievements during the year

Several sites stand out by virtue of their reduced waste production or improved recovery rate. They include:

- Shenzhen (Comfort & Driving Assistance Systems, China): the site searched for new local waste treatment systems. Waste previously destined for landfill is now recycled. Work was also conducted to recycle all the organic solvents used by the site;
- Breuilpont (Valeo Service, France): in 2015, the site decided to change the subcontractor for the treatment of waste in order to use one with a better recovery rate.

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.

Outlook

Valeo has set itself the goal of reducing its waste production as a proportion of sales by 5% between 2016 and 2020.

4.3.4 Transportation and Logistics

Transportation

Challenges

Valeo's operations require inbound supplies of raw materials and parts, 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 result from emissions of greenhouse gases attributable to the use of non-renewable fuels.

Approach

In 2015, Valeo continued to strengthen its requirements in terms of the organization of transportation and the positioning of external storage facilities owned by suppliers, as well as in terms of packaging, to keep pace with the just-in-time delivery strategy. These requirements are a strong signal of Valeo's commitment to optimizing logistics costs, as well as to reducing its greenhouse gas emissions.

Performance

Valeo confines its use of **air transportation** to situations in which other logistics chains have broken down. Air therefore represents only a marginal proportion of transportation costs.

In 2015, the Group transported the same amount of parts by air as in 2014, but the optimization of air transportation through dedicated shipments with a load factor of 100% reduced CO₂ emissions caused by this mode of transportation from 85,000 to 63,000 metric tons.

In **road transportation**, optimization work performed in previous years continued in 2015:

- improved consolidation of road transportation in China: instead of dedicated trucks, transporters use parts collection circuits in supplier plants wherever possible;
- the widespread use of collection circuits allowed the average truck load factor to increase from 70% in 2014 to 73% in 2015.

Overall, the Group improved the ratio of volumes of items transported to transportation-related CO₂ emissions. However, total emissions from road transportation increased in line with the Group's growth.

In **maritime transportation**, the Group also continued its long-standing approach of:

- improving consolidation of all maritime flows from Europe and Asia to Mexico through the use of a single provider for flows from Europe and a single provider for flows from Asia. Consequently, all removals are made in bulk to optimize container fill rates. A further benefit of this method is that it streamlines flows, with a regular departure every week, making it easier to organize production on Valeo sites and increasing the reliability of deliveries to customers;
- creating a partnership between Valeo and a single supplier for all maritime flows to Brazil.

In **rail transportation**, Valeo continued the work begun in North America in 2014 to organize deliveries from Valeo's North American suppliers in the Chicago area to Mexico:

- 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.

In 2015, Valeo worked to optimize rail flows from Asia to Europe (see case study 1 below).

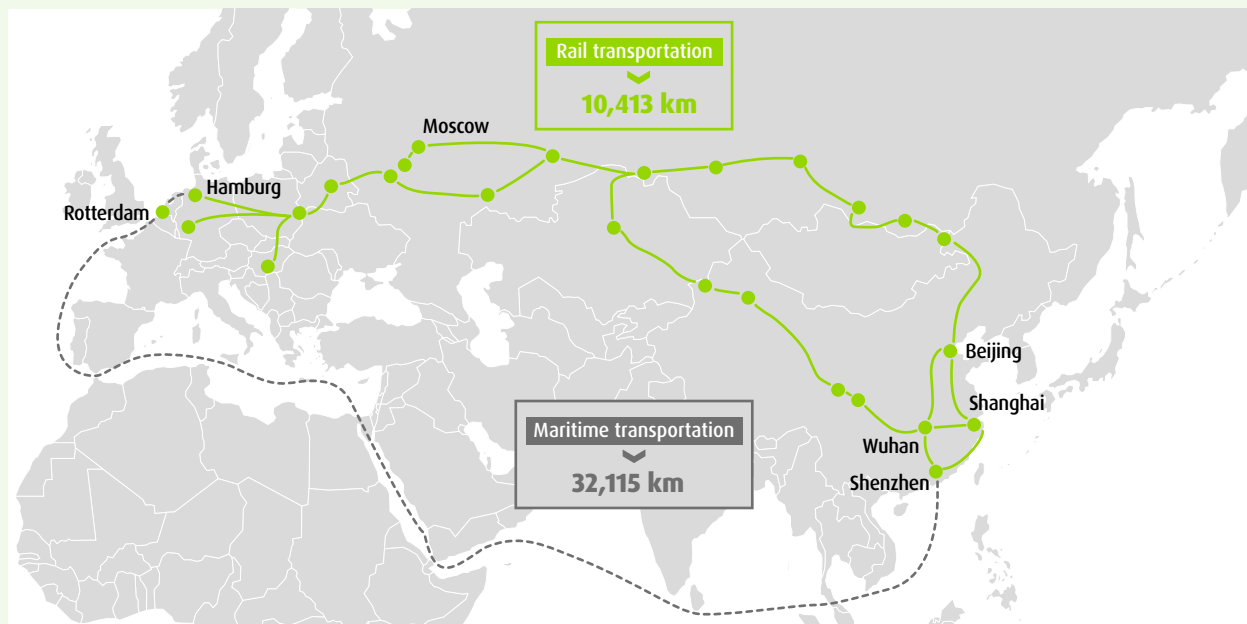
Achievements during the year

Case study 1

As a general rule, shipping is the most widely used means of transportation for deliveries of parts from Asia to Europe. Until recently, road transportation was the only alternative to maritime transportation for flows between Asia and Europe. However, it has several significant drawbacks: it takes longer than maritime transportation, and is also more polluting and expensive. The recent opening of rail logistics flows between Asia and Europe has changed this situation.

New rail flows have several advantages compared with shipping due to the reduced distance involved:

- by sea, about 32,000 km;
- by rail, about 10,500 km.



Consequently, rail transportation has enabled Valeo to:

- reduce the average travel time between Europe and Asia;
- reduce transportation-related CO₂ emissions.

Logistics teams in China worked actively in 2015 to establish rail flows in view of their profitability.

Case study 2

For raw material supplies, the Group distinguishes between two types of road flows:

- domestic flows between Valeo's suppliers and its production plants;
- collection flows between Valeo's suppliers and logistics platforms for intercontinental shipments.

In 2015, the Group established a hub in Germany for the two flows. Trucks supplying Valeo sites in Germany are used to collect materials for Valeo plants in Brazil.

Pooling of this type improves load factors, saves time and reduces costs.

Outlook

In 2016, the Group will continue its work to consolidate road flows for all sites in Thailand, Turkey and the United States, as well as a large number of sites in China, while at the same time optimizing the load factors of its various means of transportation.

For maritime transportation, the logistics teams of the different production sites will continue to pool their shipments. Specific action will be taken in China to develop this means of transportation for supplies to other Asian countries.

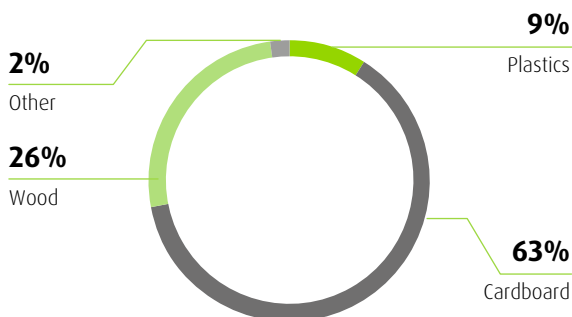
Valeo will continue its efforts to transport its goods by rail wherever possible.

Packaging

Challenges

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



Approach

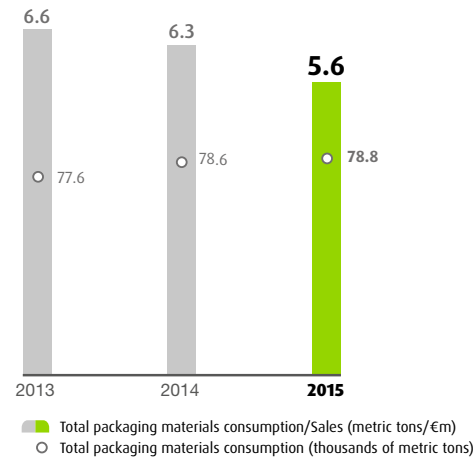
For several years, Valeo has worked to reduce its consumption of packaging materials in two main ways:

- using reusable containers or pallets, made from either cardboard, wood or plastic;
- improving the fill rate of the packages containing the products.

This work is being conducted in partnership with Valeo's suppliers and customers.

Performance

Packaging materials consumption



In 2015, total consumption of packaging materials as a proportion of sales fell by 11% compared with 2014. In absolute terms, total consumption of packaging materials stabilized.

The reduction can be attributed to the numerous initiatives taken by sites in partnership with suppliers and automakers to reduce amounts of packaging materials.

To reduce its environmental footprint, Valeo pays particular attention to the use of recycled materials. In 2015, 948 metric tons of packaging materials were recovered internally and reused, nearly five times more than in 2013 (203 metric tons).

Achievements during the year

The following initiatives are worthy of mention:

- Getafe (Valeo Service, Spain): the site identified two ways of reducing its consumption of packaging materials: reusing cardboard pallets used to transport goods from a Valeo site in China and reusing cardboard pallets from local suppliers. In this way, its teams managed to save a little over 5,000 cardboard pallets, or about 15 tons of cardboard;
- Chennai (Visibility Systems, India): the site completed work in partnership with its customers to improve the loading of its pallets of finished products. Boxes have been modified in order to accommodate a larger number of products. The transition from 84 to 96 parts per box has helped reduce the overall consumption of packaging materials on the site.

4.3.5 Water

Challenges

Because of the importance of this resource, the Group's objective is to limit and control its water consumption, reduce the risk of pollution of sources of supply and ensure the supply of good quality water for its staff.

Approach

To control and minimize their consumption as much as possible, the sites implement appropriate human and material resources:

- each source of water supply is equipped with systems for determining the volume of water consumed and its uses (domestic, industrial and fire);
- the use of water for cooling in open circuits is prohibited, with the exception of heat pumps for heating or air conditioning;
- the site regularly updates mapping of its water supply and distribution networks.

The plan distinguishes between:

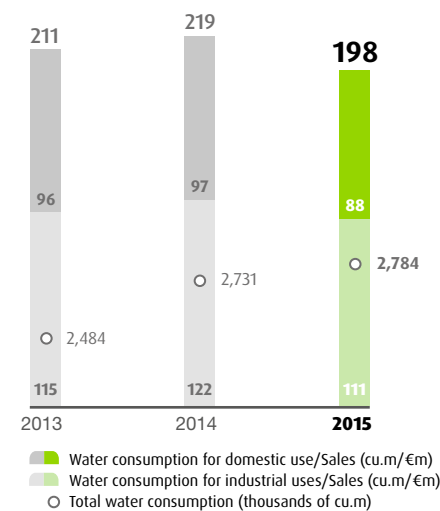
- drinking water,
 - domestic use (if separate from drinking water),
 - industrial uses,
 - fire uses;
- external drinking water supply wherever possible (preferably the public network);
- drinking water networks protected from contamination by other networks;
- the site performs monitoring of its water consumption at least quarterly. The objective of this monitoring is to:
 - identify the respective needs in regard to each of the main uses of water,
 - identify any drift in water consumption and take swift action in the event of leaks in the network,
 - allow the development of a water consumption reduction plan to achieve or better the objectives set for each site by the Group;
- as far as possible, the site reserves the use of potable water for domestic purposes and favors the use of non-potable water wherever possible (e.g., toilets, watering, cleaning, extra water for closed fire and water cooling circuits).

To minimize their water consumption, sites are urged to take action on the following key points:

- optimizing washing operations;
- setting up recycling systems such as recovering discharge water from cooling towers, using it to wash floors and equipment;
- taking into account the optimization of water management and possible water savings when purchasing equipment that consumes water;
- collecting rainwater.

Performance

Water consumption



In 2015, Valeo reduced its water consumption as a proportion of sales by 9.6% compared with 2014, and stabilized its total water consumption.

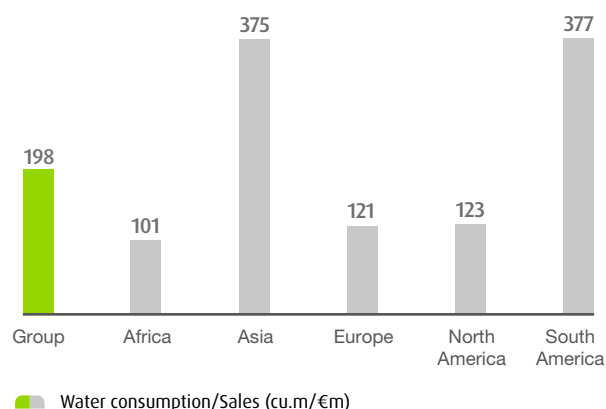
Consumption of water for industrial purposes accounted for 44% of total water consumption, unchanged compared with 2014.

Geographic breakdown of water consumption in 2015

Geographic breakdown of overall water consumption



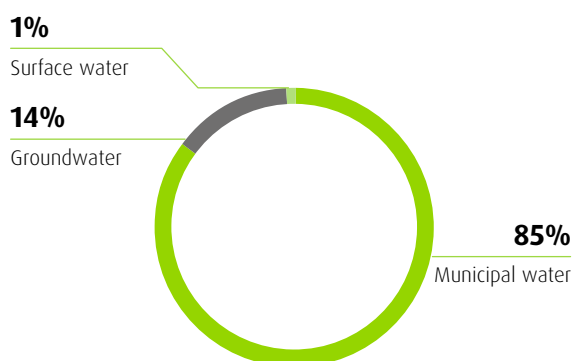
Water consumption as a proportion of sales by geographic area



The Group's sites in Europe and Asia account for 85% of total water consumption. Water consumption as a proportion of sales at the Group's Asian and South American sites is markedly higher than in Africa, Europe and North America.

Progress is required at the Asian and South American sites in improving water consumption, especially by detecting and repairing leaks, which are a major source of water wastage.

Sources of water



To measure the overall impact of its activities on water resources, Valeo measures its consumption, distinguishing between the various sources (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 increased from 11.7% in 2014 to 13.9% in 2015. This increase was attributable to the Shashi site (Thermal Systems, China), which took all of its water from groundwater, accounting for one-third of the Group's total consumption of groundwater alone.

Water restrictions

In 2015, two sites (Ben Arous, Comfort & Driving Assistance Systems, Tunisia, and São Paulo, Visibility Systems, Brazil) were affected by water restrictions. Three sites (Rio Bravo, Comfort & Driving Assistance Systems, Mexico, São Paulo, Visibility Systems, Brazil, and Wenling, Visibility Systems, China) were affected by public water network outages.

In 2015, 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 the survey to complete its Water Footprint program in 2016.

Water reuse

In 2015, three sites reported collecting rainwater for reuse, namely Reilly, Visibility Systems, France, Breuilpont, Valeo Service, France, and Tianjin, Thermal Systems, China. A further 14 sites recycle and reuse their industrial water internally. This figure is constantly increasing (seven sites in 2013, 12 in 2014).

Achievements during the year

The two Gyeongju Powertrain Systems sites in South Korea had particular success in the field of water policy in 2015, with three major projects:

- reduction of domestic water consumption: the site maintenance teams carried out work to reduce all water flows in kitchens and toilets. All site employees were also informed of the need to reduce water consumption in order to change their behavior;

(1) See Sustainable Development Glossary, page 407.

- integration of environmental aspects into the development of new industrial processes: the site changed its lubrication and surface treatment processes in 2015. These technological changes allowed the site to save 250 cubic meters of water per day;
- detection of water leakages in the networks by a specialized company.

The site also conducted joint initiatives with local government, with the implementation of a wastewater separation system to prevent contamination of groundwater.

These actions led to the site receiving an award at the seventh World Water Forum, held in Daegu and Gyeongju in April 2015, which aims to reward the leading companies in the prevention of pollution and the preservation of resources.

Outlook

Valeo has set itself the goal of reducing its total water consumption as a proportion of sales by 6% between 2016 and 2020.

4.3.6 Biodiversity

Challenges

The 117 sites in the reporting scope occupy a total area of approximately 699 hectares, of which just over 10% are left in their natural state. The rest is used for buildings, traffic areas and gardens.

Almost all of the land used by Valeo, i.e., 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. Twenty such sites were inventoried in 2015: two in Asia, five in South America and thirteen in Europe. They include nine plants in France, chiefly in the vicinity of Natura 2000⁽¹⁾ areas or natural areas of ecological, flora and fauna interest (ZNIEFF⁽¹⁾).

Approach

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.

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.

Achievements during the year

Under the terms of a 2009 agreement with the Ministry for the Environment, Energy, Sustainable Development and Regional Development, Valeo has freely committed to commissioning safety work on four industrial sites in France, closed and sold to third parties.

Under this agreement, Valeo finalized the remediation of the Rochefort site in Mayenne in association with the local prefect and various other local administrative bodies in 2015. To preserve biodiversity during work on the site, Valeo took into account:

- the nesting and breeding periods of protected species (green lizards and bats in particular) by maintaining their natural habitat. A count of these protected species is being carried out over a three-year period by an environmental expert to ensure that they are reproducing normally;
- the balance of flora by eliminating certain invasive species (Japanese knotweed). These plants are cut, collected and passed on to specialized circuits for destruction, thereby preventing their spread.

Many sites are active on the issue of biodiversity, particularly during 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 sites in Tuam (Comfort & Driving Assistance Systems, Ireland) Chrzanow (Visibility Systems, Poland) and Shanghai (Visibility Systems, China) have been active in this effort;
- planting of trees on the site or distribution of seeds or seedlings to employees: this is common practice throughout the Group, with examples including the plants in Chennai (Powertrain Systems, India) and San Luis Potosi (Powertrain Systems, Mexico).

(1) See Sustainable Development Glossary, page 407.

4.4 Valeo and its employees

4.4.1 Human Resources policy

Valeo's Human Resources strategy plays a key role in the Group's international expansion and positioning as a company developing and manufacturing high-tech products and systems.

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 encounters worldwide in developing and managing human resources, from engaging in the war for talent to building and sharpening advanced skills and sustaining employability.

The Human Resources Department's priorities are shown in the materiality matrix (see section 4.1.1 "Sustainable development challenges at Valeo", page 144) and form the foundations of

the Group's actions in respect of safety and working conditions, employee commitment, attractiveness, talent development and diversity.

The Human Resources Department promotes and ensures compliance with the Valeo Values listed below:

- ethics;
- transparency;
- autonomy;
- professionalism;
- teamwork;
- value of the human factor (well-being at work, diversity, motivation and commitment of all employees).

Total headcount and breakdown of employees by gender, age and geographic area

Change in headcount over three years⁽¹⁾

	2013	2014	2015	Change (2015/2014)
Engineers and managers	16,831	18,458	20,410	+11%
Administrative staff, technicians and supervisors	9,436	10,189	10,141	-0.4%
Operators	40,548	42,518	43,956	+3%
REGISTERED HEADCOUNT	66,815	71,165	74,507	+5%
Temporary staff (full-time equivalent at December 31)	7,368	7,254	8,293	+14%
TOTAL HEADCOUNT	74,183	78,419	82,800	+6%
of which:				
Permanent staff	52,655	56,208	59,884	+7%
Non-permanent staff (fixed-term and temporary)	21,528	22,211	22,916	+3%

(1) According to labor-related reporting.

At December 31, 2015, the Group employed 82,800 people, an increase of 6% in total headcount compared with December 31, 2014.

The growth in headcount in 2015 is attributable primarily to an increase in engineers and managers (up 11%).

The Group continues to develop its skills through the recruitment of a growing number of engineers and managers in the wake of substantial investment in innovation, primarily in Europe and Asia. The changes in the various employee categories reflect Valeo's gradual shift from an industrial company to a company offering innovative technological solutions.

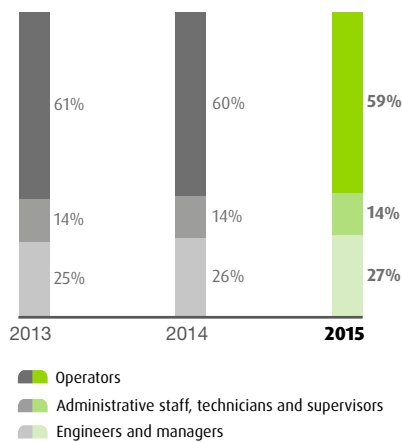
Its strategy resonates in the extension of industrial capacity in high-growth countries in North America and Asia.

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, 2015, temporary staff accounted for 27.7% of the Group's headcount, a stable proportion compared with December 31, 2014. This high rate is partly attributable to the large number of employees on fixed-term contracts in China, in accordance with the local practice of beginning careers with a renewable five-year contract before rolling over to a permanent contract.

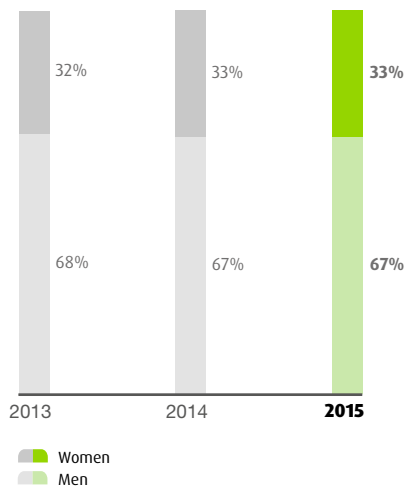
At December 31, 2015, the Group employed 8,293 temporary staff, an increase of 14% compared with December 31, 2014. Most of the increase came from France, the United States and the Central and Eastern European countries.

Breakdown of registered headcount by socio-professional category



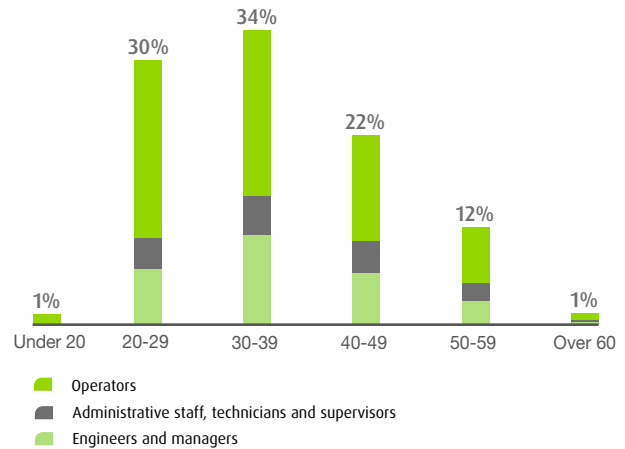
The increase in the proportion of engineers and managers in the Group's workforce at December 31, 2015 (27%) reflects Valeo's growing focus on technological innovation.

Breakdown of registered headcount by gender



The overall proportion of women within the Group was stable. Growth nonetheless continued in the number of women hired in occupations where their numbers are lower, i.e., engineers, managers and technicians (see section 4.4.5 "Diversity", pages 213 to 215) thanks to Valeo's initiatives to promote gender diversity and certain professions.

Breakdown of registered headcount by age group

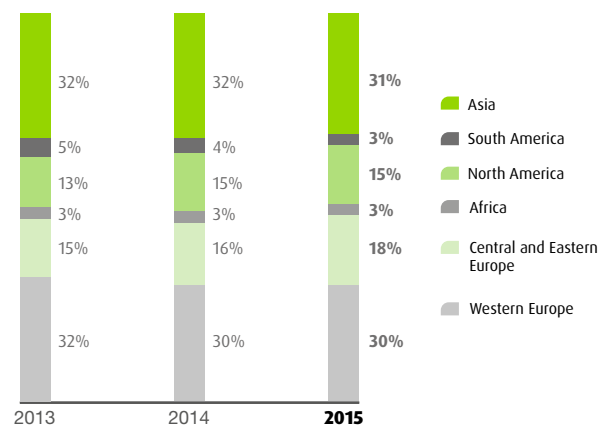


The 40-49 age group experienced the biggest increase in 2015.

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 of promoting generational diversity, numbers rose in each age group (except for employees aged under 20).

Breakdown of registered headcount by geographic area



Headcount grew substantially over the 2013-2015 period:

- in Central and Eastern Europe (up 20%), due to expansion in Poland, Hungary, the Czech Republic and Romania;
- in North America (up 15%), largely due to the development of activities in the United States and Mexico, and the opening of a site in Canada;
- in Western Europe (up 6%), mainly Spain and Ireland.

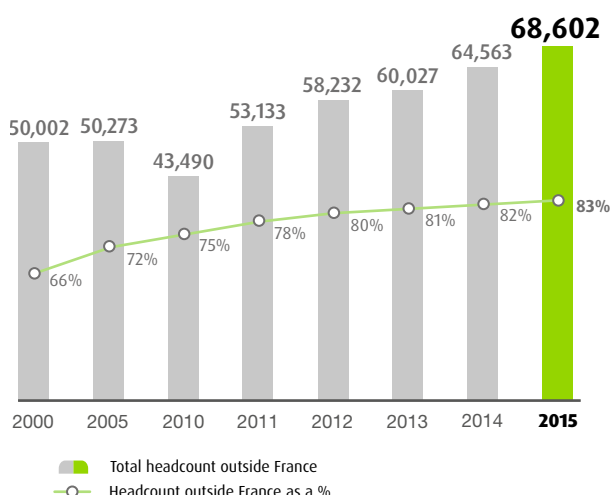
Headcount was stable in Africa and Asia over the 2013-2015 period, but declined in South America (down 40%) due to the economic situation in Brazil.

These fluctuations accurately reflect both the contrasting economic climates in each region and Valeo's development strategy.

New hires and employee turnover

Valeo's policy of international expansion resulted in a 6% increase in the number of employees worldwide between 2014 and 2015. 83% of the Group's total workforce in 2015 was located in a country other than France, up from 66% in 2000.

Total headcount outside France



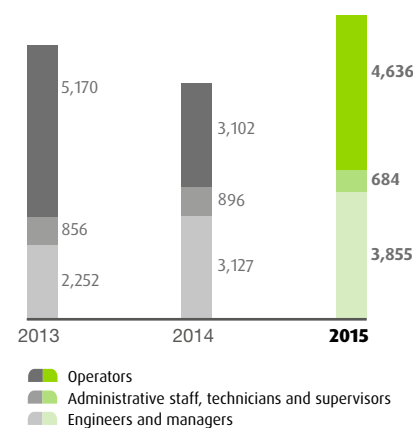
In 2015, Valeo hired 20,112 people worldwide, 9,175 of whom on permanent contracts, including 3,855 engineers and managers.

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

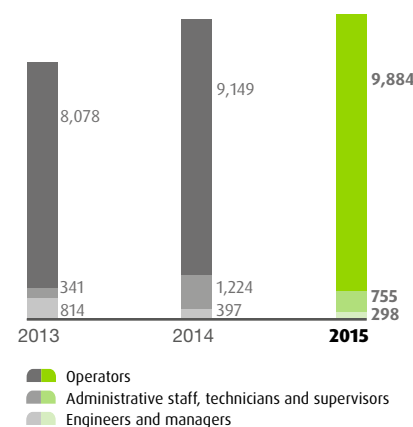
2013	2014	2015
+6%	+2%	+12%

Number of new hires on permanent contracts



The number of employees hired on permanent contracts increased by 29% to 9,175 in 2015, compared with 7,125 in 2014. Hires on permanent contracts mainly concern operators (up 49%), and engineers and managers (up 23%).

Number of new hires on fixed-term contracts



Valeo hired 10,937 employees on fixed-term contracts during the year, an increase of 2% compared with 2014, mainly due to headcount additions in South America (Brazil and Argentina) as well as in Central and Eastern Europe. This increase in fixed-term contracts mainly concerned operators (up 8%).

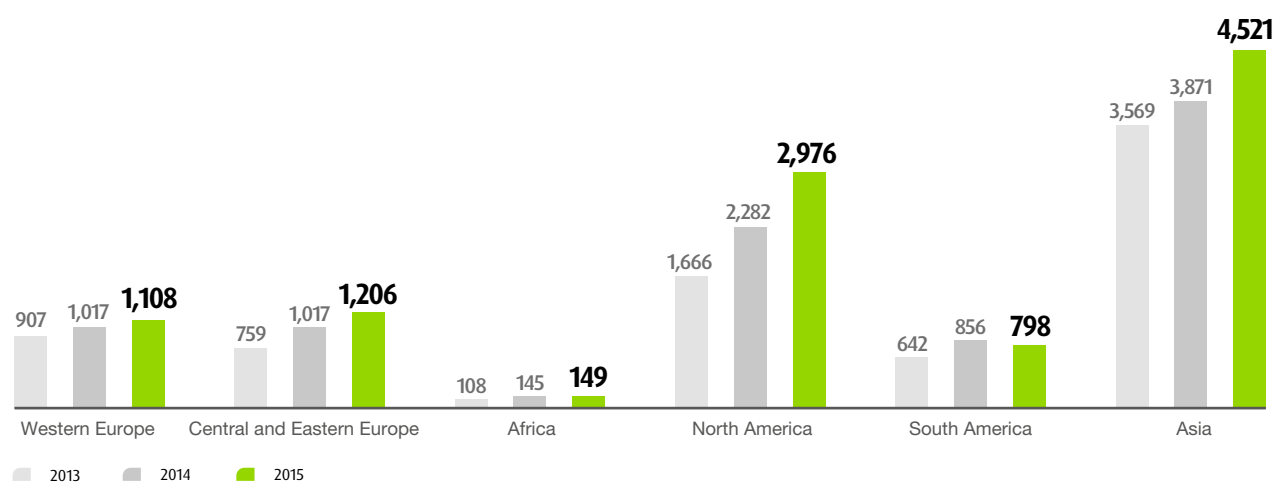
Breakdown of new hires by geographic area

	Permanent contracts				Fixed-term contracts			
	2013	2014	2015	Change (2015/2014)	2013	2014	2015	Change (2015/2014)
Western Europe	1,161	1,271	1,560	23%	2,097	3,006	3,200	6%
Central and Eastern Europe	1,263	1,551	2,073	34%	512	862	1,046	21%
Africa	211	293	506	73%	746	365	394	8%
North America	1,763	1,685	2,530	50%	1,403	1,362	1,294	-5%
South America	960	341	165	-52%	74	20	37	85%
Asia	2,920	1,984	2,341	18%	4,401	5,155	4,966	-4%
TOTAL	8,278	7,125	9,175	29%	9,233	10,770	10,937	2%

The extensive hiring in Asia in 2015 mirrors Valeo's expansion strategy in this region (36% of total hires). The 20,112 new hires in 2015 break down as follows in the various geographic

areas, in descending order: Asia (7,307), Western Europe (4,760), North America (3,824), Central and Eastern Europe (3,119), Africa (900) and South America (202).

Breakdown of departures over three years by geographic area



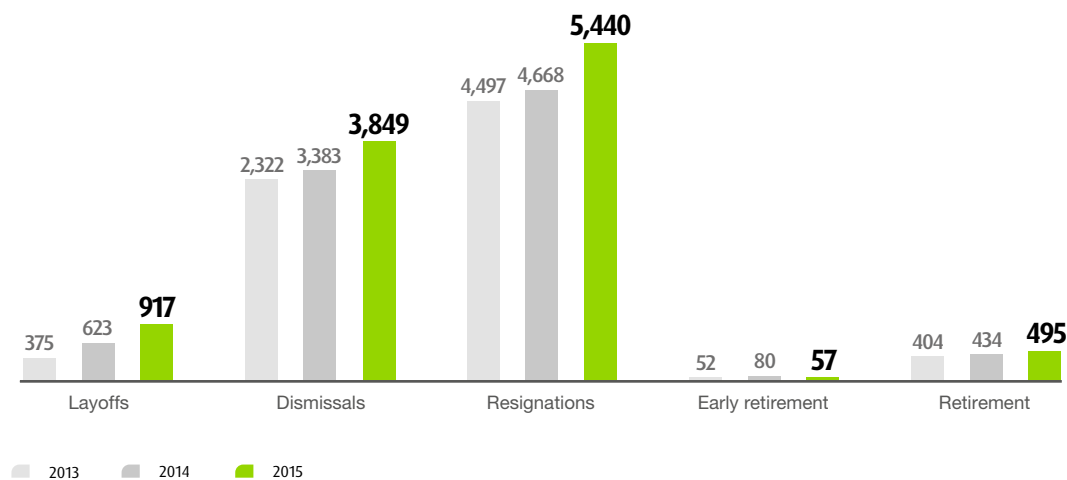
Labor markets are particularly strong in Asia and North America, notably for operators, and the Group's headcount continues to grow significantly in both areas. In other major markets, the number of departures increased due to the uncertain economic

situation in South America and the economic recovery in Europe and North America, resulting in increasing demand for appropriate people in those markets.

Breakdown of departures by cause and geographic area

	Western Europe	Central and Eastern Europe	Africa	North America	South America	Asia	Group total
Layoffs	38 4.1%	11 1.3%	4 0.4%	77 8.4%	584 63.7%	203 22.1%	917 100.0%
Dismissals	205 5.3%	376 9.8%	20 0.5%	1,321 34.3%	106 2.8%	1,821 47.3%	3,849 100.0%
Resignations	553 10.2%	766 14.1%	124 2.3%	1,513 27.8%	88 1.6%	2,396 44.0%	5,440 100.0%
Early retirement	56 98.2%	0 0.0%	0 0.0%	0 0.0%	0 0.0%	1 1.8%	57 100.0%
Retirement	256 51.8%	53 10.7%	1 0.2%	65 13.1%	20 4.0%	100 20.2%	495 100.0%
TOTAL	1,108	1,206	149	2,976	798	4,521	10,758

Breakdown of departures by category



In 2015, 10,758 people left the Group, i.e., 18% of permanent employees, compared with 16% in 2014.

Early retirements and retirements have been stable since 2013, representing 0.9% of the Group's permanent employees in 2015.

Resignations continue to be one of the main reasons for turnover, representing 9% of the Group's permanent employees in 2015 (8% in 2014 and 2013). By socio-professional category, resignations recorded in 2015 represented 7% of permanent engineers and managers, 5% of permanent administrative staff, technicians and supervisors, and 11% 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.

Efforts to retain talent, and above all high-potential engineers and managers, helped limit the turnover rate of this category to 7%.

The turnover rate of operators is to return to the list of Involvement of Personnel Axe indicators to be monitored by all sites from January 1, 2016.

4.4.2 Health, safety and working conditions

Frequency and severity of occupational accidents and occupational illnesses

Challenges

Valeo's Human Resources strategy is built on its commitment to enable all employees to work in an environment free of risk of industrial accidents. This strategy is consistent with the Valeo Values and with the aim shared by employees and management to continuously improve the Group's safety performance.

Process

Ensuring an accident-free environment is Valeo's responsibility toward its employees. This requires the commitment of the Group's General Management and the participation of all staff. Progress is monitored by the Group Safety Committee chaired by the Chief Operating Officer, assisted by the Industrial Director, the Head of the Risk Insurance Environment Department and the Senior Vice-President, Human Resources.

Valeo has established systematic audits by external consultants to ensure more rigorous risk assessment and management, as well as to improve quality performance. The goal is to obtain OHSAS 18001 certification for all sites. Since 2010, a self-assessment tool has been used by each Health and Safety manager.

Continuous improvement is managed in accordance with the Quick Response Quality Control (QRQC) approach adapted to safety issues at work, based on the following principles:

- the QRQC methodology ensures that accidents or instances of non-compliance with safety standards trigger the implementation of a measure designed to avoid further incidents;
- a thorough analysis of the cause of the incident is made to prevent its repeat;
- a description of the incident and an analysis of its causes are published on a dedicated intranet to which all health and safety staff, as well as management as a whole, have access;
- each site manager must inform the head of his Business Group or activity within four hours of the occurrence of a workplace incident so as to allow incidents to be addressed properly.

Prevention is also managed in accordance with the internal rules and procedures related to the involvement of personnel, specifically dedicated to the prevention and management of safety issues and ergonomics. These rules and procedures list the requirements applicable to all site management teams in five areas:

- prevention;
- compliance with the Group's health and safety directives;

- training of all employees on general safety rules and the behavior to adopt in respect of safety and ergonomics in the workplace;
- application of the Quick Response Quality Control (QRQC) methodology;
- reporting of accidents with or without lost work time.

To make progress in these areas, all sites have a Safety and Ergonomics Committee comprising the management team and employees, which meets monthly.

Each site must also evaluate its safety performance and deploy its improvement plan. The teams responsible for quality audits assess progress on all sites annually.

Variable compensation awarded to all Group managers is hinged in part on the continuous improvement of workplace safety. Their incentives are increased or reduced depending on the number of workplace accidents with lost time.

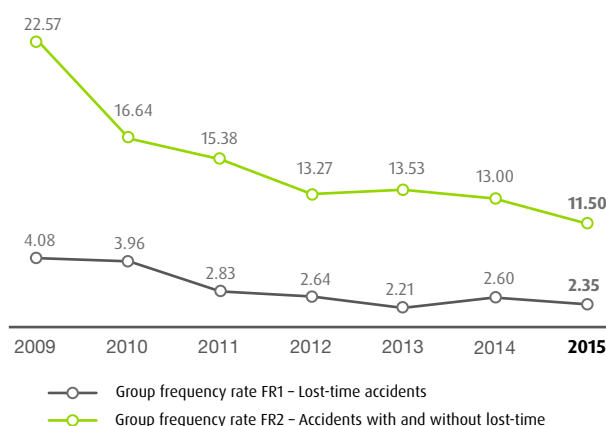
Three of the 20 key performance indicators reviewed periodically at all levels of the organization (Group, Business Group/Activity, site) relate to safety:

- frequency rate 1 (FR1): number of accidents with lost time per million hours worked;
- frequency rate 2 (FR2): number of accidents with or without lost time per million hours worked;
- severity rate (SR1): number of days lost owing to an occupational accident per thousand hours worked.

These indicators concern Valeo employees, regardless of their type of contract (permanent or fixed-term), as well as non-Group employees working on Valeo premises (interim staff and suppliers).

Performance

Group frequency rate (FR1/FR2)



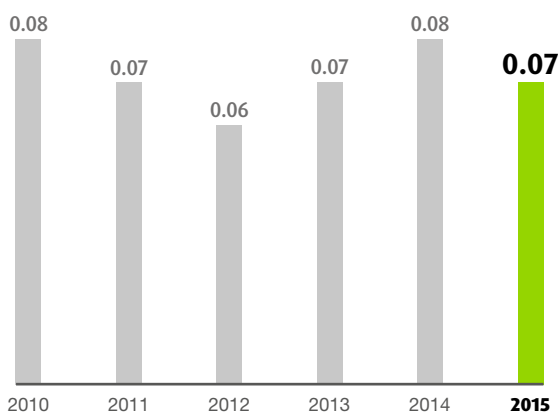
The Group FR1 ratio improved each year between 2008 and 2013, before deteriorating in 2014. An improvement was recorded in 2015, as the FR1 ratio was 2.35.

In 2015, the FR1 performance varied widely between countries. The ratio was 0 in South Korea and Thailand, 10.76 in France and 22.1 in Argentina.

In 2015, the number of accidents with or without lost time fell, as reflected in the FR2 ratio of 11.50, compared with 13.00 in 2014 and 22.57 in 2009.

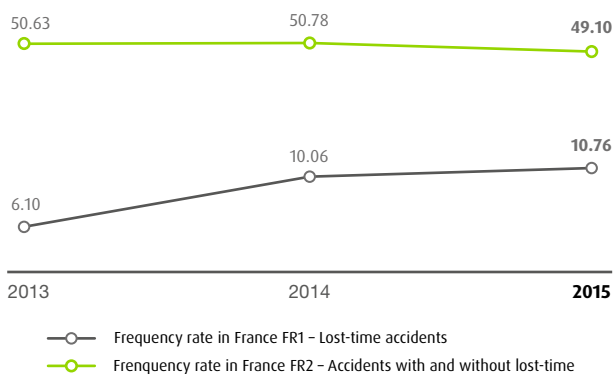
While the number of hours worked increased by 3% in 2015 compared with 2014, the total number of accidents with or without lost time fell by 8.2%.

Group severity rate (SR1)



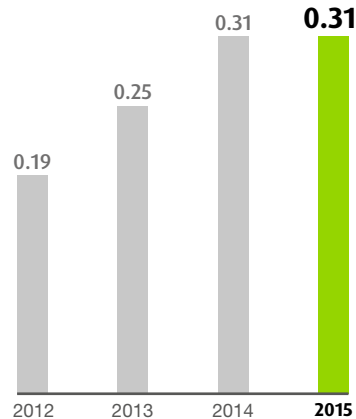
The severity rate has been broadly stable since 2008, fluctuating between 0.06 and 0.08 depending on the year.

Frequency rate in France (FR1/FR2)



In France, the FR1 ratio increased from 6.10 in 2013 to 10.76 in 2015, while the FR2 ratio fell from 50.63 in 2013 to 49.10 in 2015.

Severity rate in France (SR1)



The severity rate deteriorated substantially between 2012 (0.19) and 2015 (0.31).

Achievements during the year

In 2014, analysis of accidents by type showed that most were related to behavior, thereby highlighting the importance of constant vigilance. Following these results, a new training program entitled "Safety First" was created.

In 2015, 10,789 Group employees received training delivered by certified trainers in 17 countries. 26% of total training hours were dedicated to safety.

To improve prevention, a new "Risk Hunting" Directive was implemented to enable teams, including operators, to identify and eliminate risks in the workplace. This method was deployed throughout the Group by the HR and HSE departments jointly in the second half.

The "Preventing and managing safety issues and ergonomics" rules and procedures in respect of employee involvement have been fully reviewed and modified in order to strengthen prevention and training.

The Rakovník site (Czech Republic) reflects the success of safety performance improvement work, with a rate of zero lost-time accidents for the second consecutive year in 2015, while improving the identification of risk by a factor of 5 compared with 2014.

Outlook

The pace of improvement seen in 2015 is set to increase thanks to a program due to be implemented in 2016 with a view to bringing the Group FR1 ratio below 2. The medium-term goal is to move below a ratio of 1. The program will be developed and deployed in 2016 with the contribution of good practices implemented in other major industrial groups.

A new safety directive, entitled “Safety Talks”, was issued in January 2016. Whenever unsafe behavior or acts are identified, the manager in charge of safety is required to discuss the issue with the employee concerned in the aim of understanding the cause and together finding a solution. The process ends when the employee agrees to be more vigilant about their own safety and that of their colleagues.

The new approach will be combined with mandatory e-learning modules, which are to be attended at least once every year by all employees performing potentially dangerous tasks.

Organization of work according to Group needs

Challenges

In an economic environment characterized by fierce international competition, the organization of working time must be flexible and allow the Company to bolster its competitiveness.

Valeo’s profitable growth strategy, based on global presence, advanced technology, competitive costs and total quality, is the sole means of ensuring sustainable growth in employment.

As such, the organization of working time must be accompanied by improvements aimed at better meeting customer requirements and coping with substantial swings in activity. It must ensure the competitiveness of the business and the flexibility needed to cope with variations in activity, without compromising social responsibility geared toward promoting well-being at work.

Approach

Working week of full-time employees

The working time of employees on all of the Group’s sites 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. While complying with legal limits on working hours, the management of each site is required to organize work in as competitive a manner as possible and to optimize it constantly.

The most common statutory working week within the Group is 40 hours.

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 1,196 employees worked part-time in the Group in 2015, or 1.61% of the registered headcount (compared with 1.70% in 2014 and 1.75% in 2013). Women represent 63% of part-time employees (66% in 2014 and 64% in 2013).

By socio-professional category, part-time employees break down as follows:

- Engineers and managers: 11.2%
- Administrative staff, technicians and supervisors: 14%
- Operators: 74.6%

Part-time work is fully consistent with the Group’s Corporate Social Responsibility (CSR) policy, which aims to find a balance between the needs of the business, namely the need for sustainable profitability, and those of employees seeking to reconcile their work lives and their private lives.

Performance and achievements during the year

Flexible and adapted working hours must support and ensure the competitiveness of the organization. At the same time, measures such as the deployment of a policy of well-being at work, improvements in the ergonomics of workstations and the encouragement of home-working among employees are designed to result in an effective reduction in absenteeism at Valeo.

Adapted working hours

In 2015, 51% of the registered headcount worked on the basis of shifts, compared with 51% in 2014 and 53% in 2013.

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.

Office 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.

Where permitted by local laws, working time is determined on an annualized basis. This avoids the use of overtime, allows the needs of customers to be better anticipated thanks to a more flexible organization of work, and also gives more visibility to employees on their working time (and as such their rest time).

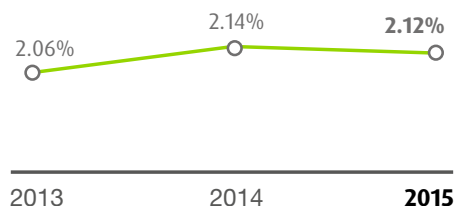
Reducing absenteeism

Reducing absenteeism is a priority for Valeo.

The Group reported satisfactory results in respect of absenteeism, which should be maintained going forward. Action plans will be conducted at the plants with the highest absenteeism rates so as to align them more closely with the Group average.

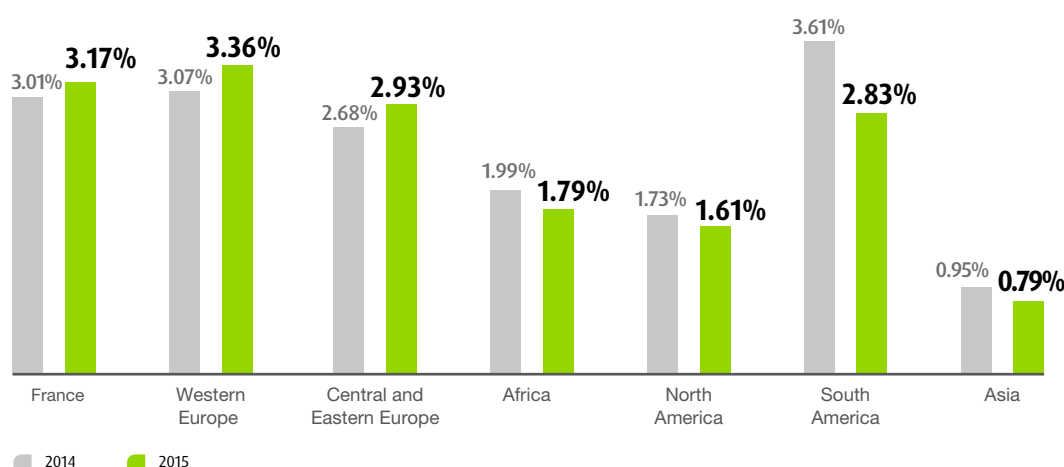
The absenteeism rate includes absences for illness, unjustified absences, authorized absences (unpaid leave, etc.), absences due to occupational and commuting accidents, strikes, suspensions or other reasons. Between 2013 and 2015, Valeo's actions resulted in a stabilization of the overall absenteeism rate at around 2%.

Group absenteeism rate



Calculation: actual hours of absence expressed as a percentage of total possible working hours. Possible working hours are equal to the number of days worked in the month x the daily working hours (excluding overtime) x month-end registered headcount.

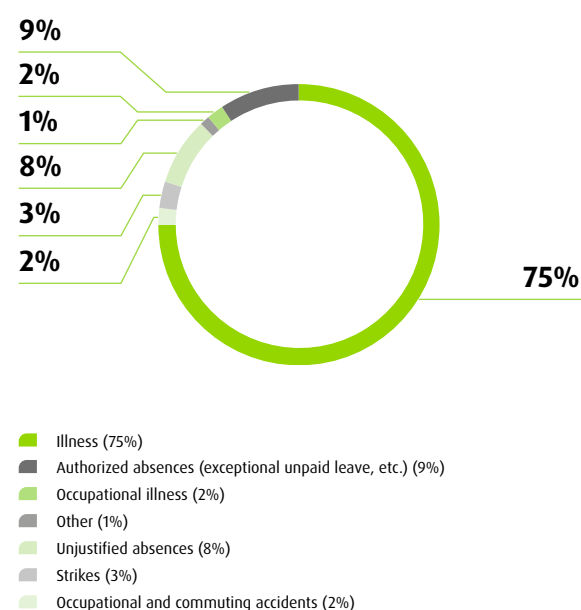
Absenteeism rate by geographic area



The global absenteeism rate was stable between 2014 and 2015.

Although Valeo applies a consistent policy for tracking absenteeism, the level of social security coverage and cultural differences have a strong bearing on national rates.

Breakdown of absences by cause



Breakdown of absences by cause and geographic area

Reason for absence/ Geographic area	Illness	Occupational illness	Occupational accident (commute included)	Suspension	Strike	Authorized absences (exceptional unpaid leave, etc.)	Unjustified absences	Other
Western Europe	83.1%	4.2%	2.6%	0.0%	6.4%	2.9%	0.6%	0.2%
o/w France	85.3%	4.4%	4.4%	0.1%	1.3%	3.2%	1.0%	0.3%
Central and Eastern Europe	88.8%	0.0%	1.2%	0.0%	0.0%	3.9%	6.1%	0.0%
Africa	65.3%	0.0%	0.2%	2.1%	0.0%	27.8%	4.0%	0.6%
North America	45.5%	0.6%	1.1%	1.6%	0.0%	11.5%	35.1%	4.6%
South America	67.1%	0.4%	0.9%	0.0%	0.0%	16.7%	12.3%	2.6%
Asia	55.3%	0.9%	1.5%	0.0%	0.1%	29.6%	7.1%	5.5%
TOTAL	74.9%	2.1%	1.8%	0.3%	2.9%	8.7%	7.8%	1.5%

Outlook

Increased home-working and offices close to home

To meet the aspirations of certain categories of employees who wish to reconcile work life and personal life, the Group decided in 2014 to offer the possibility of working from home under certain conditions.

Valeo allows employees who expressly request such arrangements to reduce their travel time by giving them the contractual possibility of working from home certain days of the week, helping them to avoid daily commuting and to save a substantial amount of time. The approach was initiated in France in 2014, and was expanded in 2015 to other countries where arrangements of this type made sense for the employer and employees. In 2015, 413 employees, mainly engineers and managers, working chiefly in France and Poland, benefited from home-working arrangements.

Firmly believing that working arrangements of this sort help promote well-being, thereby guaranteeing better performance by its employees, Valeo aims to expand possibilities for home-working going forward.

Similarly, Valeo allows employees with significant transportation constraints to reduce the time spent traveling by working some days of the week on a Valeo site closer to home. This system will also be expanded in the coming years.

Well-Being at Work

Challenges

“Well-Being at Work” is a management process aimed at putting the focus on the individuals who make up the workforce, as the bedrock of the Company’s responsible growth.

When the process was initiated in June 2009, the automotive industry was in crisis. Valeo’s determination at that time was to contribute to the recovery of the automotive economy not only through investment in Research and Development, but also by leveraging the individual commitment of each member of the Company to boost its performance.

Collective performance, representing the sum of individual commitments, has been key in the Group’s growth, and is now a core pillar of Valeo’s Human Resource management.

The Group already had solid foundations in respect of safety and care for its employees, based notably on the zero accident policy in place since 2004 and the integration of prevention through ergonomics from the product design phase since 2009.

Approach

The “Well-Being at Work” program was implemented as a broader governance approach, starting with thinking in France, including senior management, local managers, employees and employee representatives.

The results of the 2014 survey of all employees demonstrated the progress made to date:

- work-life balance has been enhanced, with a better performance than the benchmark 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.

Achievements

Timeline of main initiatives

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	✓ ✓ ✓ ✓	Design of the Play Well training module, enabling managers to build an environment favorable to personal development at work and to detect and prevent psychosocial risks, both inside and outside the workplace. Communication with sites on Valeo's Well-Being at Work program and its monitoring (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.
2015	✓ ✓ ✓ ✓	Negotiations for the renewal of the Well-Being at Work agreement in France. In the absence of signing, implementation of action plans. Drafting of an action plan for each site worldwide. Implementation of a tool for monitoring action plans. Further Play Well cultural adaptation training in the various countries.

4

The Well-Being at Work program was launched worldwide following the Group-wide Human Resources convention in December 2011.

Its rollout was wrapped up at the Group's annual senior management convention in October 2012 by the presentation of a report describing how the Well-Being at Work program was implemented and adapted in 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 tested at French sites.

Valeo's top management lent its full support to this international rollout to encourage local entities to integrate the Well-Being at Work program over time.

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 11 regions to train regional country directors, site directors and country Human Resources managers.

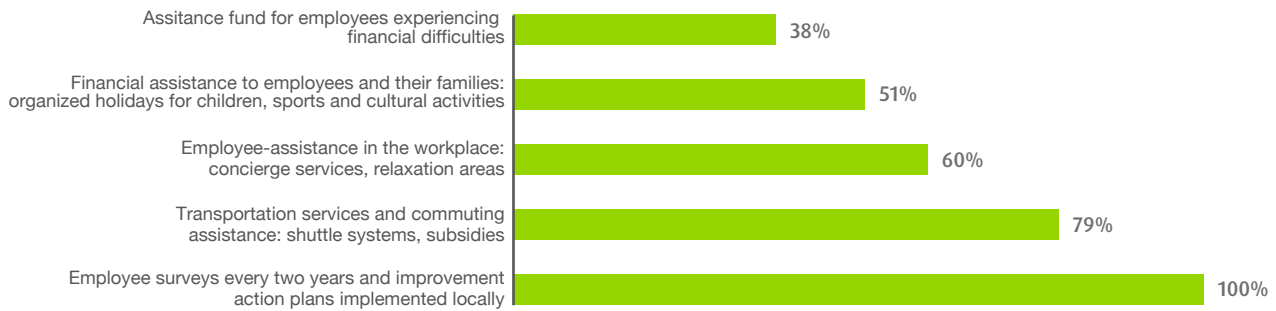
The idea was to help them appropriate the issue and adapt it to their local culture. Local managers have formed working groups to come up with concrete action plans for each country and each site.

The communication campaign was inspired by successful initiatives adapted to a specific local culture while meeting regional requirements. Human resources management tools have also been developed further; since 2012, they have been rolled out across the international scope.

The Well-Being at Work program has been in place since 2012, and initiatives taken in each country continue to be monitored at Group level.

The variety of situations encountered, the international reach of the program and the attention given to meeting the demands of employees has prompted the Group to maintain central management of the program. Actions are selected and deployed locally, as close as possible to individuals and working groups in order to best meet the expectations expressed.

Percentage of sites having implemented Well-Being initiatives



The Well-Being at Work approach broadly addresses the expectations of all Valeo employees, and today helps the Group's performance stand out through the involvement of its employees.

Organization of labor relations

Challenges

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.

Approach

Employee representative bodies

Valeo firmly believes that social dialog is an essential means of promoting profitable and sustainable growth. It further believes that the unions are a key extension of management for explaining, discussing and adjusting the action plans needed for the Company's development. With this in mind, Valeo has established various committees. A wide range of measures in respect of information, consultation and/or negotiation are taken within these bodies, to foster social dialog giving employees the best information possible.

European Works Council

In 1999, Valeo concluded an agreement ushering in a European Works Council, which 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 nine-member committee meets quarterly at a European site.

The European Works Council represented 42% of the Group's registered headcount in 2015, or 31,229 employees.

International level

Each country sets up specific bodies in line with local laws and regulations. In 2015, 93% of sites had formal bodies representing employees and unions throughout the Group. ⁽¹⁾

(1) Most other sites have set up informal social dialog bodies.

Lastly, in 2015, 68% of Valeo sites were covered by a collective bargaining agreement, at least for part of their personnel.

Performance and achievements during the year

This representation at different levels of the organization has allowed Valeo to develop an active bargaining policy with the unions.

Collective bargaining agreements

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 in the interests of all stakeholders.

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 the 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:

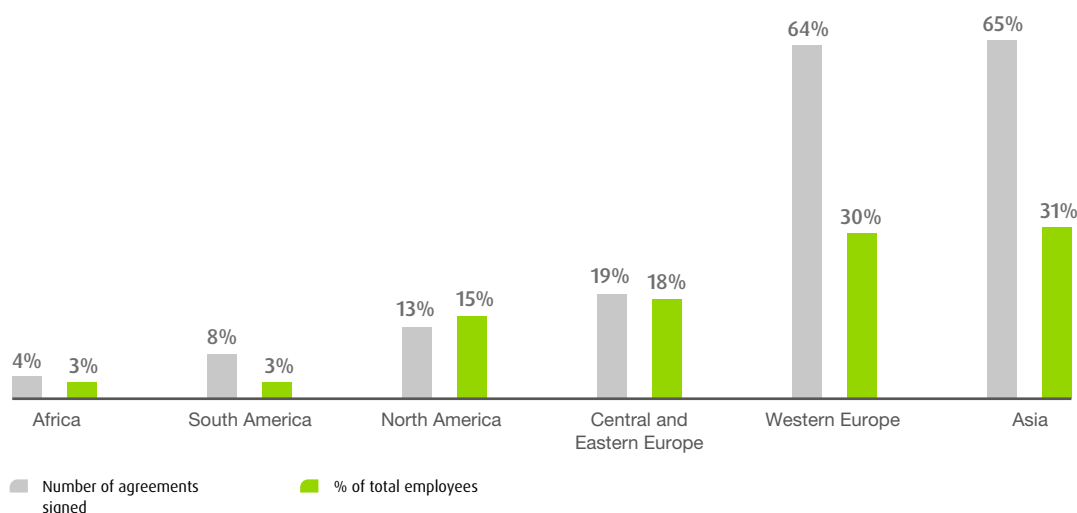
- giving due consideration to employee health and safety issues from the product and process design phase;
- making one-to-one employee meetings standard practice in order to ramp up competencies and adapt them to their working environment;
- anticipating, in the event of changes in the economic and 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.

Discussions took place in 2014 between Group Management and representatives from the European Works Council to identify ways of helping employees better understand and appropriate

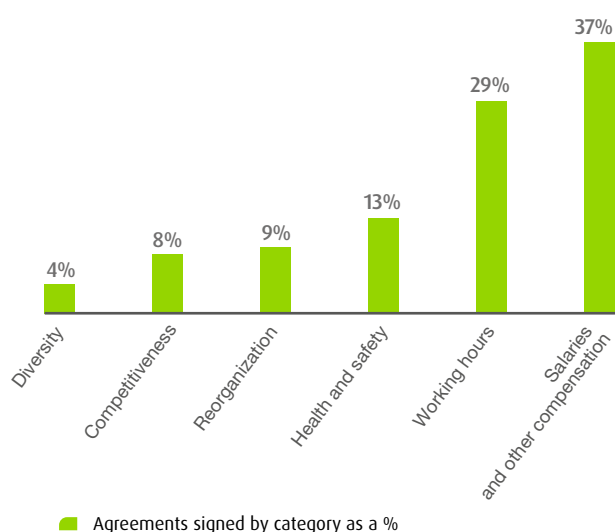
Valeo's CSR priorities and initiatives. These discussions led to an action plan including various training programs.

In 2015, 20 countries saw agreements signed on at least one site.

Breakdown of agreements signed in 2015 by geographic area



Breakdown of agreements signed in 2015 by category



A total of 174 collective bargaining agreements were signed at local level at Valeo's various sites worldwide in 2015. The topics covered by these agreements are as follows:

- 37% on compensation or bonuses;
- 29% on working hours;
- 13% on health and/or safety.

Diversity was a key focus of other agreements.

In France, a Group agreement on vocational training was concluded in December 2015; its objective is to align Valeo's training policy with the new strategic directions and new legal provisions applicable to Group entities in France.

Outlook

Labor relations in 2016	
Europe	■ Revision of the Group Corporate Social Responsibility (CSR) agreement ■ Renegotiation of the Group European Works Council agreement
World	■ Nationwide wage negotiations ■ Action plan resulting from the Well-Being at Work survey

Promoting and respecting human rights

The core values upheld by international organizations such as the United Nations and the International Labour Organization are deeply held values in Valeo's corporate culture. Thus, 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. It is also consistent with Valeo's Code of Ethics and the Corporate Social Responsibility (CSR) agreement that reflects the Group's culture of professional, individual and collective integrity.

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: www.unglobalcompact.org/participation/report/cop/create-and-submit/active/159051).

In this way, Valeo reaffirms its 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 fundamental 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 Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, adopted on June 27, 2000 and revised on May 25, 2011.

Code of Ethics

In 2005, these commitments were enshrined in a Code of Ethics distributed by Valeo worldwide. The Code of Ethics is binding on all Group employees; it sets out the rules applicable in all of the Group's legal entities and in every country without exception.

In 2015, the Code of Ethics was updated and circulated globally. Available in 22 languages, the new version was backed up by a communication campaign launched by a message from Jacques Aschenbroich to all managers and then to all employees (posters on sites, a banner on the Valeo On Line intranet, Valeo info, etc.).

Valeo's commitments

The Code of Ethics combines the Valeo Values, the 5 Axes and the Valeo Compliance Program. It reaffirms the Group's commitment to sustainable development, the Global Compact and international labor conventions, including:

- the fight against child labor. The Company does not hire children aged under 16, and respects the ILO conventions on work by children aged between 15 and 18;
- the prohibition of forced labor. Valeo recognizes and protects the intrinsic value of each individual, scrupulously respects regulations on wages and salaries, minimum age requirements, the equal rights of men and women, and employee privacy;
- the recognition for Valeo employees of the right to express themselves and to create or join trade unions in accordance with local laws.

The Code of Ethics lays down the rules, ethical principles and procedures to which employees and managers must adhere in order to enable every Valeo employee to work in a healthy environment, free from harassment and discrimination. It establishes the framework for sustainable and profitable growth, and applies to all employees, officers, subsidiaries and other entities managed or controlled by Valeo.

Contacts

Any employee who becomes aware of or fears a violation of human rights is urged to report it as soon as possible without fear of reprisal. Employees encountering a serious potential violation can turn to many people, namely:

- the line manager;
- the Human Resources Department;
- the Senior Vice-President, Human Resources;
- the General Counsel;
- the Chief Ethics and Compliance Officer;
- the Head of Audit and Internal Control.

Disturbing situations cited by employees are taken seriously and quickly investigated.

Disciplinary procedures

Respect for the Code of Ethics and the Compliance Program is crucial, and Valeo's policy is one of zero tolerance. Inappropriate behavior or breaches of the provisions of the Code of Ethics are taken very seriously, and are grounds for disciplinary action, including dismissal.

Moreover, Valeo does not tolerate retaliation against people who blow the whistle in good faith, or who take part in investigations, proceedings or hearings.

4.4.3 Commitment of teams

Challenges

Valeo's growth strategy relies to a great extent on its ability to hire and retain high-performing employees. This requires a high level of employee commitment over time. With this in mind, Valeo must be attentive to their feelings with regard to the Group and its strategy, but also in terms of quality of work life.

Approach

In 2008, Valeo conducted its first survey on the commitment of all Group engineers and managers, entitled the "Employee Feedback Survey". The survey is repeated every two years among engineers and managers across the entire Group. The questionnaire was changed in 2013 in order to increase the weighting of the sustained commitment and well-being at work of employees.

The survey's results are used to draw up highly targeted action plans for each site, in each country and across all networks.

An independent body is tasked with conducting the survey, and with comparing the Group's results, not only with those of other major international groups, but also with those obtained by Valeo in previous years so as to measure progress.

Performance

The 2015 survey was conducted among the Group's 19,000 engineers and managers in 36 countries, and was available in eight different languages. The response rate increased considerably to 85% in 2015, from what was already a high rate of 79% in 2013. This excellent response rate is an encouraging indicator that demonstrates the capacity of the survey and the resulting action plans to meet employees' expectations.

Since 2008, the results have improved steadily with each survey. The biggest improvements are seen in areas such as diversity, ethics and communication. Employees are also showing greater

enthusiasm about Valeo's strategy and prospects, expressing the view that there are more opportunities for personal and professional development than before.

By contrast, progress has not been as impressive in the areas of leadership and recognition.

Achievements during the year

Ensuring that the action plans stemming from the results of these surveys are actually implemented is essential for improving the involvement, sense of belonging and pride of employees working at Valeo.

Each country and each site can use the survey results to set their own "Top 4 Challenges" (two of which must be Group Challenges), to establish action plans and to perform regular monitoring of their actions. The results of the surveys are available at site, country and Business Group levels (networks); the resulting action plans can contribute to improving the Group's results.

At Group level, action plans have been structured around the following four priorities:

- accountability;
- efficiency;
- personal development;
- alignment of all levels within Valeo.

The Group reports the results of the survey to all engineers and managers, providing information covering the situation within the Group as a whole and its priorities, as well as the results obtained locally on each site.

Outlook

The next survey will be conducted in 2017. Valeo's objective is to be able to see further progress in terms of the enduring involvement of its employees, and to continue to adapt the questionnaire to reflect best market practices.

4.4.4 Attractiveness and talent development

Attracting top talent is a major challenge for the Group, as a means of consolidating its market share and supporting the growth of its business worldwide. The Group must be able to attract talent by virtue of a strong and differentiating employer brand, to rapidly integrate newcomers into their host site, to share values and corporate culture, and to implement an effective recruitment policy.

To ensure the continuity and growth of its business, but also to constantly adapt to the needs of its customers worldwide, Valeo is developing a talent management strategy. This strategy allows the Group to entrench its innovation efforts by supporting technological developments and the marketing of new products and innovative solutions. It also allows Valeo to facilitate the development of industrial activities, by promoting the creation and evolution of the Group's industrial sites.

To successfully hire talent, Valeo must stand out in what is often a competitive employment market. This involves communicating on its ambitions and its strategy. It also requires the development of different ways of making contact with potential future employees and fostering their interest in the employment opportunities available. For this reason, the Group is developing initiatives designed to improve its communication among both students (with the "Valeo Innovation Challenge" for instance) and experienced professionals (through increased presence on social networks such as LinkedIn).

Valeo's receipt of the "Global Top Employer" label (awarded to fewer than ten companies worldwide), following its certification as a "Top Employer" in 22 countries on four continents (Africa, America, Asia and Europe), is testimony to the quality of its Human Resources policies and practices.

The Business Groups and Group functions also analyze their staffing requirements and skills annually during the preparation of the medium-term plan. The consequences of changes are analyzed by the Human Resources teams of key countries (22 countries), using this analysis as the basis for their strategic

talent management plans. These plans identify priority actions in the areas of hiring and diversity, training, involvement of personnel, labor relations, health, safety and well-being at work, pay and benefits.

Employee compensation

Challenges

Valeo's compensation policy must not only respect all applicable laws, regulations and collective bargaining agreements, but also – and more importantly – enhance the Group's attractiveness, its differentiation and its competitiveness as a leading employer in each of its Business Groups.

The objective of the communication policy is also to facilitate team motivation and to retain talent throughout the Group by offering a motivating package (reflecting individual and collective contributions) in line with market practices, but without undermining the principles of internal fairness.

Approach

The economic climate in each country, and even at individual sites, is a major consideration in attempting to protect the competitive edge of the compensation paid by the various Group entities.

Compensation policies are based on a broad range of reliable sources such as central bank, government agency, OECD and specialized consulting firm forecasts. This information is reviewed and analyzed by Valeo's financial services, the National Directorates and the Group HR Senior Vice-President in each country.

Valeo favors individually tailored compensation packages to bolster motivation through individual recognition. The more senior the employee, the more tailored the package.

Achievements during the year

Payroll costs and personnel expenses

(in millions of euros)	2013	2014	2015	Change (2015/2014)
Payroll costs excluding social contributions and temporary staff	1,736	1,839	2,018	+9.7%
Social contributions	434	459	489	+6.5%
Pension costs under defined benefit plans	40	43	48	+11.6%
Pension costs under defined contribution plans	78	91	88	-3.3%
Total payroll costs (excluding temporary staff)	2,288	2,432	2,643	+8.7%
Contribution rate	29.5%	29.9%	28.6%	-

(in millions of euros)	2013	2014	2015	Change (2015/2014)
Total personnel costs (including temporary staff)	2,588	2,730	3,023	+10.7%
As a % of sales	21.4%	21.5%	20.8%	-

Breakdown of the payroll by geographic area in 2015

(in millions of euros)	France	Europe (excl. France)	Outside Europe
Payroll costs excluding social contributions and temporary staff	630	668	720
Social contributions	231	141	117
Total payroll costs (excluding pension costs)	861	809	837
Contribution rate	37.6%	21.1%	16.3%

The payroll increased by 8.7% in 2015, due to the increase of the Group's registered headcount over the period (up 5%) and pay increases awarded within the context of the wage policies implemented in the various countries where the Group operates.

Social contributions grew more slowly, due to the ceiling reached in some countries. Pension costs increased by 1.5% over the year, with defined contribution plans accounting for nearly 65% of these expenses. The loading rate eased slightly to 28.6%, thereby impacting personnel expenses as a percentage of sales (down 0.7% to 20.8%). It is nevertheless important to note that the social contributions paid in France represent 47.2% of total personnel expenses paid across the Group as a whole (17% of the Group's workforce).

Improvement bonus

To allow all of the Group's employees to benefit from improvements to which they contribute, a system of improvement bonuses allows the redistribution of between 5% (mature markets) and 10% (growing countries) of the payroll of each site.

Employee share ownership

Since 2010, the Valeo Group has had a policy of awarding free shares to promote the development of employee shareholdings over time. Such awards have seen the allocation of three free shares on a regular basis to all eligible employees of the Group, thereby strengthening the commitment to the development of value creation at all levels of the organization.

For the fourth consecutive year, based on recommendations by the Group's Management, the Board of Directors decided to grant three free Valeo shares to each eligible employee at its meeting of March 26, 2015. The grants were made during the second quarter of 2015, and 59,691 employees benefited. The grants covered all 35 countries in which Valeo has employees.

Employer brand

Challenges

To raise its attractiveness and assert itself as an employer of choice, Valeo must present its activities and its business in all host countries, while sharing the Valeo Values and corporate culture with potential candidates.

The Group therefore seeks to reinforce its reputation and communicate on job vacancies in order to secure the talent needed to support its growth and constantly adapt its portfolio of competencies.

Presence on social networks helps cultivate Valeo's employer brand while at the same time communicating about employment opportunities within targeted groups of possible candidates. This gives the communication strategy international scope, while at the same time relaying the relevant information at the local level (to announce the presence of Valeo teams in certain recruiting events for instance). The use of social networks also allows the promotion of Valeo's innovative products and solutions, while facilitating interaction and exchange with automotive enthusiasts or people liable to apply for jobs at Valeo.

Approach

As its chief objective is to cultivate knowledge of the Group, its values, its business and its role in the automotive industry, and above all in respect of innovation, Valeo delivers messages on the Internet, in social networks, in the press and among students. To share these issues with a large pool of potential candidates, the Group takes part in numerous events organized directly on university campuses, as well as in engineering and business schools, with the support of Human Resources, communications and Research and Development teams, and calls on Valeo employees to share their professional experiences. Valeo sites organize specific actions to raise awareness of their industrial environment through site visits, open days and participation in job fairs, or by hosting young people for internships or work-study contracts.

Evaluation and performance

Each year, the Group receives more than 20,000 unsolicited applications in the various countries where it operates.

Presence on social networks (LinkedIn, Facebook, Twitter, YouTube, as well as WeChat in China) is managed by Human Resources and Communications teams with the assistance of external experts; the editorial line is laid down each year, targeting the spread of information useful for understanding Valeo's news and spurring interest among different population groups interested in developments in the automotive world and in relation to connected vehicles. Social networks also allow

Valeo to announce its presence at job fairs and to communicate on a continuous basis about the job opportunities available within the Group. The Group closely monitors the number of its followers on LinkedIn, which are growing steadily: the Valeo Careers page on LinkedIn had more than 190,000 followers at the end of 2015. Valeo's presence on social networks also helped recruit more than 170 engineers and managers this year.

The Group commissions outside firms to conduct analyses that enable it to measure the impact of its employer communication actions and to propose new actions to strengthen the impact of its message with the target audience.

As part of its Top Employer certification, the approach to communicating on the employer brand is evaluated and compared with best market practices. Valeo was chosen by Top Employers to present its Leadership Development strategy at the Amsterdam World Congress in 2015.

Achievements

Every year, the Group takes part in numerous communication events to promote its employer brand. In particular, Valeo maintains close relations with higher education establishments, notably by nurturing selective partnerships with world-renowned schools and universities, and fostering diversity within its workforce.

In 2015, the Group took part in events held in 32 Chinese universities (Shanghai, Nanjing, Guangzhou, Wuhan, Chengdu, Changchun, etc.); in France it attended numerous school forums designed to facilitate contacts with future graduates, including Audencia, Centrale, Supélec, Collégium (ENSEA, EISTI and Supméca), EDHEC, EM Lyon, ENSAM, ESEO, ESTACA, Mines de Paris, Polytechnique, Sup'Optique, Skema, UTC (France), the VIE⁽¹⁾ forum organized by UbiFrance, the forum dedicated to Chinese students in France (Horizon China, Skema and Mines de Paris) and 15 or so forums in Germany. The Group was also present at events held in the Czech Republic, India, Hungary, Mexico, the United States (MIT), Poland and Thailand.

Valeo has partnered with *Tremplin*, an association that works with the disability missions of French schools to offer 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 each year concludes partnerships with prestigious universities recognized in its host countries. In 2016, Valeo signed a partnership agreement with the University of Zaragoza (Spain) to assist Thermal Systems teams in their Research and Development activities, as well as to promote the hosting of students on Valeo sites. In China, the Group has become a founding member of the SJTU ParisTech Elite Institute of Technology to support the growth of Research and Development activities in Asia.

(1) Volontariat international en entreprises, a French international volunteer scheme.

The development of Valeo's presence on social networks promotes the use of these tools to put candidates in touch with the Human Resources teams in charge of hiring. To this end, there are plans to develop specific pages devoted to certain growth markets such as China and the United States on LinkedIn; they will open in 2016.

Outlook

Valeo each year builds new partnerships with world-renowned teaching and research teams. To support its international expansion, the Group seeks to reinforce its employer brand by raising its profile among students and professionals of technology sectors similar to those in which Valeo operates. This strategy offers the possibility of broadening the talent pool that could be motivated to join the Group in the future.

Training

Achievements

In 2015, the Group's spending on training amounted to 24,951,366 euros, down 10.7% compared with 2014. Training expenditure represented 1.24% of personnel expenses, excluding social security contributions (1.51% in 2014). In absolute terms, the numbers of training hours and trainees rose by 7.3% and 10.6% respectively year on year.

Measures taken to streamline training by organizing some training activities at the regional level, increasing the work of internal trainers and reducing absenteeism at meetings paid off, generating a significant drop in the average cost per hour, while nevertheless allowing an increase in the overall training effort.

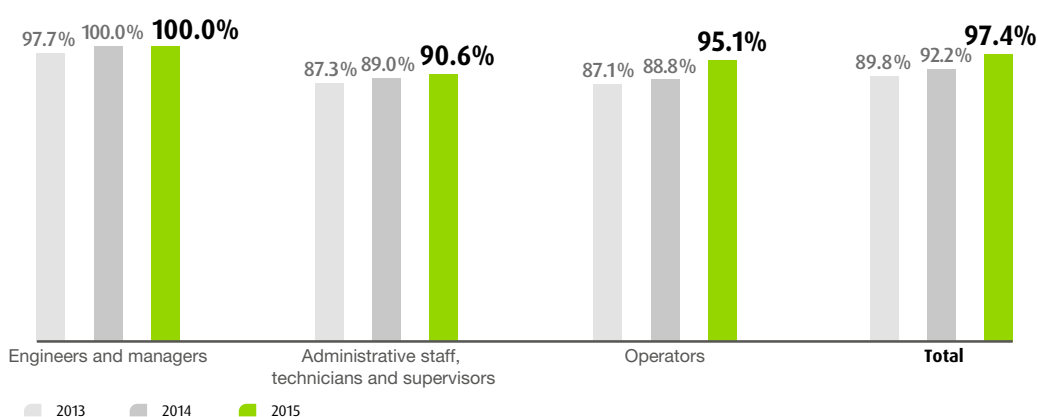
	2013	2014	2015
Number of training hours provided	1,304,090	1,382,154	1,484,824
Expenditure on training (in millions of euros)	25.1	27.9	24.9
Number of employees trained	59,992	65,603	72,591
Percentage of employees trained ⁽¹⁾	89.8%	92.2%	97.4%

(1) Calculation of the ratio: All employees trained during the year (including those no longer in the Group)/Total headcount at end-December.

The Group continued to extend its training policy to include as many employees as possible. In all, 97.4% of employees took part in at least one training session in 2015, compared with 92.2% in 2014. Once again, all engineers and managers

attended training, while the proportion rose to 90% for operators and 95% for administrative staff, technicians and supervisors.

Percentage of employees trained⁽²⁾



(2) Calculation of the ratio: All employees trained during the year (including those no longer in the Group)/Total headcount at end-December. This explains why the actual training rate for engineers and managers (106%) exceeds 100% as certain engineers and managers trained during the year left in 2015.

It should be noted that the above figures do not include on-the-job training provided by Valeo employees (mainly for operators).

Induction and job-instruction training fell to 58% in 2015 from 64% in 2014 as the Group's organization stabilized. Training initiatives dedicated to the development of cross-function competencies for internal mobility purposes or for advancement within one of the Group's Business Groups increased from 36% in 2014 to 42% in 2015.

For operators, 54% of Valeo sites have implemented measures aimed at identifying career paths specific to their category and creating value from their experience. 31% of sites have implemented a training program aimed at developing new competencies among this category of employees.

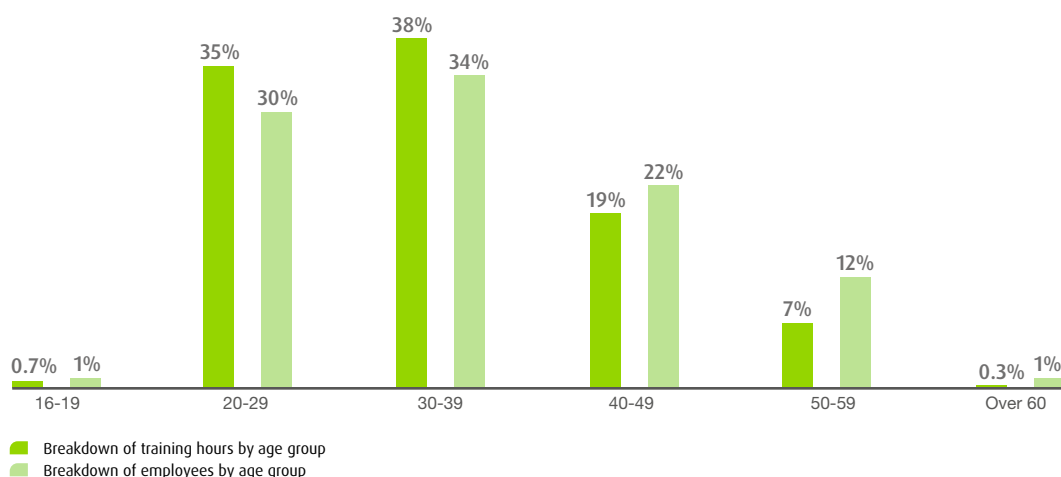
Average number of training hours per socio-professional category

	2013	2014	2015
Engineers and managers	36	38	36
Administrative staff, technicians and supervisors	26	27	29
Operators	14	11	10
TOTAL	22	21	20

To support the ramp-up of competencies of teams around the world, substantial training efforts are devoted to engineers and managers and administrative staff, technicians and supervisors.

For operators, training also includes a significant number of training hours conducted at the workstation, which are not included in the data presented above, thereby affecting the average number of hours of training.

Breakdown of total training hours by age group in 2015



The number of training hours is consistent with the breakdown by age group; however, it is important to note that the 20-29 year and 30-39 year age groups enjoy slightly better

access to training than other age groups due the amount of induction training received by members of these categories.

Breakdown of total training hours by subject category

Subject category	2015
General	55%
Professional	28%
Technical	17%

Breakdown of general training hours by subject category

Subject category	2015
Safety	26%
5 Axes	25%
Languages and intercultural awareness	14%
Induction	12%
Management	10%
Communication	5%
Multiskilling	3%
Office systems	1%
Environment	1%
Other	3%

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) tutoring and practice sharing.

To support Valeo's innovation and technological development policy, programs relating to materials, products and production systems and processes account for 17% of the total training hours dispensed in 2015. These programs, led by Group technical Experts or independent specialists, are constantly evolving under the guidance of the Research and Development and Industrial Departments and the Valeo Technical Institutes.

In line with previous years, Valeo continued its effort on safety training, which accounted for nearly 26% of the Group's general training hours. 53% of our employees also received safety training in 2015. The deployment of the Play Safe module by the Risk Insurance Environment and Human Resources networks and the continued deployment of specific Safety First training by the 5 Axes schools contributed to the increase in the number of employees trained.

The Group's training policy is based on several teaching resources in order to accommodate varying requirements in terms of time and geographical mobility, and to 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 competencies. Special training is also given by the 5 Axes schools to enhance expertise in Valeo's specific working methods and tools.

The Group draws on the complementary nature of these training methods to provide effective instruction when designing its training courses, while also seeking to facilitate international growth and meet cross-cultural challenges.

The 5 Axes training path (representing 25% of general training hours), combined with induction programs for new hires (representing 12% of general training hours), embodies 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 competition rules). It provides attendees with theoretical knowledge, as well as 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 2015, with 3.5% of total training hours and 20,987 employees trained on the two new modules launched in 2015, i.e., 99% of the target population comprising all engineers and managers as well as other Group employees exposed to similar issues. As part of the annual update to the training program, two new e-learning modules on compliance and ethics will be added worldwide in the first half of 2016.

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 10% of total general training hours, and includes modules designed to enhance managerial skills, as well as leadership development programs operated in partnership with the European Center for Continuing Education (CEDEP) in Europe, Asia and the Americas.

Growth in both tutored and untutored e-learning modules stabilized in 2015, particularly those relating to the Group's corporate culture (including compliance modules). More than 153,000 hours of training were given on Valeo C@mpus, the Group's e-learning platform in 2015.

The Group's international scale and the growth of its business outside France underline the importance of language and cultural diversity training (14% of general training hours in 2015). A newly created module designed to develop insight into intercultural relations has allowed this dimension to be given greater weighting on sites with a high level of cultural diversity.

Training programs falling under the "Professional" category (28% of the Group's total training hours in 2015) cover the professional training given through the Business Group Academies (Purchasing, Quality, Research & Development, Human Resources, Projects, Industrial, Finance, SQA, etc.) by in-house instructors or Valeo 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, in addition to design-to-cost modules.

Several digital projects were developed in 2015 to create multimodal training pathways. Valeo Services notably created the "VS Sales & Marketing Academy", while the "Challenger Sales" program was launched to support the development of the professional skills of the sales force.

Anticipating change

Challenges and Approach

Valeo's success hinges on attracting top international performers in fast-growing markets and emerging countries, and in fields of advanced technology, such as CO₂ emissions reduction and intuitive driving technologies. Skilled teams ensure that Valeo can offer its customers added-value support to their technical and regional development around the world.

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 cross-function competencies has also been added to the kit, making it possible to focus the selection of applicants more closely on these specific skills.

Achievements

In 2015, Valeo hired 20,112 people worldwide, 9,175 of whom on permanent contracts, including more than 3,850 engineers and managers.

To improve the quality and speed of its hiring process, Valeo opened the www.valeo-karriere.de hiring management solution in Germany.

Valeo is firmly committed to strategic workforce planning. In the event of economic difficulties, it implements measures to delay and, wherever possible, avoid layoffs. 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 or support training. 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.

Outlook

Valeo has plans to develop a comprehensive IT solution to manage the hiring process. It will be rolled out in all Group entities from 2016. The main objective will be to strengthen the employer brand while reducing hiring costs and the time needed to fill vacant positions. The application will also give candidates better visibility of job opportunities offered by Valeo.

Development of competencies

Challenges

Throughout the world, the Group seeks to develop the competencies of its employees in order to promote their commitment and to achieve its goal of operational excellence. The continuous improvement approach developed within the Group also allows teams to develop specific competencies that give Valeo entities a competitive edge. Moreover, developing the skills of its employees is a way for the Group to bolster their employability in a socially responsible approach.

Approach and achievements during the year

To prepare employees for success in their next career step, Valeo has established standard Individual Development Plans and career interviews for engineers and managers.

Complementing this approach, the Group this year completed the definition of career paths to achieve mobility within all of its main functions. This approach allows employees, their managers and Human Resources teams to identify development opportunities for each employee within the Valeo Group, and to be able to direct employees wishing to change jobs into positions more attune with their skills. These career paths are published in a Google application available internally and for external candidates.

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.

Moreover, during their mid-year or year-end appraisal, all engineers and managers are made aware of succession plans and the possible next steps in their career paths identified

by management and Human Resources teams. Steps in the career path are identified on the basis of the aspirations of the employee and the expectations of managers. Managers receive special "SDP feedback" training to communicate this information clearly.

Using this dynamic policy and tools, nearly 3,400 engineers and managers benefited from career opportunities in 2015, the average length of service of Valeo engineers and managers being eight years.

Retaining talent

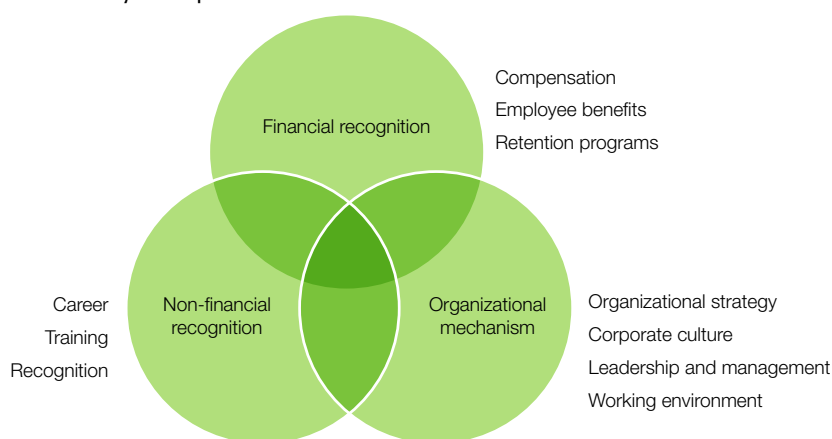
Challenges

The Group relies mainly on its teams and Experts to support its organic growth and ensure the continuity of its relationships with its major customers worldwide.

To this end, it is essential to be able to develop a strategy to promote and retain talent in line with the short- and medium-term objectives of all activities and host countries. This strategy is backed up by action to identify, develop and retain talent.

Approach and achievements during the year

This strategy is based on three key concepts:



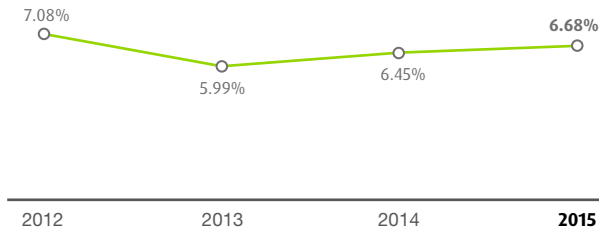
Through these three concepts, Valeo is committed both to recognizing and valuing talent, while retaining talented employees by virtue of an ambitious policy combining compensation, professional development and internal mobility.

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 2015, the turnover of engineers and managers in the Group was 6.68%. It has been stable at close to 6.5% for three years. It was lowest in Spain (1.5%), France (4%) and Italy (4.2%).

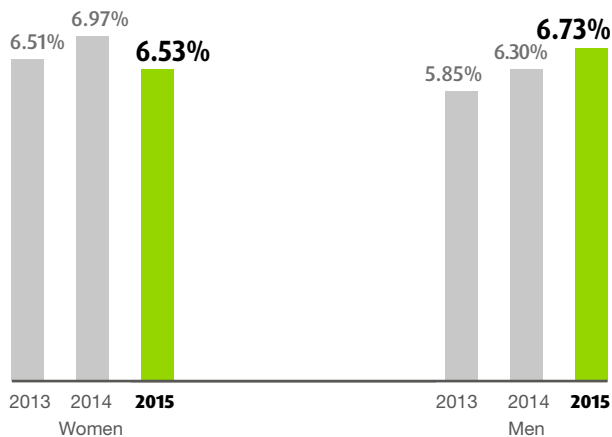
It is low in emerging countries such as China, where it was 8.7% (compared with 8.6% in 2014), and India, where it was 6.8% (compared with 5.6% in 2014). A global talent retention policy has been implemented, and has yielded results in these regions over the past few years. It was highest in the United Kingdom and Romania, where special measures will be taken to bring the rate down significantly.

Voluntary turnover of engineers and managers



Forging loyalty among teams is an essential part of ensuring operational excellence. The low rate of voluntary turnover demonstrates the commitment of the Group's engineers and managers, their confidence in the Company's strategy and their adherence to the Valeo Values.

Turnover of engineers and managers by gender



The two main reasons cited by both men and women when resigning are visibility on their career paths and compensation. To boost loyalty and reduce turnover on a long-term basis, Valeo has 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.

To ensure a good balance between work and personal life, Valeo has implemented a global Well-Being at Work policy and is testing home-working.

Experts – Transfer of competencies

Challenges

Strengthening technical expertise is central to Valeo's innovation strategy. The investment made each year by the Group in its network of Experts does more than allow

technological monitoring to be structured and Research and Development efforts to be coordinated; it streamlines the transmission of knowledge within the Group's sites throughout the world. The role played by the Experts is critical in today's highly competitive environment and in a context of vigorous international expansion.

Furthermore, Valeo each year offers international career opportunities in the form of assignments or expatriations to ensure both the transfer of competencies to new locations or the strengthening of some essential skills to support the growth of our activities internationally.

Approach and achievements during the year

Each year, the Group appoints Experts to provide support for prospective new products and the development of industrial processes. In 2015, 94 new Experts were appointed internationally; China led the way, with a big increase in its number of Experts (72% of appointments were in countries other than France). The number of women appointed as Experts also increased to 6% of the total population in 2015.

Experts also play a vital role in the transmission of knowledge and competencies. Over 830 Valeo Experts worldwide take part in the Valeo Technical Institutes to deliver training programs and prepare educational materials used in classroom or online training modules.

In 2015, technical subjects accounted for nearly 250,000 hours of training (of which 17,000 under online modules, an increase of 41% compared with 2014) and 16.8% of the Group's total training hours.

To facilitate exchange in respect of culture, technology 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. To this end, the Group has developed a shared services center for managing international mobility, which ensures a high level of support for expatriates and their families.

Outlook

Valeo continues to develop its population of Experts, especially in countries where Research and Development team numbers continue to rise (such as China and Egypt for instance). Valeo also encourages the promotion of the role of Expert within its organization, fostering the creation of new educational content and new technical training courses developed with the assistance of the Valeo Technical Institutes.

In addition, the Group is working on the creation of a group of Technical Specialists, who will facilitate the transfer of competencies within Valeo sites and teams on critical products, processes or technologies for the Group's Business Groups.

4.4.5 Diversity

Challenges

Valeo firmly believes in the importance and relevance of broader diversity at all levels and in every profession within the Company, not only as a question of social responsibility, but also as a tool for performance. Considered a key factor for sustainable growth, diversity is an integral part of the Valeo culture.

Diversity also contributes to the Group's attractiveness, both with clients and among partners or employees wishing to work in a responsible and innovative company.

Approach

To meet these challenges, a Diversity Committee was established in 2012 at the initiative of General Management. Chaired by the Group Senior Vice-President, Human Resources, the Committee has four specialized committees: Gender, Disability, Social and Cultural, and Generational. They comprise employees from different countries and different functions, and are led by four managers with diverse backgrounds, tasked with making suggestions for improvement.

Building on this organization, the Group is committed to the following objectives:

- make diversity and the principle of non-discrimination a priority;
- encourage local actions and policies to promote diversity in all its forms;
- inform employees about the Group's commitment and communicate on the actions undertaken.

In 2015, the work of the four Diversity Committees gave managers a better understanding of the strategic importance of diversity. Thus, once the Group's Diversity guidelines had been laid down and deployed, numerous initiatives were taken around the world.

Each country now has a diversity component in its strategic medium-term Human Resources plan, which applies Group strategy while adapting it to the local culture. Demonstrating this commitment, the Recruitment Guide has integrated these guidelines to assist people involved in the recruitment process and to factor in all forms of diversity, starting with the applicant search and selection process. Fresh impetus has also been given in respect of training: in 2015, 2,006 employees completed e-learning training on the theme of diversity.

In early 2015, diversity committees were established in each country and at different levels of operational management, with a diversity leader, generally the site Human Resources manager.

Lastly, a diversity portal has been developed to centralize initiatives in the Group's various plants.

Achievements and performance during the year

Composition of governance bodies

The French law of January 27, 2011 on the balanced representation of women and men on boards of directors and supervisory boards imposes greater diversity in the composition of such bodies.

Since April 2015, Valeo's Board of Directors has had four women members: Caroline Maury Devine, Sophie Dutordoir, Noëlle Lenoir and Ulrike Steinhorst.

Women currently hold 30% of the seats on the Board of Directors. This means that the Group is in compliance with the first threshold (20% of women directors) stipulated by the French law of January 27, 2011 as regards the representation of women on its Board of Directors.

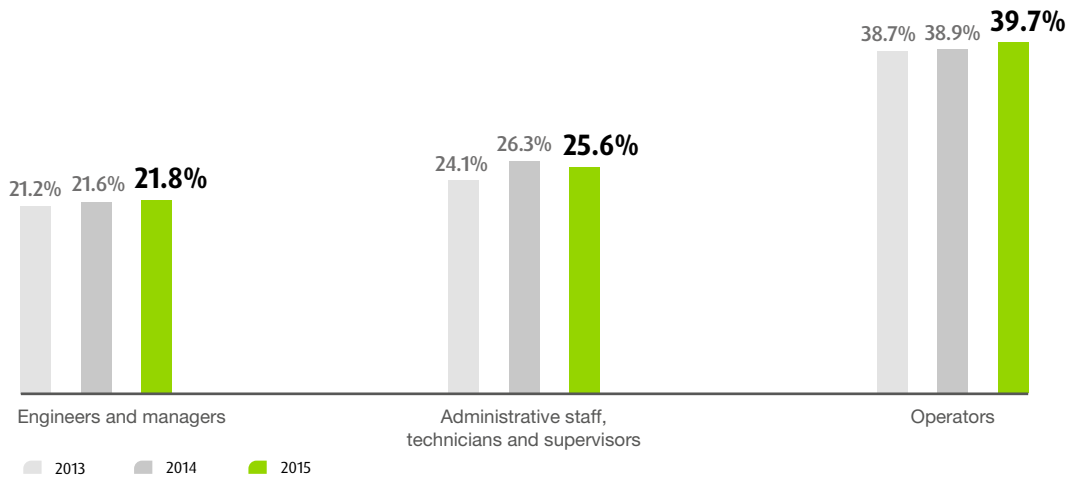
In accordance with the law of January 27, 2011, the percentage of women directors at Valeo is set to reach 40% in 2017. This rate will be reached after the Shareholders' Meeting of May 26, 2016 if the shareholders approve the appointment of Mari-Noëlle Jégo-Laveissière and Véronique Weill to the Board of Directors, on the recommendation of the Appointment, Compensation & Governance Committee.

In 2015, the Valeo Operations Committee had 15 members, two of whom were women: Catherine Delhay (Chief Ethics and Compliance Officer) and Fabienne de Brébisson (Head of Communications).

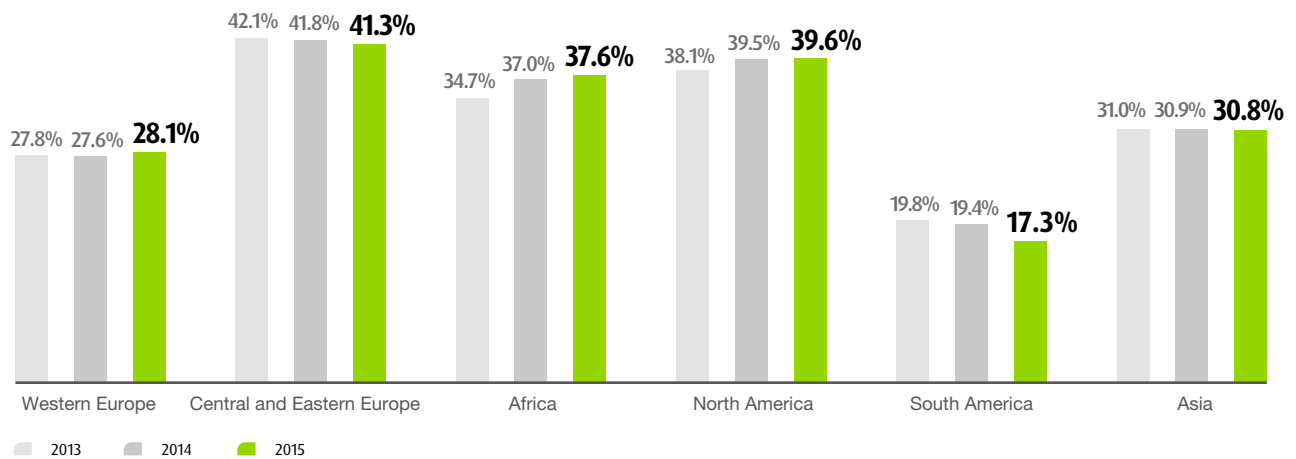
Gender diversity

Based on a continuous improvement approach, the Group aims to emphasize the competencies and development of women and men both internally and during the hiring process. Valeo is committed to respecting, in comparable situations, equality between men and women in terms of career development, training, compensation, etc. It should be noted however that women are less represented than men in the automotive sector.

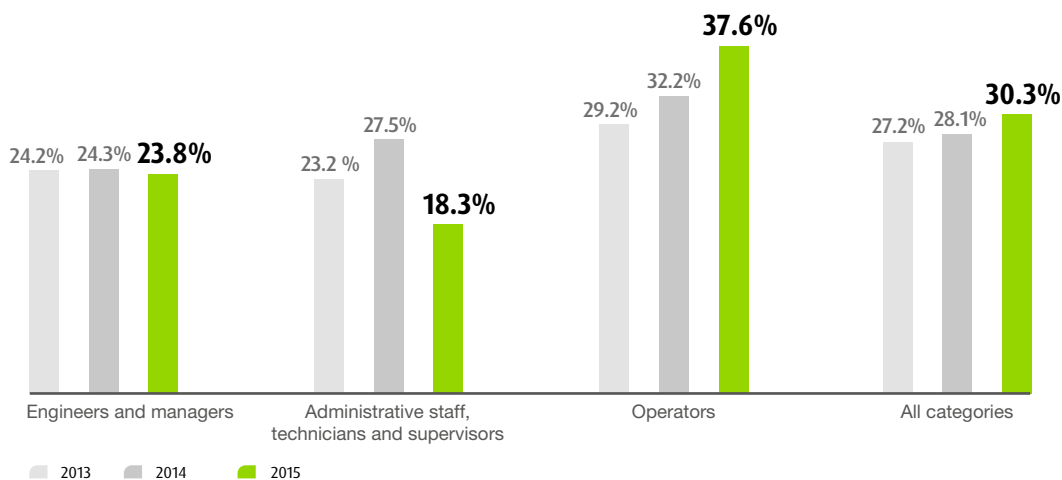
Breakdown of women by socio-professional category



Breakdown of women by geographic area (registered headcount)



Proportion of women among new hires on permanent contracts over three years



In 2015, 178 initiatives were taken in Valeo plants worldwide to promote equality between men and women. This means that 80% of Valeo Group plants took at least one initiative in favor of gender equality.

The first major focus of 2015 was to promote the visibility of women at different levels of the organization

The Valeo Women Connected network 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.

To coincide with International Women's Day, the Valeo Women Connected network met in Paris on March 6, 2015 for a luncheon debate attracting more than 50 women from different networks for an open discussion with Axel Maschka, Valeo Senior Vice-President, Sales & Business Development.

The second major 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 Companieros and the engineering schools ENSAM, ENSAE, Supélec, UTC and Ecole Centrale de Nantes, the purpose of which is to educate students on gender issues using an interactive platform, turning students into diversity advocates from the outset of their career.

In addition, to ensure the promotion of engineering careers among girls in high school, Valeo continued its partnership with *Elles Bougent* by participating in the actions undertaken by the association. Many initiatives were taken during each quarter of 2015:

- participation in a women's networking and careers forum at the *Journée Sciences de l'Ingénieur au Féminin* event for young women taking engineering sciences in high schools;
- Valeo female mentors – with twice as many women participating in the program in 2015 (51 mentors) – 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 third major focus was to strengthen hiring policy in respect of women

The Group's recruitment guide was updated to integrate gender diversity factors.

Programs designed specifically to strengthen gender and cultural diversity were launched in 2014 and continued in 2015. The Powertrain Systems Business Group implemented the five-year "W.In – Women In" program, which aims to recruit 40 young women and prepare them to become future managers, in seven countries (China, India, France, Turkey, Poland, Egypt and Mexico).

The recruitment process is broken down into two phases. The first began in September 2014; it was followed by a second starting 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 such fields as Research and Development, production and project teams, where women remain underrepresented.

The fourth major focus was to bolster women's leadership skills at Valeo

To achieve a more even balance in management and leadership, personal development processes now systematically integrate gender balance issues. In 2014, the Group decided to include an additional step by setting up a mentoring program with Idem per Idem, a specialized consulting firm. 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 General Management.

The initial positive feedback from both mentors and mentees prompted the Group to launch a new program in 2015 to build expertise and reverse stereotypes. In 2015, 15 mentor/mentee pairs followed this specific program.

Disability diversity

Promoting the employment of people with disabilities is a principle and a priority for the Valeo Group, as part of a process of equal access to employment and an approach designed to spur economic efficiency.

In France

The second three-year agreement for the professional and social integration of people with disabilities signed in France on June 3, 2015 reaffirms Valeo's commitment to its corporate social responsibility and diversity policies.

The agreement has the following five objectives:

- recruit people with disabilities;
- maintain and develop employment;
- improve integration and training;
- talk openly about disability and raise the awareness of all stakeholders;
- step up cooperation with the sheltered sector.

In 2015, Valeo moved forward in its initiatives to help people with disabilities, with the aim of significantly improving employment rates at Group level on a long-term basis. As such, the employment rate was 6.07% at the end of 2015.

Recruit people with disabilities

Between 2012 and 2014 (duration of the first three-year agreement), 48 disabled workers were hired at Valeo out of the 105 targeted in the agreement. In 2015, 19 people with disabilities joined Valeo. These figures reflect 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.

In 2015, Valeo renewed its various partnerships aimed at helping French plants hire people with disabilities in numbers more consistent with the Company's expectations:

- partnerships with recruitment firms specializing in disabled workers (Défi RH and JLO Emploi);
- partnership with *Tremplin*, an association specialized in the integration of people with disabilities;
- partnership with Multiposting, a company offering multiposting solutions for job offers and internships online.

To intensify its policy of hiring people with disabilities, Valeo launched its "Projet Alternance" in partnership with JLO Conseil and Agefiph in 2015. Building on the conviction that combined work-study programs are the key to success, this project has three objectives:

- analyze sites' recruitment and work-study needs;
- identify levers that can be used to promote work-study positions for disabled workers;
- identify obstacles/apprehension existing in relation to work-study programs.

Valeo has partnered with *Tremplin*, an association that works with the disability missions of French schools to offer 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.

Maintain and develop employment

All Group entities have taken steps to keep people with disabilities in employment. 30 initiatives designed to keep people with disabilities in employment were introduced in 2015.

Talk openly about disability and raise the awareness of all stakeholders

In 2015, Valeo sought to intensify its policy of employing people with disabilities initiated in 2013, offering awareness raising to all of its French employees. This process gave each employee fundamental knowledge about disability (definitions, legal framework, types of disability and popular misconceptions).

In-house instructors were selected and trained at each French entity to ensure that this awareness campaign would be implemented successfully. By the end of December 2015, 80% of Valeo's workforce in France had been made aware of disability (the goal is for 100% of employees in France to have had the training by the end of 2016).

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 calendars, a leaflet describing the different types of disability and the Week for the Employment of People with Disabilities (*Semaine pour l'emploi des personnes en situation de handicap* – SEPH) focusing on imperceptible disabilities.

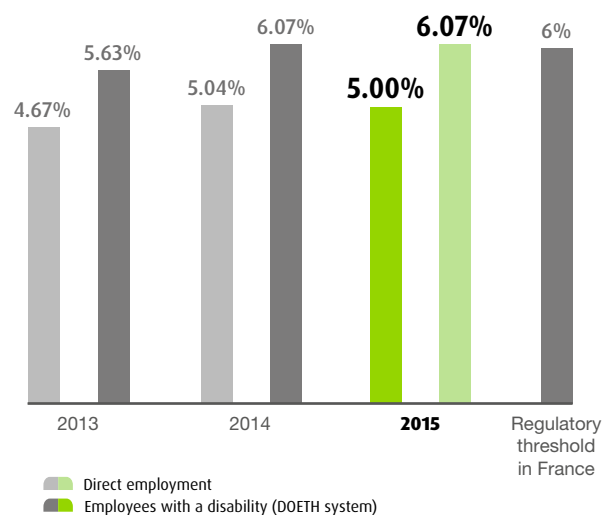
This awareness approach is gradually increasing employees' confidence in the Company's approach.

Step up cooperation with the sheltered sector

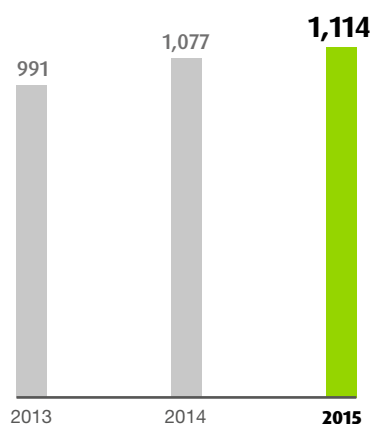
In 2015, 162 people⁽¹⁾ (206 in 2014) were employed through organizations that help people with disabilities back into work through the sheltered sector. They were all counted in the employment rate.

In 2010, Valeo's Annemasse site established a partnership with a sheltered sector organization based in Vétraz-Monthoux. This partnership has seen 16 workers with disabilities take their place in the plant's production units, thereby becoming an integral part of the manufacturing process.

Percentage of Valeo employees with disabilities in France



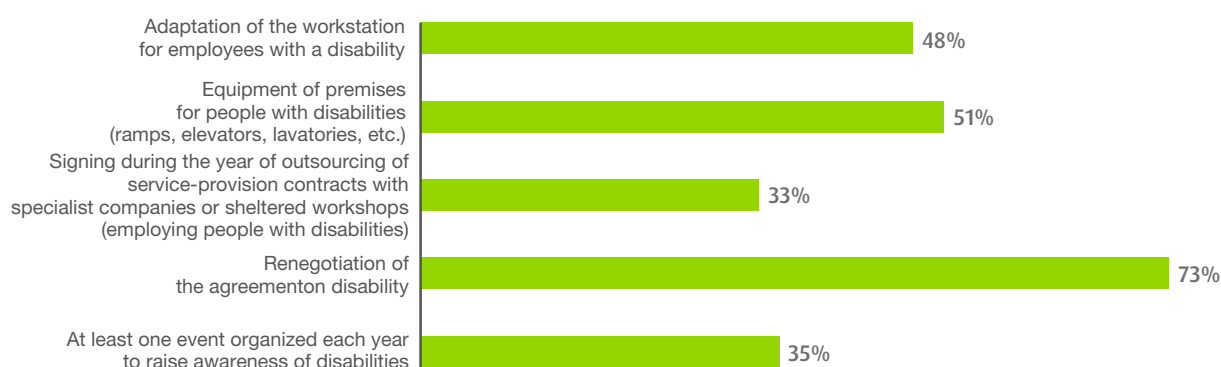
(1) One unit equals the full-time equivalent of a disabled employee billed to a Valeo company in France by an ESAT or an EA.

Internationally**Number 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 within Valeo to expand the disability policy to the global scope from the beginning of 2014. In 2015, the Group continued the implementation of the global disability policy dubbed "DiversAbility", which comes with six objectives:

- manage the network of points of contact in each plant, as well as the coordinators present within the Business Groups and countries;
- 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, 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, hire, train and promote employees with disabilities, so as to keep employees with disabilities in their jobs;
- increase by 5% per annum sales with companies specializing in facilitating the employment of people with disabilities until they reach 50% of the legal requirement or the minimum rate set by Valeo.

Percentage of sites having implemented disability initiatives**Outstanding actions in 2015**

- In 2015, Valeo's Guangzhou site in China established a partnership with a school for deaf students. This partnership resulted in the employment of 11 employees in the Valeo plant.
- In December 2015, 25 people with disabilities joined the Valeo teams in Chennai, India, following the implementation of a successful partnership with the Youth 4 Jobs foundation.

Generational diversity

Aware of the aging population in some plants and some countries, and anxious to meet the challenges of growth, Valeo has set itself a dual goal. The Group strives to attract young talent, before training it and fostering its motivation

through tutoring and mentoring. At the same time, it takes care to foster an environment in which four generations can work together as the retirement age recedes and members of so-called generation Z arrive on the labor market.

Between the youngest generation and seniors, the challenge is to preserve and transmit know-how, which must be preserved to support the Group's growth ambitions and ensure its sustainability.

Professional integration of young people

In 2015 Valeo maintained close relations with higher education establishments, notably by nurturing selective partnerships with world-renowned schools and universities, and fostering diversity within its workforce.

The numerous events held as part of employer brand promotion activities in 2015 (see section 4.4.4 “Employer brand”, pages 206 to 207) allowed us to make contact with many future graduates of engineering schools or universities worldwide.

These initiatives in favor of youth employment and the integration of young people in the workplace allowed the Group to welcome: 1,490 interns, 892 apprentices and trainees and 130 VIE program applicants. The five countries that took on 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, 451 young people were hired (18% of people entering the Group in 2015).

Lastly, national initiatives resulted in the implementation of apprenticeship training programs designed in conjunction with local schools or universities. Examples of such programs include YES in China (200 positions available) and DRHW in Germany (130 apprenticeship positions offered, notably in Baden-Württemberg) and Spain (20 apprentices at Martos).

Valeo sponsors *Elles Bougent*, an association that promotes scientific careers among female high school and university students by organizing business presentation events with the active involvement of Valeo mentors.

Valeo also takes part in the *Engagement Jeunes* platform, which seeks to promote the employment of apprentices nearing the end of their training.

Policy toward older workers

Valeo is committed to employing older workers, and this is an important plank of its career development policy. It is also central to its policy for encouraging diversity. Hiring older workers gives access to valuable 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 competencies or, if they wish, to change career paths.

In 2015, Valeo had a total of 9,415 employees aged over 50 worldwide (compared with 8,935 in 2014 and 8,376 in 2013). This represented 13% of the registered headcount in 2015, including 2,902 employees aged over 50 in France (compared with 2,766 in 2014 and 2,768 in 2013), or 24% of the registered headcount. This increase resulted from a hiring policy that allowed the Group to hire 341 employees aged 50 and over in 2015, a total of 3.7% of recruitment on permanent contracts over the period.

Intergenerational contracts

The hiring of young people and the employability of older workers are the foundations of Valeo's policy in respect of intergenerational diversity.

France

In 2015, action was taken in favor of strategic workforce planning, gender equality and intergenerational contracts, in all the Group's French companies.

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, by means of monthly conference calls.

It focused its work 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 in respect of their professional development and work-life balance of members of what are commonly referred to as the baby boom (born between 1946 and 1964), X (1965 and 1980) and Y (1981 and 1995) generations;
- the fit between the needs expressed or expected by each generation and their level of satisfaction;
- shared aspects that unite the various generations within Valeo, especially those belonging to the same sector of activity and having the same company values;
- maintaining motivation throughout employees' careers, regardless of age;
- mentoring of older employees by younger managers and tutoring;
- 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 employees and the retention policy;
- creation of a training and awareness module devoted to intergenerational diversity.

In 2015, 75% of Valeo plants took action to promote intergenerational diversity.

Cultural and social diversity within the Group

The Group's operations in 30 countries provide a strong basis for diversity, respect for which requires a grasp of the cultural environment of Valeo's host countries.

Chinese, French, Mexican, Polish, German, Spanish, Thai, American, South Korean and Czech are the ten most widely represented nationalities within the Group. The countries where Valeo has the largest number of different nationalities are France (73 nationalities), Germany (63), the United States (38), Ireland (36) and the Czech Republic (30).

Valeo has 344 expatriates within its ranks. The five countries receiving the most expatriates are China (59 expatriates), France (46), the United States (34), Thailand (34) and Japan (26). Furthermore, 29% 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. As such, Valeo has set itself two objectives globally:

- succeed in naturally accommodating multicultural teams through the respect and acceptance of differences of origin, religion, perceptions and feelings;
- ensure the cohesion and efficiency of multicultural teams and avoid potential conflicts by training management in this regard.

The management of cultural and social diversity has been assigned to the various National Directorates 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. As such, under the impetus of the Cultural Diversity Committee, many actions were taken to promote cultural diversity at Valeo in 2015.

Valeo has set itself the objective of raising the awareness of its employees in respect of cultural and social diversity:

- launch of the internal portal dedicated to cultural and social diversity to monitor the policy in each country where Valeo operates;
- completion of a communication plan and information campaign for May 21, Unesco's World Day for Cultural Diversity for Dialogue and Development, since 2001;

- distribution to the national Human Resources network of a booklet, unique to each country, dedicated to cultural diversity.

Valeo has set itself the objective of training its teams in response to specific needs:

- in 2014, the Cultural Diversity Committee drew up and launched four pilot training sessions in France, Egypt, Ireland and Germany. In 2015, these intercultural training sessions were deployed among project team members working regularly with multicultural teams;
- more than 2,000 Group employees completed online training modules (a total of 1,282 hours of training) to give them a better understanding of the issues related to this form of diversity.

Valeo has set itself the goal of promoting and fostering the integration of young people from disadvantaged neighborhoods in the workplace. In 2014, Valeo's Créteil site joined the "Our Neighborhoods Have Talent" (*Nos Quartiers ont des Talents*) association and its sponsorship program. Founded in 2005, the association aims to help young graduates with a least four years' post-secondary education from priority neighborhoods and/or situations of hardship. The Créteil site has become heavily involved with the association, and had 21 active sponsors on the site at the end of 2015.

Outlook

The four specific committees, Gender, Disability, Social and Cultural, and Generational, aim to continue the promotion of diversity by encouraging initiatives rolled out locally throughout the Group:

- ensure the proper functioning of steering committees within the Business Groups and countries;
- continue the process of gradually rolling out diversity policies on all sites and in all countries where Valeo operates;
- promote innovative diversity initiatives by emphasizing cooperation between the axes;
- ensure the full use of internal communication tools and best practices;
- communicate externally on Valeo's achievements in this field.

4.5 Commitment to corporate citizenship

A global business and major stakeholder in the automotive sector in the countries where it operates, Valeo is a social actor by virtue of the importance it attaches to its operational excellence and the quality of its products, vehicle and user safety on the road, rules of ethics and compliance, its relationship with its supplier base, the availability of original

equipment spares, and its institutional relations with local communities.

Attentive to the demands of its stakeholders, Valeo has sought to understand and respond to these key issues, notably by including them in its 2015 materiality matrix.

4.5.1 Total quality and product safety

Challenges

The quality of products sold and safety for end users of vehicles is a major challenge for the automotive industry.

Approach and achievements during the year

To ensure the safety and quality of its products, the Group relies on the organization and resources described in Chapter 1.

The Group's ambition in terms of quality and product safety is based on:

- a total quality requirement: the daily obsession of all Group employees and the focal point of the 5 Axes methodology (see Chapter 1, section 1.1.5 "The 5 Axes", page 16 and section 1.2.3 "Operations Department", pages 29 to 31), the quality of Valeo products is the key ingredient in their safety. In 2015, the Group's quality level remained high, with a level of customer returns of 4.2 parts per million products delivered. In an environment of high growth and intense innovation, these results are testimony to the Group's ability to manage its growth;
- compliance with regulations on the disposal of hazardous materials (see section 4.2.3 "Resources, materials and eco-design", pages 156 to 159), including the deployment of a methodology for the implementation of the REACH regulation;
- the design, development and manufacture of products that help reinforce the safety of vehicle users:
 - many innovations designed to reduce emissions of polluting gases into the atmosphere are offered to automakers. 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.

The Group builds and manages quality through:

- the 5 Axes system centered on customer satisfaction. This is what cements our corporate culture. Three new roadmaps were created in 2015 within the Total Quality Axe. The goal is to achieve excellence in understanding customer expectations during the development and series production phases of products, and to regularly measure improvement through satisfaction surveys. The Quality network is responsible for making the 5 Axes methodology and the related tools available to managers, overseeing its deployment in each entity, performing site audit work and ensuring continuous improvement of the system;
- the Quick Response Quality Control (QRQC) culture, focused on problem-solving, ensures that every incident is factually documented by resident quality engineers by systematically comparing good parts and defective parts and by verifying the relevance of the standards (QRQC step 1). Speed of reaction, clarity of communication and validation of each problem-solving step are verified in real time in the shared Valeo Incident Management (VIM) system. A warning system gives management visibility and provides teams with the necessary support. Each problem is associated with at least one lesson learned to guarantee that standards are continuously improved. What is learned locally is shared across the Group to accelerate progress (QRQC step 2). Lastly, emphasis is placed on QRQC step 3, which aims to transform every manager into a certified QRQC trainer able to coach his or her teams;
- state-of-the-art methodologies and standards, consistently associated with a process of continuous improvement in the areas of:
 - product/process development (generic FMEA, failure mode, effects and criticality analysis; RAISE, robustness, accountability, innovation, standardization and evaluation),
 - driving projects (review process by the Technical Committee),
 - integration of suppliers (StEDE, Standards Existence, Deployment and Enforcement; standardized CCLs, or Commodity Control Lists),

- quality control in production (Standard Process Control Plan), and
- monitoring the performance guarantee (advanced detection of guarantee alerts).

The Quality Network is present in GEEDS, the Group's shared center of expertise, which develops the necessary expertise in existing businesses and high-growth businesses such as electronics, software and calculation of predicted reliability. The Quality network sustains the Group's rapid growth by training new employees worldwide. The Quality Academy enables each new arrival to be given suitable training.

Valeo is committed to improving vehicle user safety and has obtained funding for an all-weather vision project with Safran. Known as the AWARE Project (All Weather All Roads Enhanced

Vision), it received funding under the seventeenth call for projects of France's Single Interministerial Fund (*Fonds unique interministériel* - FUI). The purpose of this project, led by ULIS, is to develop a prototype all-weather sensor (especially 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 Transportation, Land and Networks).

4.5.2 Ethics and compliance

Challenges

Due to its global presence and its growing number of employees, Valeo has established an Ethics and Compliance Department, which has set up a specific and comprehensive Compliance Program to fight both corruption and anti-competitive practices.

Approach

The program entails integrating and applying a clear set of internal rules designed to:

- respond to Valeo's determination to comply with regulations and issue reminders of prohibited practices;
- define the conditions and prerequisites for acceptable conduct regarding business relationships and alliances;
- implement them and check their effectiveness 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 in their interaction with business and technical partners.

It is based on strict business ethics and compliance requirements.

It involves a set of instructions and decision-making aids designed to prevent corruption and anti-competitive behaviors and practices. In 2015, Valeo updated and expanded a number of the systems it originally set up in 2012. The result is a permanent process of awareness raising, training and prevention.

A program combating corruption and anti-competitive practices

Since its establishment, the Group's ethics and compliance policy has had the dual aim of fighting corruption and anti-competitive practices. Compliant with the highest international standards, it is based on a set of features and tools designed to raise awareness and train people on the relevant risks, and to manage them on a global scale.

A comprehensive framework

The Code of Ethics, first introduced in 1997, then updated in 2005 and 2015, is available to all employees and subcontractors in 22 languages. It is the primary reference for personnel education and awareness and forms the cornerstone of the Group's ethics and compliance policy.

Since 2012, the Ethics and Compliance Program has also included Valeo rules on combating corruption and anti-competitive practices, which are circulated along with manuals, definitions, practical examples, guides and short films designed to help Valeo personnel apply them in their everyday work.

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 specificities of the various countries in which the Group has operations;
- 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 decision-making; and
- are permanently accessible via the Ethics & Compliance intranet portal, with most available in 13 languages.

Practical, accessible education

Active awareness of ethics and compliance issues is an integral part of team and project management, and a key component of an awareness program supported by senior 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, coordinated by the Chief Ethics and Compliance Officer. The team comprises experienced managers respected by their peers and their teams for their knowledge in these matters within their networks, their functions and their countries.

These 70 Compliance Champions keep their teams informed about the program, provide guidance on ethics and compliance issues, and act as ambassadors for the program.

The Valeo alert line: detection, prevention and alert

Lastly, in 2014, Valeo adopted a worldwide alert line enabling personnel to alert management, through various channels (phone interviews, internet portal, email, letters), about actual or potential non-compliance with regulations or internal rules on anti-competitive practices and the fight against corruption and fraud.

The line is open to all personnel in all countries, in all of the Valeo Group’s 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 by the Chief Ethics and Compliance Officer in liaison with the Internal Audit Department and an Alerts Committee that was set up with the alert line in 2014, in accordance with a standard procedure.

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. To this end, a strict procedure has been implemented.

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.

Achievements in 2015

Valeo pressed ahead with its extensive ethics and compliance training program, training virtually the entire target population, comprising all engineers and managers as well as other Group employees exposed to similar issues and the year’s new arrivals, i.e., 20,987 people (99% of the target population). Any failure in respect of these training obligations in 2015 was subject to strict monitoring by the Group’s Human Resources services and the Compliance Department, with mandatory catch-up sessions.

Similarly, awareness training on the specific compliance programs, procedures and tools continued among various teams, notably through the country management teams, participants in the CEDEP training program (see section 4.4.4 “Training”, page 209) and the Compliance Champions.

New initiatives resulted in the deployment of updated and reinforced resources for 2015:

- the Code of Ethics was revised, expanded and updated in 2015. Available to teams in 22 languages, it was issued worldwide in strict compliance with labor relations principles and regulations. The official launch by the Chief Executive Officer took place in September 2015;
- a Privacy, Image and Social Media Policy was established to protect confidential information concerning Valeo, its employees, customers and partners, as well as the image and reputation of the Group. It was gradually circulated over the past year in partnership with the Communications network;
- a charter on the use of computer and electronic communication resources aimed at protecting intellectual property and information systems, and ensuring the safety and integrity of Valeo’s networks and resources was also updated and rolled out in 2015, in partnership with the IT teams.

For relations with third parties and/or intermediaries representing Valeo, the system was supplemented in 2015 by the Valeo Business Partner Code, which Valeo’s prospective partners must accept before a business relationship can commence.

Outlook

Following the extensive updating of tools and programs in 2014 and 2015, 2016 will be devoted primarily to cementing the new charters (information systems, image and media) firmly

at the core of operations, introducing new ethical leadership training and continuing training established in 2012 on the fight against anti-competitive practices and corruption.

4.5.3 Application of sustainable development principles in purchasing processes

Key figures in 2015

- 1,186 suppliers account for 95% of the amount attributable to direct purchases (manufacturing purchases);
- 615 suppliers are French;
- 50 suppliers account for 25% of the amount attributable to indirect purchases (maintenance, subcontracting, travel, supplies, etc.).

Challenges

Sustainable development in the purchasing policy of tier-one suppliers: a prerequisite on the part of automakers, and one that Valeo meets

Anticipating the growing demand from automakers, Valeo has organized itself by:

- systematically responding to requests from all automakers through self-assessment questionnaires;
- organizing meetings with the Sustainable Development and Purchasing departments of different automakers.

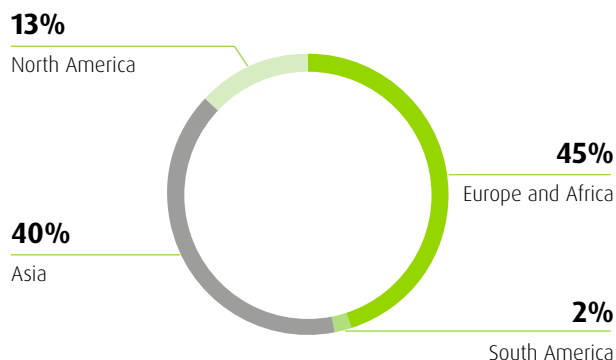
Therefore, since 2010, Valeo has created a special dialog on this issue with certain customers, based on:

- verification of sustainable development practices within its own chain of suppliers;
- presentation and validation of Valeo's sustainable development methodology at "Tech Days";
- performance of sustainable development audits of Valeo sites by the automaker's teams (since January 2016).

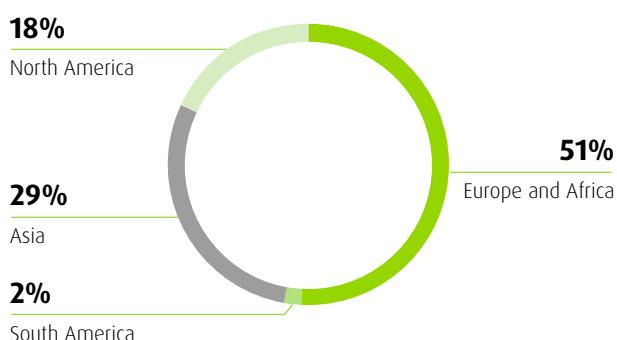
Purchasing location aligned with consumption area

Purchasing policy is one of the levers of the Group's operational excellence. It has the following characteristics.

Breakdown of direct purchases by geographic area of origin



Breakdown of direct purchases by geographic area of consumption



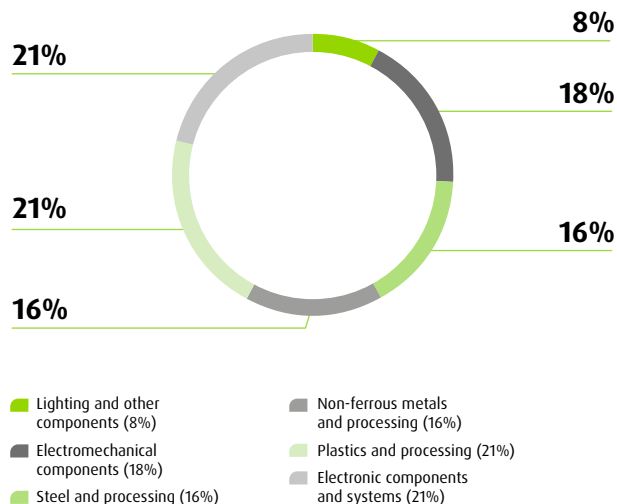
Due to its historical presence in Europe, Valeo consumes 51% of its purchases in this region, where 45% of its suppliers are located. As a direct result of the Group's growth strategy in emerging countries, Asia ranks second, in terms of both consumption (29%) and number of suppliers (40%).

The geographic breakdown of purchases by area of consumption and 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:

- 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.

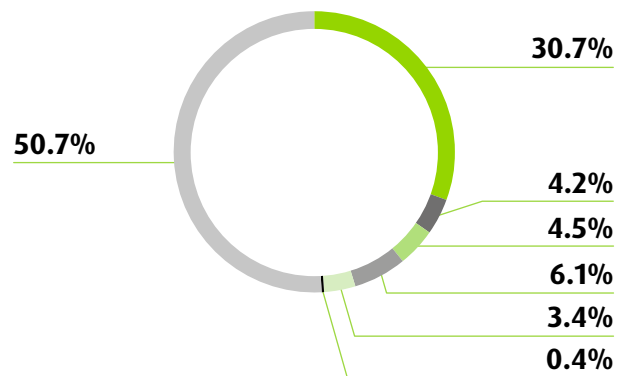
Breakdown of 2015 purchases by commodity



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 processing, non-ferrous metals and processing, plastics and processing, electronic components and systems, electromechanical 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



- General maintenance (30.7%)
- Security (4.2%)
- Cleaning (4.5%)
- Cafeteria (6.1%)
- Waste processing (3.4%)
- Reception (0.4%)
- Technical support (50.7%)

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 ILO conventions in their dealings with their subcontractors, requiring them to share the provisions of the Valeo Code of Ethics with their subcontractors, and in particular the articles concerning fundamental human rights.

Subcontracting amounted to over 336 million euros in purchases in 2015. Technical support services are significant, accounting for nearly 51% of this expenditure due to the IT services provided by outside companies (hardware, networks, services, computer applications). General maintenance costs represent nearly 31% of expenditure due to the industrial nature of Valeo's activities.

Approach

Structure of the Purchasing function at Valeo and supplier relations

As a tier-one⁽¹⁾ automotive supplier, Valeo is 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.

(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 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).

Purchasing departments in each of the Group's regions (Europe, Middle East, Africa, China, India, Japan, ASEAN⁽¹⁾, North America and South America) interact continuously with the commodity/segment to ensure that efficient, meaningful purchasing strategies are applied.

Becoming a Valeo supplier

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 meeting of the selection committee and the award, 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. In 2015, these obligations were combined in the Business Partner Code of Conduct. 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 workplace 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 2015.

Without calling into question the principles of the Supplier Commitment for Sustainable Development (SCSD) deployed to the incumbent supplier base and supported by Valeo's adherence to the Global Compact principles, the Group is now rolling down its Ethics and Compliance and sustainable development commitments to all of its suppliers, using the same methods, with its Business Partner Code of Conduct (BPCC).

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.

(1) ASEAN: Association of Southeast Asian Nations.

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.

Achievements

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 choices, across a representative sample of suppliers, representing 750 million euros in sales with Valeo. In 2015, this evaluation was reinforced and extended to major suppliers accounting for 60% of Valeo's production purchasing. The suppliers that responded to the survey represent a purchasing amount of more than a tenth of the total amount across the sample.

The survey results showed that, in addition to meeting Valeo's CSR requirements, nearly 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 environmental policies⁽¹⁾.

For more than 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.

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 2015, Valeo developed sales with **over 50 suppliers that meet the WBE or MBE diversity criteria.**

Conflict minerals

In 2013, Valeo's Purchasing Department aligned its sourcing processes 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 the financing of 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 of its suppliers to comply with the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

A specific initiative introduced in conjunction with the Research and Development Department allows the Group to better identify potential sources of conflict minerals. Thus, in 2015, 71% of the suppliers identified using this initiative provided the Group with a certified report on conflict minerals using the Conflict Mineral Reporting Template (CMRT) developed by the Conflict-Free Sourcing Initiative (CFSI).

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.

(1) Notably ISO 14001 and/or equivalent certifications.

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 tier-one⁽¹⁾ automotive suppliers. The principle objective is to take stock of the CSR practices currently implemented by each member company and 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.

Signing the Charter of Intercompany Relations

Following the initiative of the French ministry of economy and finance aimed at improving relations between large order-givers and their suppliers (micro enterprises and SMEs), Valeo signed the Charter of Intercompany Relations on January 10, 2012, now known as the Responsible Supplier Relationships Charter.

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. The internal mediator was appointed on March 13, 2012.

At the end of January 2015, over 500 companies had signed the charter, representing nearly 400 billion euros of purchases.

Ongoing sustainability commitment through the Automotive Suppliers' Modernization Fund (FMEA) Tier 2⁽¹⁾, renamed the Automotive Future Fund (*Fonds Avenir Automobile – FAA*).

Since the FMEA Tier 2 was set up in 2010, Valeo has been involved, alongside Bpifrance 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 minority stakes 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 and 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 Bpifrance. Valeo has contributed 2.1 million euros.

As part of the work conducted in 2015, the FMEA Tier 2 was renamed Automotive Future Fund. It is involved in the governance of 11 companies in which it has previously invested, and which need a stronger industrial foothold in a competitive international environment. The fund continues to work on selecting potential SMEs whose core businesses are turned toward the automotive industry of the future.

⁽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.

4.5.4 Availability of replacement products

Challenges and approach

As a player in the aftermarket through Valeo Service, and with its strong presence in emerging countries, the Group's positioning is based on its determination to market products at

the best price, over and above its multiproduct, multiregion and multichannel strategy, without compromising the environment.

Valeo Service is described at greater length in Chapter 1, section 1.3.5 "Aftermarket products and services", pages 55 to 58).

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.

4.5.5 Public and regulatory policies

Challenges

A major innovative player in the automotive industry operating in many countries, Valeo is an important group for the life of certain areas.

Approach and achievements during the year

Relations with professional associations

As an independent, global tier-one⁽²⁾ automotive equipment supplier, Valeo is a member of the main organizations that represent the interests of initial-fit and aftermarket 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 (*Sindicato Nacional da Indústria de Componentes para Veículos Automotores*).

Valeo's interests are expressed through these organizations and are the only activities that could be qualified as "lobbying".

(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".

(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.

Relationships with public bodies

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 (Directorates-General 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), transportation (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 (European Green Vehicle Initiative Association – EGVI);
- participation in the construction of roadmaps, under Valeo's co-chairmanship (since 2014) of ETRAC, the European Commission technology platform (see section 4.2.4 "European Road Transport Research Advisory Council (ETRAC)", page 160).

Institutional relationships are coordinated under the responsibility of three 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 2015.

In addition, in accordance with its Code of Ethics, Valeo does not make any donations or give any support to political parties in any countries where the Group operates.

4.5.6 Voluntary commitment to local communities

Challenges

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 2015.

Main corporate citizenship initiatives at Valeo sites

Commitment	Partners	Examples of initiatives
Aid for local communities	Local populations	■ Donations to local populations ■ Donations for disabled people, 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 ■ Public transportation
Development of local human capital	Local populations/Valeo Group employees	Promotion of access to management positions

Approach and achievements during the year

Valeo sites, contributing to the local economic fabric

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, local economic agents, and actors in the development of human capital, and the creation and attraction of new businesses through transfers of competencies.

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 communication 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 and employees involved in local community operations

In 2015, more than 70% of employees at Valeo Group sites worldwide took part in volunteer operations to help local communities. Their contribution 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 40% 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.

For example, the Mioveni plant in Romania took part in the 2015 “Christmas in a shoe box” initiative, which consists of donations of simple, everyday products destined for financially disadvantaged or disabled children.

Valeo site donations to local cultural and educational activities

Each Valeo site determines its own donation policy, which is attuned to 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.

The Valeo China “Illuminating the Future” project

In 2015, Valeo China launched a nationwide project called “Illuminating the Future”, with four main thrusts:

- contribute to the education of disadvantaged children;
- help people with disabilities find jobs;
- promote career development among graduates and young people;
- implement measures to protect the environment.

A key initiative in the field of child education was the Valeo Library Project, with the establishment of ten libraries or reading rooms in schools attended by disadvantaged students throughout rural China. Each project was sponsored by volunteers from local Valeo sites (including Changchun, Foshan, Guangzhou, Nanjing, Shanghai, Shenyang, Shenzhen, Wuhan and Wuxi). A total of 7,500 books were donated.

Several activities to promote the integration and employment of people with disabilities also took place. They included visits to schools attended by children with autism or disabilities, as well as hiring and awareness campaigns.

Career development among young graduates involves on-campus hiring programs and the Valeo Career Day, where students are encouraged to visit Valeo sites and discover the various jobs and employment opportunities available within the Group.

Lastly, the protection of the environment and sustainable development are a constant concern for all sites, which regularly carry out tree planting, litter cleaning and energy savings initiatives with the active participation of all employees.

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, more than 40% of sites offered their employees financial assistance in 2015 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

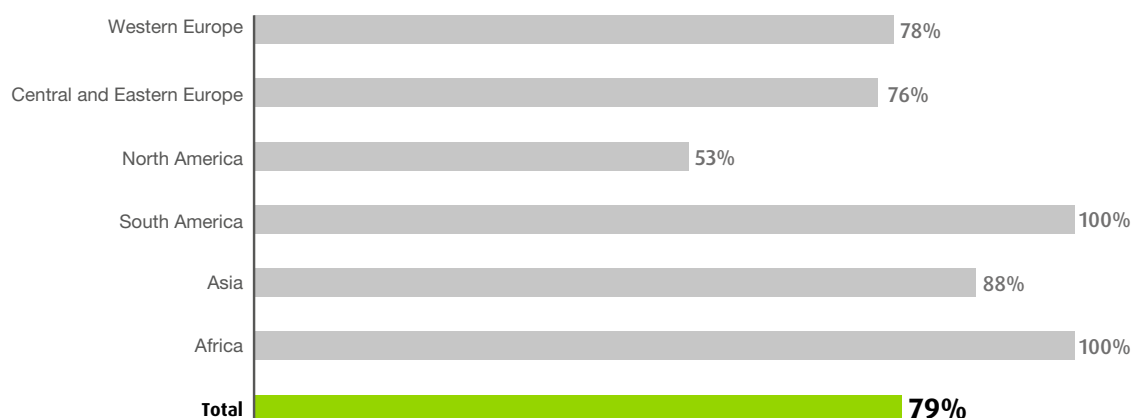
In line with Valeo's 5 Axes program, in which staff involvement serves as the basis for the Group's corporate culture, sites have developed solidarity initiatives between employees to

take action in special situations (illness, disaster, death, etc.). In Central and Eastern Europe, more than half of the sites (53%) set up special funds in 2015 for employees faced with all types of difficulties. More than a third (33%) of Valeo sites worldwide have done the same.

Valeo collective transportation: 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).

Proportion of sites contributing to employees' commuting expenses (all or part) and/or operating shuttles by geographic area in 2015



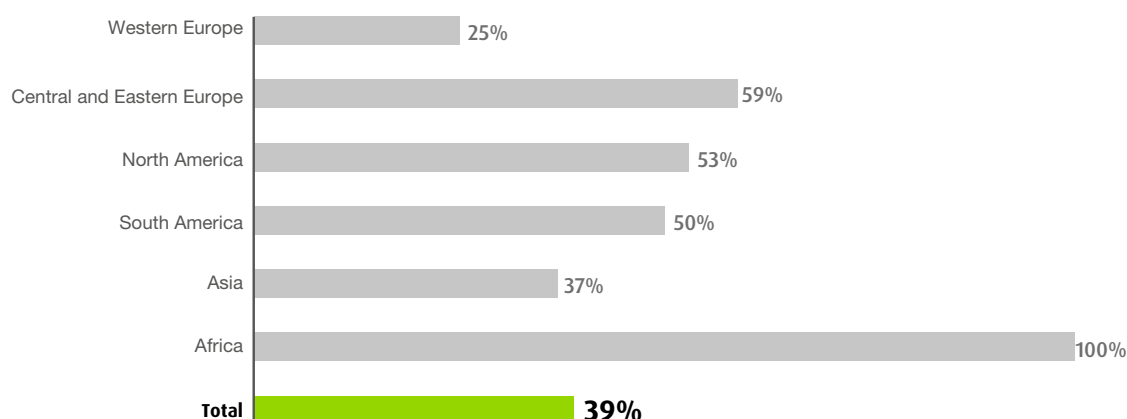
4

Valeo sites involved in dialog with local stakeholders

Open days at Valeo sites

To boost their local operations and their openness to members of local communities, a number of sites held open days to showcase their activities, company details and products to members of local communities.

Proportion of sites that held an open day in 2015



Supporting the roles of local players

Fostering the employability of disabled persons

Valeo sites have developed policies designed to increase the employability of people with disabilities and to support the development of companies operating in the sheltered sector.

At Group level, 33% of Valeo sites worked with organizations adapted to workers with disabilities (known under the French acronym ESAT) for their subcontracting needs in 2015. These business relationships help boost regional economies and promote the value of employees' individual profiles and competencies (see section 4.4.5 "Step up cooperation with the sheltered sector", page 216).

Valeo's historic link with the Garches Foundation

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.

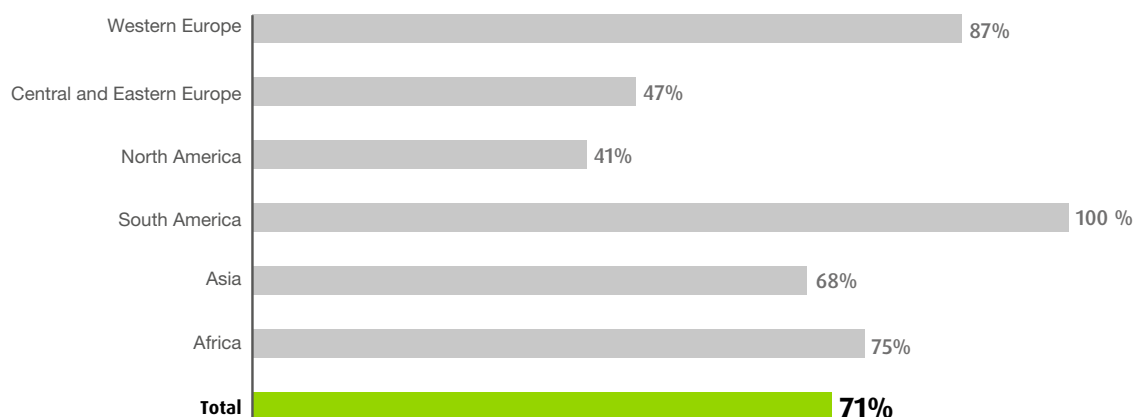
The Group's Research and Development Department thus launched a technological innovation program to build an obstacle detection system to fit into wheelchairs. The system will allow people who occasionally lose control of their movements to drive a wheelchair and offer them a certain degree of mobility. Research remains in the early phases, but promises considerable potential for a number of users.

Local management

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 2015, 100% of site managers in South America were nationals of the site country. In Asia, 68% were nationals of the country where they work.

Proportion of sites whose manager was from the local country in 2015



Valeo site dialog with local stakeholders

Depending on the specific local context, Valeo's dialog with stakeholders (see section 4.1.4 "A sustainable development policy based on strong relationships with stakeholders", pages 148 to 149) involves the key external stakeholders of the site's ecosystem. Many sites have established regular partnerships with research bodies, local universities or schools, as well as other major economic players.

Moreover, across the world, many sites engage in regular dialog on various projects with local authorities or other administrations. In 2015, more than half of the Group's sites were involved in such dialog. This was the case for more than half of Valeo sites in Western Europe, more than a third in North America, and close to two-thirds in Asia.

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 **117 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 new sites are required to obtain certification by the third year following their inclusion in the Group's scope. Accordingly, 122 sites were liable to obtain ISO 14001, ISO 50001 and OHSAS 18001 certification in 2015.

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.

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 aforementioned 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.

(1) See section 4.3.1 "Centralized environmental reporting", page 171.

Methodological limits

Methodologies relating to certain environmental indicators may be limited due to:

- the absence of harmonized national or international definitions, especially on 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 transportation).

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 elected to include its entire worldwide scope of consolidation (134 plants, 17 research centers, 35 development centers and 15 distribution platforms, located in the 30 countries where Valeo operates), except for the Fuzhou Niles Electronic Co. joint venture. As such, all countries and Business Groups are concerned, including Valeo Service.

In 2015, reporting on labor-related aspects is aligned with the financial reporting scope.

Valeo reports its labor-related indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

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 in accordance with 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 includes in its worldwide scope of consolidation the 134 plants, 17 research centers, 35 development centers and 15 distribution platforms located in the 30 countries where Valeo operates, except for the Fuzhou Niles Electronic Co. joint venture. As such, all countries and Business Groups are concerned, including Valeo Service.

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 2015 to gain a fuller picture of 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 and External Relations Departments. The sustainable development performance of the Group’s suppliers was assessed based on a survey entitled “Supplier Evaluation on Sustainable Development Practices”, with an online questionnaire to be completed by the supplier. Valeo has established a representative sample of its main suppliers, covering 60% 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 anti-competitive practices were collected by the Human Resources network, which regularly records and analyzes training data (see details of social reporting methodology).

Specifications

Megatrends studies quoted in section 4.2.1 “Megatrends and the vehicle of tomorrow”, pages 150 to 151, 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 Research and Development 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 Valeo Service, to end consumers through the aftermarket 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	Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
STRATEGY AND ANALYSIS				
G4-1	● Statement on sustainable development and the Group's strategy by the Chief Executive Officer		4 – Interview with Jacques Aschenbroich	142
G4-2	● Main impacts, risks and opportunities		4.1 – Valeo and sustainable development: strategy, policy and organization	144
ORGANIZATIONAL PROFILE				
G4-3	● Name of the organization	-	7.1.1 – Company name and headquarters	390
G4-4	● Main brands, products and services	-	1.3 – Businesses	36
G4-5	● Headquarters	-	7.1.1 – Company name and headquarters	390
G4-6	● Countries where the organization operates and which are particularly concerned by the sustainable development issues addressed in the report	-	7.2 – Information on subsidiaries and affiliates	393
G4-7	● Ownership and legal form	-	7.1.2 – Legal structure and governing law 6.6.1 – Changes in share capital	396 379
G4-8	● Markets served (geographic breakdown, sectors served and types of customers and beneficiaries)	-	1.1.1 – Key figures in 2015 1.3 – Businesses	6 36
G4-9	● Scale of the reporting organization (number of employees, locations)	I. a) 1	1.1.1 – Key figures in 2015 1.3 – Businesses 4.4.1 – Total headcount 4.3.1 – Industrial mapping	6 36 189 165
G4-10	● Breakdown of employees by employment type, employment contract, geographic area and gender	I. a) 1	4.4.1 – Total headcount and breakdown of employees by gender, age and geographic area	189
G4-11	● Proportion of employees covered by collective bargaining agreements	I. c) 1	4.4.2 – Organization of labor relations	194
G4-12	● Description of the organization's supply chain	III. c) 2	4.1.4 – Valeo, a responsible partner 4.5.3 – Application of sustainable development principles in purchasing processes	148 223
G4-13	● Significant changes during the reporting period	-	1.2.1 – History and development of the Group 5.1.4 – Investments during the year 6.4 – Shareholders	25 259 371
G4-14	● Precautionary principle and actions in this area	II a) 4 II b) 1 II b) 2	4.3.1 – Resources devoted to the prevention of environmental risks and pollution 4.2.3 – Resources, materials and eco-design 4.3.3 – Discharges and waste 4.5.1 – Total quality and product safety	167 156 179 220
G4-15	● External charters, principles and initiatives supported	II a) 1	4 – Interview with Jacques Aschenbroich 4.4.1 – Human Resources policy	142 189
G4-16	● Membership of associations and/or advocacy organizations	II a) 1	4.1.4 – Valeo, a key driver of a sustainable automotive industry 4.5.5 – Public and regulatory policies	149 228

Legend:

General elements of information that are part of the core reporting option are in bold.

● Full indicator.

● Partial indicator.

○ Indicator not applied.

GRI code	Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
RELEVANT ASPECTS AND SCOPES IDENTIFIED				
G4-17	● List of entities included in the consolidated financial statements and list of those not included in the report	-	4.6.1 – Sustainable development reporting methodology	223
G4-18	● Procedure for defining report content	-	4.1.1 – Valeo's sustainable development policy	144
G4-19	● List of material aspects	-	4.1.1 – Sustainable development challenges at Valeo	145
G4-20	● Scope of each relevant issue inside the organization	-	4.2.1 – Valeo's innovation policy 4.3.1 – Environmental policy 4.4.1 – Human Resources policy 4.5 – Commitment to corporate citizenship	150 165 189 220
G4-21	● Scope of each relevant issue outside the organization	-	4.2.1 – Valeo's innovation policy 4.3.1 – Environmental policy 4.4.1 – Human Resources policy 4.5 – Commitment to corporate citizenship	150 165 189 220
G4-22	● Restatements of information provided in earlier reports	-	No restatements were made in 2015	-
G4-23	● Changes to the field of study and the scope	-	No substantial changes were observed in 2015	-
STAKEHOLDER ENGAGEMENT				
G4-24	● List of stakeholders	III. b) 1	4.1.4 – A sustainable development policy based on strong relationships with stakeholders	148
G4-25	● Criteria for the identification and selection of stakeholders	III. b) 1	4.1.4 – A multi-stakeholder approach	148
G4-26	● Stakeholder involvement	III. b) 1	4.1.4 – Types of dialog with stakeholders	148
G4-27	● Topics raised in dialog with stakeholders and how the organization has responded	III. b) 1	4.1.4 – Types of dialog with stakeholders	148
REPORT PROFILE				
G4-28	● Reporting period	-	4.6.1 – Sustainable development reporting methodology	233
G4-29	● Date of most recent previous report	-	03/27/2015	
G4-30	● Reporting cycle	-	4.6.1 – Sustainable development reporting methodology	233
G4-31	● Contact person	-	6.2 – Investor relations	370
G4-32	● "Compliance" option chosen and GRI G4 index	-	4.1.5 – Methodology 4.6.2 – Cross-reference with national and international guidelines	149 236
G4-33	● Independent verifier's report	-	4.8 – Independent verifier's report on consolidated social, environmental and societal information presented in the management report	248

Legend:

General elements of information that are part of the core reporting option are in bold.

- Full indicator.
- Partial indicator.
- Indicator not applied.

GRI code	Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
GOVERNANCE, COMMITMENTS AND ENGAGEMENT				
G4-34	 Governance structure	II a) 1	4.1.2 – Sustainable development governance and structure 3 – Corporate governance	146
G4-35	 Process of delegation of the powers of the highest governance body to officers and other senior executives on economic, environmental and social issues	II a) 1	1.2.2 – Operational excellence	27
G4-36	 Senior executives responsible for economic, environmental and social issues, and relationship with the Board of Directors	II a) 1	4.1.2 – Sustainable development governance and structure	146
G4-37	 Stakeholder consultation by the Board of Directors	III b) 1	7.1.10 – Shareholders' Meetings	391
G4-38	 Composition of the Board of Directors and its committees	-	3.2 – Composition of the Board of Directors, and preparation and organization of its work	80
G4-39	 Independence of the Chairman of the Board of Directors	-	3.2.1 – Composition of the Board of Directors	80
G4-40	 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 – Composition of the Board of Directors 3.2.2 – Preparation and organization of the Board of Directors' work	80 97
G4-41	 Process established by the Board of Directors to prevent and manage conflicts of interest; disclosure of conflicts of interest to stakeholders	-	3.2.3 – Declarations concerning the Group's corporate officers	109
G4-42	 Role of the Board of Directors and senior management in the development, approval and review of the tasks, values or mission statements, strategies, organizational policies and objectives relating to economic, environmental and social impacts	II a) 1	-	-
G4-43	 Measures taken to develop and improve the collective knowledge of the Board of Directors on economic, environmental and social issues	-	-	-
G4-44	 Evaluation of the Board of Directors on economic, environmental and social issues	-	4.1.2 – Review of the sustainable development policy by the Appointment, Compensation & Governance Committee	146
G4-45	 Role of the Board in the identification and management of economic, environmental and social impacts, risks and opportunities	II a) 1	3.2.2 – Preparation and organization of the Board of Directors' work	97
G4-46	 Role of the Board of Directors in reviewing the effectiveness of the organization's risk management processes in respect of economic, environmental and social issues	II a) 1	3.2.2 – Preparation and organization of the Board of Directors' work	97
G4-47	 Frequency of reviews of economic, environmental and social impacts, risks and opportunities by the Board of Directors	II a) 1	3.2.2 – Preparation and organization of the Board of Directors' work	97
G4-48	 Committee or highest-level position officially reviewing and approving the sustainable development report	II a) 1	4 – The sustainable development report is an integral part of the Management Report, reviewed and approved by the Board of Directors	-
G4-49	 Process for informing the Board of Directors of major complaints	III b) 1	7.1.10 – Shareholders' Meetings	391

Legend:

General elements of information that are part of the core reporting option are in bold.

 Full indicator.

 Partial indicator.

 Indicator not applied.

GRI code		Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
G4-50	○	Nature and total number of major complaints of which the Board of Directors was informed and the mechanism used to address and resolve them	-	-	-
G4-51	●	Compensation policy of the members of the Board of Directors and senior executives; relationship between compensation and performance (including labor-related and environmental performance)	I. a) 3	3.3 – Compensation of executive corporate officers	117
G4-52	●	Process of determining compensation and participation in compensation committees	-	3.3 – Compensation of executive corporate officers 3.2.2 – Preparation and organization of the Board of Directors' work	177 97
G4-53	●	Method used to call on and take into account the views of stakeholders on compensation	III b) 1	7.1.10 – Shareholders' Meetings	391
G4-54	○	Ratio of the total annual compensation of the best-paid person in the organization to the total median annual compensation	I. a) 3	-	-
G4-55	○	Ratio of the percentage increase of the total annual compensation of the best-paid person in the organization to the percentage increase in the total median annual compensation	I. a) 3	-	-

INNOVATION

Material aspect: autonomous and connected vehicle and low-carbon mobility solutions

G4-DMA	●	Managerial approach	II c) 3 II d) 1 II d) 2	4.2.2 – Solutions that contribute to CO ₂ emissions reduction and to autonomous and intuitive driving	154
G4-EN7	●	Reduction in the energy needs of products and services	II c) 3	4.2.2 – Summary of the main innovations and their impacts	154

Material aspect: resources, materials and eco-design

G4-DMA	●	Managerial approach	II b) 2 II c) 2	4.2.3 – Resources, materials and eco-design	159
G4-EN2	●	Percentage of materials used that are recycled input materials (packaging only)	II c) 2	4.2.3 – Resources, materials and eco-design	159
G4-EN27	●	Scope of initiatives to mitigate environmental impacts of products and services	II b) 2 II c) 2	4.2.3 – Consumption of raw materials 4.2.3 – Consumption of chemicals 4.2.3 – Percentage of materials used that are recycled input materials	159 159 159
G4-EN28	●	Percentage of products sold and their packaging materials that are reclaimed by category	II b) 2 II c) 2	4.2.3 – Quantity of packaging materials recovered and reused internally	159

Material aspect: partnership approach to Research and Development

G4-DMA	●	Managerial approach	III b) 2	4.2.4 – A partnership approach to Research and Development	159
G4-EC8	●	Significant indirect economic impacts, including extent of impacts	III b) 2	4.2.4 – Valeo, an actor in the governance of institutional collaborative organizations 4.2.4 – Multifaceted academic partnerships	160 161

Legend:

General elements of information that are part of the core reporting option are in bold.

- Full indicator.
- Partial indicator.
- Indicator not applied.

GRI code		Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
ENVIRONMENTAL ECO-EFFICIENCY					
Material aspect: energy and greenhouse gas emissions					
G4-DMA	●	Managerial approach	II c) 3.1 II c) 3.2	4.3.1 – Valeo's environmental management organization 4.3.1 – ISO 5001 certification 4.3.2 – Reducing energy consumption 4.3.2 – Reducing greenhouse gas emissions	165 170 174 176
G4-EN3	●	Direct energy consumption by primary energy source	II c) 3.1	4.3.2 – Total energy consumption by energy source and by geographic area	175
G4-EN4	●	Indirect energy consumption by primary energy source	II c) 3.1	4.3.2 – Total Indirect energy consumption	175
G4-EN5	●	Energy intensity	II c) 3.1	4.3.2 – Energy intensity in MWh/€m	174
G4-EN6	●	Reduction in energy consumption	II c) 3.2	4.3.2 – Reduction of energy intensity	174
G4-EN15	●	Direct greenhouse gas emissions (Scope 1)	II d) 1	4.3.2 – Scope 1 greenhouse gas emissions	177
G4-EN16	●	Energy-related indirect greenhouse gas emissions (Scope 2)	II d) 1	4.3.2 – Scope 2 greenhouse gas emissions	177
G4-EN17	●	Other indirect greenhouse gas emissions (Scope 3)	II d) 1	4.3.2 – Scope 3 greenhouse gas emissions	178
G4-EN18	●	Intensity of greenhouse gas emissions	II d) 1	4.3.2 – Greenhouse gas emissions per million euros of sales	177
G4-EN19	●	Reduction of greenhouse gas emissions	II d) 1	4.3.2 – The Group's carbon footprint	178
Material aspect: waste and discharges					
G4-DMA	●	Managerial approach	II.b) 1	4.3.3 – Discharges and waste 4.3.3 – Prevention of air emissions – Approach 4.3.3 – Prevention of discharges into the soil – Approach 4.3.3 – Discharges and waste – Approach	179 180 181
G4-EN20	●	Emissions of ozone-depleting substances (ODS)	II.b) 1	4.3.3 – CFC and HCFC emissions	180
G4-EN21	●	Emissions of nitrogen oxides (NO _x) and sulfur oxides (SO _x) and other significant air emissions	II.b) 1	4.3.3 – Atmospheric emissions of VOCs 4.3.3 – Atmospheric emissions of NO _x	179 180
G4-EN22	●	Total water discharge by quality and destination	II.b) 1	4.3.5 – Total water discharge by sites	186
G4-EN23	●	Total weight of waste by type and disposal method	II.b) 2	4.3.3 – Total quantities of waste generated, characteristics of waste and percentage of waste recycled	179
G4-EN24	●	Total number and volume of significant spills	II.b) 1	4.3.3 – Prevention of discharges into the soil – Performance	181
G4-EN25	●	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention	II.b) 2	4.3.3 – Amount of hazardous waste generated, amount of recovered waste and waste exported	181
Material aspect: transportation and logistics					
G4-DMA	●	Managerial approach	II.c) 3 II.d) 1	4.3.4 – Transportation and Logistics – Approach 4.3.4 – Packaging – Approach	183 185
G4-EN30	●	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	II.c) 3 II.d) 1	4.3.3 – Greenhouse gas emissions related to logistics 4.3.3 – Greenhouse gas emissions related to business travel	183 183

Legend:

General elements of information that are part of the core reporting option are in bold.

● Full indicator.

● Partial indicator.

○ Indicator not applied.

GRI code		Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
G4-EN1	●	Consumption of raw materials (packaging only)	II c) 2	4.3.4 – Total consumption of packaging materials and breakdown by type of packaging	185
Material aspect: water					
G4-DMA	●	Managerial approach	II c) 1	4.3.5 – Water	186
G4-EN8	●	Total water withdrawal by source	II c) 1	4.3.5 – Total water consumption, by use, by geographic area and by source	186
G4-EN9	●	Water sources significantly affected by withdrawal of water	II c) 1	4.3.5 – Water restrictions	186
G4-EN10	●	Percentage and total volume of water recycled and reused	II c) 1	4.3.5 – Water reuse	187
Material aspect: biodiversity					
G4-DMA	●	Managerial approach	II e) 1	4.3.6 – Biodiversity	188
G4-EN11	●	Operational sites owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	II e) 1 II c) 4	4.3.6 – Sites located in or near protected areas	188
G4-EN12	○	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	II e) 1	Not disclosed	
G4-EN13	●	Habitats protected or restored	II e) 1	4.3.6 – Biodiversity	188
G4-EN14	○	Total number of threatened species on the IUCN global red list and its national equivalent and whose habitats are in areas affected by operations, by level of extinction risk	II e) 1	Not disclosed	

EMPLOYEES

Material aspect: health, safety and working conditions

G4-DMA	●	Managerial approach	I. d) 1	4.4.2 – Occupational accidents and occupational illnesses 4.4.2 – Organization of working time 4.4.2 – Well-Being at Work	194 196 198
G4-LA5	●	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	I. d) 1	4.4.2 – Organization of social dialog – Percentage of sites that have formal employee representation bodies	194
G4-LA6	●	Rates and types of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by geographic area and by gender	I. d) 3	4.4.2 – Frequency rate of accidents with and without lost time for the Group and for France 4.4.2 – Absenteeism rate for the Group and by geographic area 4.4.2 – Breakdown of absences by reason (including occupational diseases) and by geographic area	197 197 197
G4-LA7	●	Employees exposed directly and frequently to illnesses related to their activity	I. d) 3	4.4.2 – Breakdown of absences due to occupational diseases by geographic area	197
G4-LA8	●	Health and safety topics covered in formal agreements with trade unions	I. d) 2	4.4.2 – Number of health and safety agreements signed	201
Material aspect: commitment of teams					
G4-DMA	●	Managerial approach	-	4.4.3 – Commitment of teams	203
-	●	Response rate to the Employee Feedback Survey	-	4.4.3 – Commitment of teams	203

Legend:

General elements of information that are part of the core reporting option are in bold.

- Full indicator.
- Partial indicator.
- Indicator not applied.

GRI code	Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
Material aspect: attractiveness and talent development				
G4-DMA	● Managerial approach	I. e) 1	4.4.4 – Compensation 4.4.4 – Employer brand 4.4.4 – Training	204 206 207
G4-LA9	● Average number of training hours per year, broken down by employee, by gender and by professional category	I. e) 2	4.4.4 – Number of training hours provided 4.4.4 – Average hours of training per year per socio-professional category	207 207
G4-LA10	● Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	I. e) 1	4.4.4 – Skills development	210
Material aspect: diversity				
G4-DMA	● Managerial approach	I. f) 1 I. f) 2 I. f) 3	4.4.5 – Diversity 4.4.5 – Disability diversity 4.4.5 – Generational diversity 4.4.5 – Cultural and social diversity	213 215 217 219
G4-LA12	● Composition of governance bodies and breakdown of employees by professional category, by gender, by age group and other diversity indicators	I. f) 1 I. f) 2 I. a) 1	4.4.5 – Percentage of women on the Board and the Operations Committee 4.4.5 – Breakdown of women by socio-professional category 4.4.5 – Breakdown of women by geographic area 4.4.5 – Proportion of women among new hires on permanent contracts over three years 4.5.5 – Proportion of employees with disabilities in the world and in France 4.4.1 – Breakdown of registered headcount by gender	213 214 214 214 216 216
COMMITMENT TO CORPORATE CITIZENSHIP				
Material aspect: total quality and product safety				
G4-DMA	● Managerial approach	III d) 2	4.5.1 – Total quality and product safety	220
G4-PR1	● Percentage of important categories of goods and services for which health and safety impacts are assessed for improvement	III d) 2	4.5.1 – Product quality and safety approach	220
Material aspect: purchasing and sustainable development				
G4-DMA	● Managerial approach	III c) 1 III c) 2	4.5.3 – Application of sustainable development principles in purchasing processes	223
G4-EN32	● Percentage of new suppliers audited using environmental criteria	III c) 2	4.5.3 – Assessment of the sustainable development practices of suppliers and share of key suppliers evaluated	226
G4-LA14	● Percentage of new suppliers audited using criteria relating to employment practices	III c) 2	4.5.3 – Assessment of the sustainable development practices of suppliers and share of key suppliers evaluated	226
G4-S09	● Percentage of new suppliers audited using criteria relating to social impacts	III c) 2	4.5.3 – Assessment of the sustainable development practices of suppliers and share of key suppliers evaluated	226

Legend:

General elements of information that are part of the core reporting option are in bold.

- Full indicator.
- Partial indicator.
- Indicator not applied.

GRI code		Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
G4-HR10	●	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken	III c) 2	4.5.3 – Becoming a Valeo supplier	226
G4-EC9	●	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	III c) 2	4.5.3 – Breakdown of purchases by area of origin and consumption area	223
Material aspect: ethics and compliance					
G4-DMA	●	Managerial approach	III d) 1	4.5.2 – Ethics and compliance	221
G4-56	●	Codes of conduct and ethics	III d) 1	4.5.2 – Ethics and compliance	221
G4-57	●	Advisory mechanisms (ethical and law-abiding behavior)	III d) 1	4.5.2 – Practical, accessible education	222
G4-58	●	Alert mechanisms (unethical and illegal behavior)	III d) 1	4.5.2 – The Valeo alert line: detection, prevention and alert	222
G4-S04	●	Communication and training on policies and procedures in the fight against corruption	III d) 1	4.5.2 – A program combating corruption and anti-competitive practices	221
Material aspect: availability of replacement products					
G4-DMA	●	Managerial approach	II a) 1 II b) 2	4.5.4 – Valeo, a participant in the remanufacturing market	228
G4-EN27	●	Scope of initiatives to mitigate environmental impacts of products and services	II b) 2	4.5.4 – Valeo, a participant in the remanufacturing market	228
Material aspect: local integration					
G4-DMA	●	Managerial approach	III a) 1 III a) 2	4.5.6 – Local management	229
G4-S01	●	Percentage of sites that have established participation of local communities, impact assessments and development programs	III a) 2	4.5.6 – Commitment of sites and employees in favor of local community operations 4.5.5 – Proportion of sites that held an open day	230
G4-EC6	●	Proportion of senior management hired from the local community on the main operation sites	III a) 1	4.5.6 – Proportion of sites whose manager was from the local country by geographic area	232

Legend:

General elements of information that are part of the core reporting option are in bold.

- Full indicator.
- Partial indicator.
- Indicator not applied.

4.7 Summary of Valeo's Research and Development and CSR performance

4.7.1 Summary of the Research and Development organization

The indicators shown below are not exhaustive.

	Unit	2013	2014	2015
Key Research and Development indicators				
Research and development expenditure, net (as a % of sales)		5.3% ⁽¹⁾	5.4%	5.5%
Research and Development headcount		9,200 ⁽¹⁾	10,400	11,620
Number of customer projects managed		2,200	2,300	2,500
Number of collaborative projects		>60	>50	>50
Number of patents filed		786	1,108	1,406
Proportion of innovation in the order intake		30%	35%	37%
Resources and eco-design indicators				
Consumption of heavy metals	metric tons	16.6	15.35	11.75
Consumption of heavy metals/Sales	kg/€m	1.4	1.22	0.84
Consumption of chlorinated solvents	metric tons	261	240.5	205.7
Consumption of chlorinated solvents/Sales	kg/€m	22.2	19.25	14.63
Consumption of CMR substances ⁽¹⁾	metric tons	265	168.1	361.6
Consumption of CMR substances/Sales	kg/€m	23.5	19.4	25.7
Consumption of recycled plastics	thousands of metric tons	9.8	9.6	9.5

(1) 2013 data have been restated to reflect the impact of IFRS 11 on the scope of consolidation.

4.7.2 Summary of environmental performance

The indicators are presented in the order that they appear in section 4.3.

	Unit	2012	2013	2014	2015
Scope⁽¹⁾					
Total sales across all sites in reporting scope	€m	11,626	11,779	12,492	14,056
Number of sites in reporting scope	-	126	122	118	117
General policy on environmental issues					
Number of sites able to obtain ISO 14001 and OHSAS 18001 certification ⁽¹⁾	-	121	116	128	122
ISO 14001-certified sites	%	96	94	95	98
ISO 50001-certified sites	%	-	2	5	8
OHSAS 18001-certified sites	%	88	88	90	94
Functional expenditure allocated to environment	€k	13,911	11,853	19,367	21,957
Capital expenditure allocated to environment, excluding cleanup costs	€k	1,884	4,343	2,613	2,995
Cleanup costs, sites in operation	€k	447	3,171	4,615	3,191
Total provisions allocated to environmental risks	€m	20	17	16.2	13.5
Number of fines and compensation awards	-	2	5	5	2
Amount of fines and compensation awards	€k	3	38	14	6
Number of environmental complaints	-	5	4	4	19
Reduce energy consumption and greenhouse gas emissions					
Total energy consumption	GWh	1,841	1,862	1,946	2,005
Proportion of electricity	%	70	70.8	74.9	74.9
Proportion of natural gas	%	27	27.0	23.3	23.2
Proportion of fuel oil	%	2	1.5	1.2	1.1
Proportion of other energy sources	%	1	0.7	0.6	0.8
Total energy consumption/Sales	MWh/€m	158	158	156	143
Direct energy consumption/Sales	MWh/€m	46	45	38	35
Indirect energy consumption/Sales	MWh/€m	112	113	118	108
Energy efficiency: expected gain	MWh	23,582	26,308	35,699	41,894
Direct greenhouse gas (GHG) emissions ⁽¹⁾	thousands of metric tons CO ₂	153.2	168.4	164.7	141.8
Indirect GHG emissions	thousands of metric tons CO ₂	506.4	534.1	627.7	663.8
Other relevant indirect GHG emissions	thousands of metric tons CO ₂	4,738	4,975	5,489	5,990
Discharges and waste					
Atmospheric NO _x emissions	metric tons	134	132	119	121
Atmospheric NO _x emissions/Sales	kg/€m	11.5	11.2	9.5	8.6
Atmospheric VOC emissions ⁽¹⁾	metric tons	1,360	1,369	1,444	1,590
Atmospheric VOC emissions/Sales	kg/€m	119	125	119	117
Atmospheric TCE emissions	metric tons	249	19.4	11.9	22.5
Atmospheric TCE emissions/Sales	kg/€m	21.5	1.6	0.95	1.6
Atmospheric lead emissions	kg	6	9.5	17	16

(1) See Sustainable Development Glossary, page 407.

Data may vary slightly with the rate of site response on specific indicators (see section 4.3.3 "Atmospheric emissions of VOCs", page 179).

	Unit	2012	2013	2014	2015
Atmospheric lead emissions/Sales	g/€m	0.5	0.8	1.36	1.14
Emissions of ozone-depleting substances	kg eq. CFC-11	478	567	632	608
Volume of industrial effluents treated	thousand cubic meters	604	807	816	724
Heavy metal content in these effluents	kg	55	269	253	24
Number of significant spills	-	0	1	1	0
Total waste generated	thousands of metric tons	197.3	199.9	213.7	231.0
Of which hazardous waste	%	12	10	9	9
Of which non-hazardous waste	%	88	90	91	91
Total waste generated/Sales	metric t/€m	17	17	17.1	16.4
Waste recovery rate	%	79	75	86	90
Total waste exported	metric tons	748	319	803	1,596
Ratio of total waste exported/Total waste generated	%	0.4	0.2	0.4	0.7
Transportation and Logistics					
Packaging materials consumption	thousands of metric tons	71.4	77.6	78.6	78.8
Proportion of plastic packaging	%	8	8	9.4	8.8
Proportion of cardboard packaging	%	63	63	57.7	63.4
Proportion of wood packaging	%	28	27	29.3	26.0
Proportion of other types of packaging	%	1	2	3.6	1.8
Packaging materials consumption/Sales	metric t/€m	6.1	6.6	6.3	5.6
Water					
Total water consumption	thousand cubic meters	2,502	2,484	2,731	2,784
Total water consumption/Sales	cu.m/€m	215	211	219	198

(1) See Sustainable Development Glossary, page 407.

Data may vary slightly with the rate of site response on specific indicators (see section 4.3.3 "Atmospheric emissions of VOCs", page 179).

4.7.3 Summary of labor-related indicators

The indicators shown below taken from the labor-related reporting are not exhaustive.

	2013	2014	2015
Valeo Group headcount			
Engineers and managers	16,831	18,458	20,410
Administrative staff, technicians and supervisors	9,436	10,189	10,141
Operators	40,548	42,518	43,956
Registered headcount	66,815	71,165	74,507
Temporary staff	7,368	7,254	8,293
TOTAL HEADCOUNT	74,183	78,419	82,800
Permanent staff	52,655	56,208	59,884
Non-permanent staff	21,258	22,211	22,916
Number of new hires on permanent contracts	8,278	7,125	9,175
Engineers and managers	2,252	3,127	3,855
Administrative staff, technicians and supervisors	856	896	684
Operators	5,170	3,102	4,636
Number of new hires on fixed-term contracts	9,233⁽²⁾	10,770	10,937
Engineers and managers	814	397	298
Administrative staff, technicians and supervisors	341	1,224	755
Operators	8,078	9,149	9,884
Departures			
Dismissals	2,697	4,006	4,766
of which layoffs	375	623	917
Resignations	4,498	4,668	5,440
Early retirement	52	80	57
Retirement	404	434	495
Number of part-time employees	1,170	1,209	1,196
Rate of absenteeism	2.06%	2.14%	2.12%
Breakdown of women by socio-professional category (%)			
Engineers and managers	21.2%	21.6%	21.8%
Administrative staff, technicians and supervisors	24.1%	26.3%	25.6%
Operators	38.7%	38.9%	39.7%
Number of lost-time occupational accidents per million hours worked, Group (FR1)	2.21	2.60	2.35
Number of occupational accidents, with or without lost time, per million hours worked, Group (FR2)	13.53	13.00	11.50
Number of days lost owing to an occupational accident per thousand hours worked, Group (severity rate)	0.07	0.08	0.07
Percentage of training hours devoted to safety	13%	15%	26%
Percentage of employees attending at least one training session devoted to safety	41%	48%	53%
Number of training hours provided	1,304,090	1,382,154	1,484,824
Expenditure on training (in millions of euros)	25.1	27.9	24.9
Number of employees trained	59,992	65,603	72,591
Number of employees with disabilities	991	1,077	1,114
Number of interns	1,403	1,321	1,490
Number of apprentices	935	867	892
Number of international corporate volunteers	126	133	130

4.8 Independent verifier's report on consolidated social, environmental and societal information presented in the management report

Year ended December 31, 2015

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 31st 2015, 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 2015 and February 2016 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. 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. 225-105-1, 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.

⁽¹⁾ Accreditation details are visible on www.cofrac.fr

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

2. Limited assurance on CSR Information

Nature and scope of the work

We undertook 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 19% and 25% 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.

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 social informations, the reporting timeline limits internal control deployment. Work performed allowed to contain identified risks.

French original signed by:

Paris-La Défense, February 18th 2016

Independent Verifier
ERNST & YOUNG et Associés

Éric Mugnier
Sustainable Development Partner

Bruno Perrin
Partner

(1) **Quantitative environmental information (indicators):** number of ISO 14 001 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) THS Rayong (Thailand), PTS Daegu (Korea), THS Greensburg (United States), VIS Martos (Spain), PTS Limoges (France), social informations for CDA Veszprem (Hungary), VIS Foshan (China), THS San Luis Potosi (Mexico), PTS San Luis Potosi (Mexico).

FINANCIAL AND ACCOUNTING INFORMATION

5

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

 **14.5**
billion euros
Sales

 **8%**
Growth in original equipment sales
Like for like (constant Group structure and exchange rates)

 **7.7%**
Operating margin including share in net earnings of equity-accounted companies

 **565**
million euros
Free cash flow

5.1 Analysis of 2015 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 2015 consolidated financial statements in section 5.4.6, page 269.

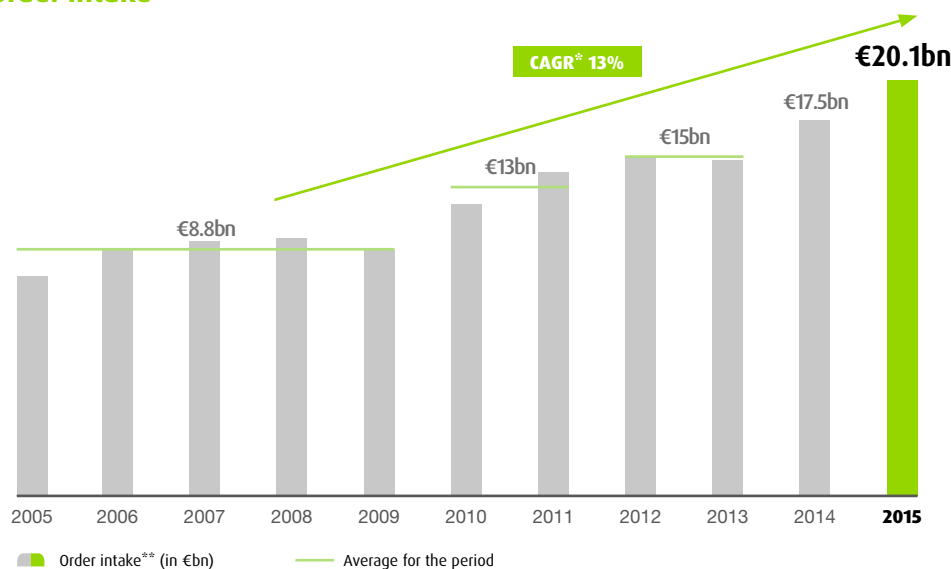
IFRIC 21 – “Levies” has been applicable with effect from January 1, 2015 for Valeo, and has been applied retrospectively

to the 2014 consolidated financial statements. IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government (excluding income taxes). The impact of the first-time application of IFRIC 21 on the 2014 and 2015 consolidated statement of income was not material. As a result of the retrospective application of IFRIC 21, consolidated retained earnings at January 1, 2014 increased by 6 million euros with a corresponding decrease in other payables.

5.1.1 Business review

Order intake⁽¹⁾

Change in order intake



* Reference 2008 (average over 2005-2009) → 2015.

**Excluding the Access Mechanisms business and including share in net earnings of equity-accounted companies.

In 2015, the order intake increased by 15% to 20.1 billion euros, confirming the Group's potential to outperform global automotive production by an average of 5 percentage points per year over the period 2015-2020.

The order intake remained balanced across the Group's different regions:

- 28% in Asia; China accounted for 20% of the order intake, of which 41% of orders were booked with local Chinese automakers;
- 46% in Europe (and Africa), reflecting the strong positioning of Valeo's new products and technologies for CO₂ emissions reduction (including the 48V and dual clutch systems, LED technology in the lighting business, etc.) and intuitive driving (including display screens and parking assistance, vision and radar systems, etc.);
- 25% in North America.

Innovative products accounted for a significant 37% of the order intake, vindicating the Group's technology strategy.

Global automotive production

Automotive production rose 2% year on year, benefiting from the upturn in the European market excluding Russia (up 8%), as well as continued expansion in North America (up 3%).

In China, automotive production had to contend with high volatility in the second half of the year. After a sharp decline of 8% in the third quarter, production jumped 13% in the fourth quarter, with full-year growth coming out at 4%.

Production in South America continued its sharp decline (down 19%).

(1) See Financial Glossary, page 406.

Change in automotive production (versus the same period in 2014)	Second-half 2015 ^(*)	Full-year 2015 ^(*)
Europe & Africa	+5%	+5%
<i>excluding Russia</i>	+8%	+8%
Asia, Middle East & Oceania	+2%	+1%
<i>of which China</i>	+4%	+4%
<i>excluding China</i>	-1%	-1%
North America	+4%	+3%
South America	-23%	-19%
TOTAL	+2%	+2%

(*) LMC automotive production estimates.

Sales

Full-year sales advanced 14% (7% like for like), to 14,544 million euros. Like-for-like sales growth accelerated to 9% in the fourth quarter, compared with 8% for second-half 2015 (7% for the year as a whole).

Changes in exchange rates had a positive impact of 7% (6% in the second half), primarily due to the depreciation of the euro against the US dollar and the Chinese yuan. **Changes in Group structure** did not have a material impact on sales for the year.

Sales (in millions of euros)	As a % of total 2015 sales	Second-half				Full-year			
		2014	2015	Reported change	Like-for-like change ^(*)	2014	2015	Reported change	Like-for-like change ^(*)
of which:									
Original equipment	87%	5,458	6,284	+15%	+9%	10,890	12,600	+16%	+8%
Aftermarket	11%	742	786	+6%	+4%	1,495	1,599	+7%	+3%
Miscellaneous	2%	178	176	-1%	-10%	340	345	+2%	-5%
TOTAL	100%	6,378	7,246	+14%	+8%	12,725	14,544	+14%	+7%

(*) Constant Group structure and exchange rates.

Original equipment sales came out at 12,600 million euros (87% of total sales), up 16% (8% like for like). This performance reflects the gradual entry into production of the high order intake recorded by the Group over the last few years. Like-for-like growth in original equipment sales accelerated to 12% in the fourth quarter, compared with 9% for the second half (8% for the year as a whole).

Aftermarket sales (11% of total sales) rose by 7% over the period (3% like for like). In the second half, like-for-like aftermarket sales growth accelerated to 4%. Performance in South Korea was adversely affected by changes in exchange rates; excluding aftermarket sales from South Korea, this item was up 5% on a like-for-like basis (6% in the second half and 7% in the fourth quarter).

Miscellaneous sales (2% of total sales), mainly consisting of tooling revenues related to the launch of new projects, increased by 2% (down 5% like for like).

Trends in original equipment sales by location of sales compared with global automotive production

Valeo delivered market-beating growth driven by:

- an improved product mix resulting from technological innovations for CO₂ emissions reduction and intuitive driving;
- its balanced customer mix and geographic positioning.

Original equipment sales (by location of sales, in millions of euros)	Second-half				Full-year			
	2014	2015	LFL change ^(*)	Difference vs. market ^(**)	2014	2015	LFL change ^(*)	Difference vs. market ^(**)
Europe & Africa	2,649	3,007	+13%	+8 pts	5,483	6,125	+11%	+6 pts
Asia, Middle East & Oceania	1,467	1,736	+8%	+6 pts	2,777	3,385	+7%	+6 pts
• of which China	755	910	+7%	+3 pts	1,370	1,759	+8%	+4 pts
• excluding China	712	826	+9%	+10 pts	1,407	1,626	+6%	+7 pts
North America	1,166	1,435	+6%	+2 pts	2,267	2,826	+5%	+2 pts
South America	176	106	-23%	0 pt	363	264	-18%	+1 pt
TOTAL	5,458	6,284	+9%	+7 pts	10,890	12,600	+8%	+6 pts

(*) Constant Group structure and exchange rates.

(**) Based on LMC automotive production estimates.

On a like-for-like basis, original equipment sales growth outpaced automotive production in all production regions. Growth accelerated throughout the year, resulting in an 8-percentage point market outperformance in the fourth quarter compared with 7 points for the second half and 6 points for the year as a whole:

- in **Europe** (including Africa), like-for-like original equipment sales advanced 11% on an attractive portfolio of high technological value products and a favorable customer and geographic mix, outperforming automotive production by 6 percentage points. Fourth-quarter sales momentum resulted in a 9-point outperformance for the period, versus 8 points for the second half and 6 points for the year as a whole;
- in **China**, like-for-like original equipment sales were up 8%, outpacing automotive production by 4 percentage points. Growth in original equipment sales to Chinese customers beat automotive production by 28 points;

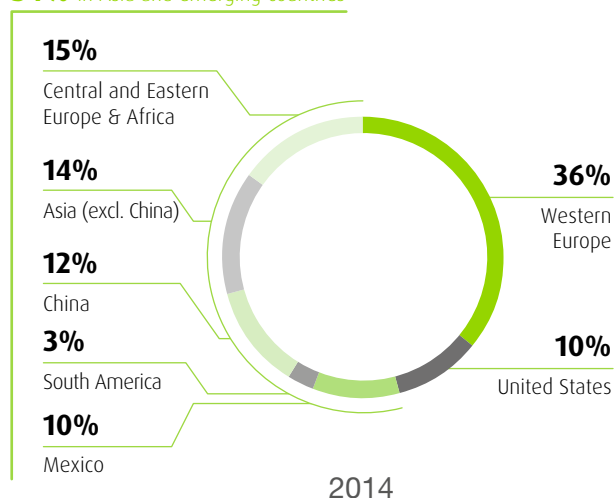
- in **Asia excluding China**, Valeo's like-for-like original equipment sales climbed 6% and outperformed automotive production. In the second half of the year, original equipment sales accelerated, particularly in Korea and India. Fourth-quarter sales momentum resulted in a 13-point outperformance for the period compared to the regional market, versus 10 points for the second half and 7 points for the year as a whole;
- in **North America**, like-for-like original equipment sales advanced 5%, 2 percentage points more than automotive production;
- in **South America**, like-for-like original equipment sales were down 18%, beating automotive production by 1 percentage point.

Valeo continues to realign its businesses geographically...

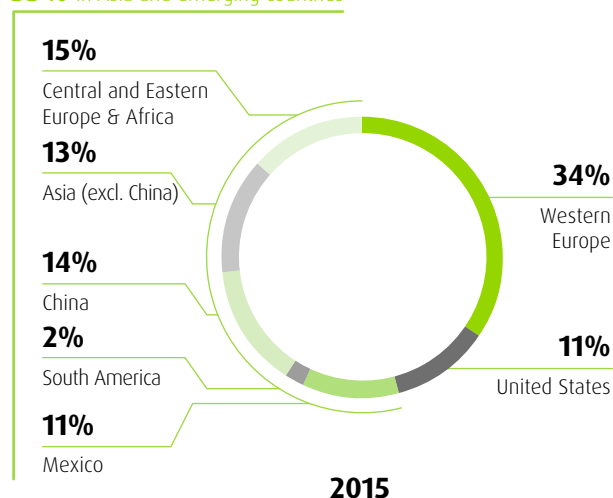
Original equipment sales by production region

As a % of original equipment sales

54% in Asia and emerging countries



55% in Asia and emerging countries



Changes in sales produced by Valeo in the different production regions reflect in particular movements in exchange rates.

In 2015:

- the share of original equipment sales produced in North America increased by 2 percentage points to 22%;
- the share of original equipment sales produced in China increased by 2 percentage points to 14% of total original equipment sales;
- the share of original equipment sales produced in Western Europe decreased by 2 percentage points to 34%;
- the share of original equipment sales produced in South America decreased by 1 percentage point to 2%.

... and maintain a balanced, more diverse customer portfolio

Customer portfolio

As a % of original equipment sales



2014

* Excluding Nissan

** Including Nissan



2015

In 2015:

- German customers accounted for 30% of original equipment sales, stable year on year;
- Asian customers accounted for 26% of original equipment sales, stable year on year;
- United States customers accounted for 24% of original equipment sales, up 2 percentage points;
- French customers accounted for 15% of original equipment sales, down 1 percentage point on 2014.

5.1.2 Results

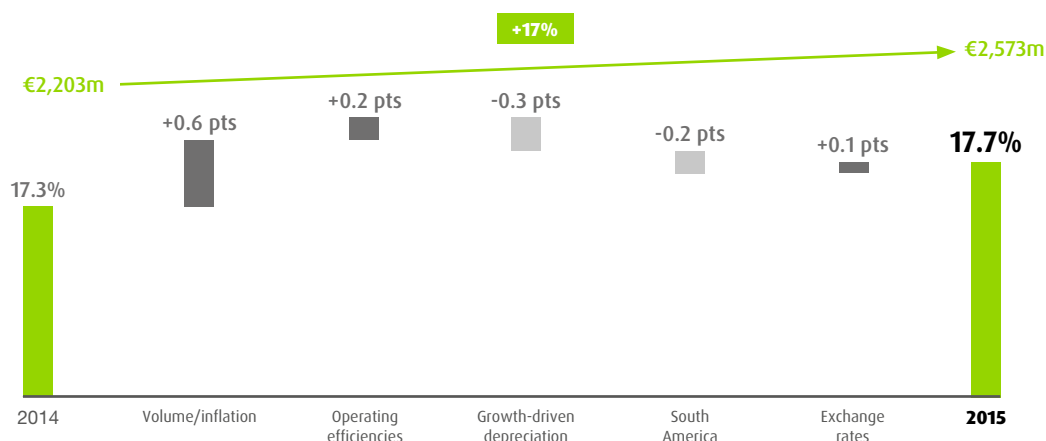
In the year as a whole:

- operating margin⁽¹⁾ was up 22% to 1,116 million euros, or 7.7% of sales;
- net income jumped 30% to 729 million euros, or 5.0% of sales.

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 406.

Analysis of gross margin

As a % of sales



The **gross margin** for 2015 increased by 17% to 2,573 million euros, or 17.7% of sales (up 0.4 percentage points on 2014). This chiefly reflects operating leverage (up 0.6 percentage points) and manufacturing efficiency gains (up 0.2 percentage points), which were partly offset by poor economic conditions in South America and an increase in depreciation of the capital investments carried out by the Group over the past few years.

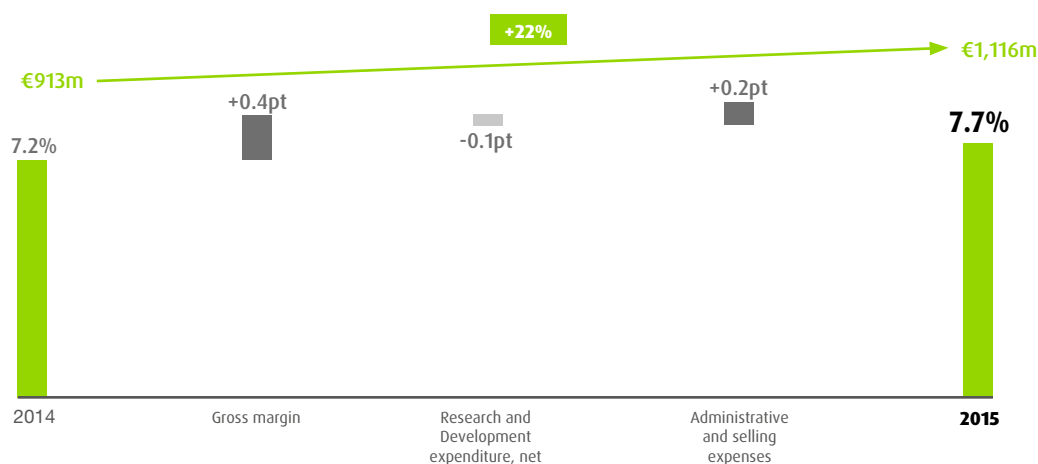
Valeo continued its **Research and Development** efforts in response to its high order intake. In 2015, gross Research and Development expenditure was up 16% to 1,307 million euros. Net Research and Development expenditure rose 16%, representing 5.5% of sales, up 0.1 percentage points versus 2014.

General and administrative expenses came out 0.2 percentage points lower than in 2014, at 3.3% of sales.

The **share in net earnings from equity-accounted companies** was 56 million euros, or 0.4% of sales, stable compared with 2014.

Analysis of operating margin⁽¹⁾

As a % of sales



Operating margin⁽¹⁾ moved up 22% to 1,116 million euros, or 7.7% of sales (up 0.5 percentage points on 2014). In the second half, the operating margin⁽¹⁾ climbed 21% to 578 million euros, or 8.0% of sales.

Operating income⁽²⁾ rose 16% to 999 million euros, or 6.9% of sales (up 0.1 percentage points on 2014). This takes into account other income and expenses for a net negative amount of 117 million euros, including restructuring programs in South America, Japan, Russia and Spain, as well as a non-recurring 42 million euro writedown of fixed assets in South America due to tough economic conditions in the region.

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 406.

(2) See Financial Glossary, page 406.

The cost of net debt totaled 84 million euros, down 8% on 2014.

The effective tax rate came out at 13% following partial recognition of deferred tax assets, primarily resulting from the improved profitability of the Group's operations in North America.

Net attributable income jumped 30% to 729 million euros, or 5.0% of sales (up 0.6 percentage points on 2014).

Excluding non-recurring items, net attributable income⁽¹⁾ rose 39% to 825 million euros, or 5.7% of sales. In the second half, net attributable income excluding non-recurring items⁽¹⁾ surged 46% to 468 million euros, or 6.5% of sales.

Return on capital employed (ROCE⁽¹⁾) and return on assets (ROA⁽¹⁾) stood at 33% and 20%, respectively.

5.1.3 Segment reporting

Original equipment sales

Growth in like-for-like original equipment sales accelerated in 2015, outperforming automotive production in all 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.

Business Group sales ^(*) (in millions of euros)	Second-half				Full-year			
	2014	2015	Change in sales	Change in OE sales ^(**)	2014	2015	Change in sales	Change in OE sales ^(**)
Comfort & Driving Assistance Systems	1,187	1,384	+17%	+13%	2,311	2,720	+18%	+13%
Powertrain Systems	1,641	1,836	+12%	+10%	3,337	3,762	+13%	+8%
Thermal Systems	1,823	2,028	+11%	+5%	3,637	4,074	+12%	+3%
Visibility Systems	1,813	2,091	+15%	+11%	3,614	4,185	+16%	+9%

(*) Including intersegment sales.

(**) Constant Group structure and exchange rates.

Original equipment sales growth outpaced the market in all Business Groups and accelerated in the second half of the year.

In the year as a whole:

- like-for-like original equipment sales for the **Comfort & Driving Assistance Systems Business Group** increased 13%, reflecting the market's growing interest in intuitive driving products (display screens and parking assistance, vision and radar systems);

- like-for-like original equipment sales for the **Visibility Systems** and **Powertrain Systems Business Groups** rose 9% and 8%, respectively, driven by the increasing take-up of LED technology in the lighting business and the gradual entry into production of innovative technologies aimed at reducing CO₂ emissions, including the high-output alternator, dual-clutch and dampers;
- the **Thermal Systems Business Group** posted original equipment sales growth of 3% on a like-for-like basis, outpacing automotive production.

(1) See Financial Glossary, page 406.

EBITDA⁽¹⁾

In 2015, consolidated EBITDA came in 21% higher at 1,847 million euros, or 12.7% of sales.

EBITDA (In millions of euros and as a % of sales)	Second-half			Full-year		
	2014 ^(*)	2015	Change	2014	2015	Change
Comfort & Driving Assistance Systems	177 14.9%	201 14.5%	+14% -0.4 pts	336 14.5%	394 14.5%	+17% 0 pts
Powertrain Systems	203 12.4%	249 13.6%	+23% +1.2 pts	410 12.3%	482 12.8%	+18% +0.5 pts
Thermal Systems	205 11.2%	209 10.3%	+2% -0.9 pts	404 11.1%	437 10.7%	+8% -0.4 pts
Visibility Systems	215 11.9%	273 13.1%	+27% +1.2 pts	382 10.6%	521 12.4%	+36% +1.8 pts
GROUP	792 12.4%	934 12.9%	+18% +0.5 pts	1,526 12.0%	1,847 12.7%	+21% +0.7 pts

(*) EBITDA shown for second-half 2014 differs from the amount presented in the consolidated financial statements for the year ended December 31, 2014 published in February 2015 since it has been adjusted to reflect the impacts on the cost of sales of the first-time application of IFRIC 21 – “Levies” as from January 1, 2015 on a retrospective basis.

Against a backdrop of strong sales growth, the **Comfort & Driving Assistance Systems Business Group** continued its Research and Development investment drive required to develop its numerous ongoing projects. EBITDA for the Business Group was stable year on year, at 14.5% of sales.

Reflecting their upward profitability trend, EBITDA for the **Powertrain Systems** and **Visibility Systems Business Groups** increased to 12.8% and 12.4% as a percentage of sales respectively (up 0.5 percentage points and 1.8 percentage points respectively on 2014).

The **Thermal Systems Business Group** saw its EBITDA narrow to 10.7% of sales (down 0.4 percentage points) given the relative weighting of the South American, Russian and Indonesian markets in its activity.

(1) See Financial Glossary, page 406.

5.1.4 Cash flow and financial position

Stockholders' equity

At December 31, 2015, consolidated stockholders' equity amounted to 3,692 million euros versus 2,955 million euros at December 31, 2014. The net 737 million euro increase primarily reflects consolidated net income for the period of 774 million euros, translation gains of 106 million euros resulting from the appreciation in the Chinese renminbi, Japanese yen

and US dollar against the euro in 2015 and actuarial gains of 66 million euros arising on pension obligations recognized in the statement of comprehensive income net of deferred taxes. This rise in stockholders' equity was partially offset by the dividend payments of 172 million euros and 29 million euros to the Group's shareholders and to non-controlling interests in consolidated subsidiaries, respectively.

Provisions

(in millions of euros)	December 31, 2015	December 31, 2014
Provisions for pensions and other employee benefits ⁽¹⁾	1,001	1,059
Provisions for product warranties	183	160
Provisions for restructuring costs	82	49
Provisions for tax-related disputes	79	23
Environmental provisions	14	16
Provisions for loss-making contracts	9	3
Provisions for employee-related and other disputes	78	83
PROVISIONS	1,446	1,393
Of which long-term portion (more than one year)	1,169	1,160

(1) Excluding the impact of assets relating to pensions and other employee benefits for 1 million euros at December 31, 2015. No assets were recognized at December 31, 2014.

The statement of financial position at December 31, 2015 shows total provisions of 1,446 million euros (including a non-current portion of 1,169 million euros), compared with 1,393 million euros at end-2014 (including a non-current portion of 1,160 million euros). A net increase in provisions of 53 million euros was recorded over the period. Provisions for pensions and other employee benefits totaled 1,000 million euros (including a non-current portion of 913 million euros) at December 31, 2015, after taking account of a pension asset that was recognized in the statement of financial position relating to a Japanese plan that was in a surplus position for 1 million euros, compared to 1,059 million euros at December 31, 2014 (including a non-current portion of 985 million euros). Due to the higher discount rates used to calculate obligations in eurozone countries and the United States, actuarial differences led to a 93 million euro decrease in pension provisions in 2015. However, translation adjustments led to an increase of 36 million euros in pension provisions in 2015. Other provisions (including provisions for restructuring costs) rose to 445 million euros at December 31, 2015 from 334 million euros at December 31, 2014. They include 183 million euros relating to product warranties, 82 million euros relating to provisions for restructuring costs, and 180 million euros relating to other risks and disputes.

Provisions for product warranties increased to 183 million euros at end-2015 from 160 million euros at end-2014, in line with the increase in sales during the year. The total amount of provisions for restructuring costs rose to 82 million euros at December 31, 2015 versus 49 million euros at December 31, 2014. Restructuring costs for 2015 mainly relate to a phased shutdown of operations at a plant in Spain, a new headcount adjustment plan in Brazil in response to the collapse in local automotive production, a plan to restructure European Research and Development operations for the Wiper Systems Product Group, and a lay-off plan in Japan.

Provisions for tax-related disputes were up significantly, rising to 79 million euros at end-2015 from 23 million euros one year earlier. The Group faces certain tax risks and audits in some of the countries in which it has operations. Environmental provisions are down slightly over year-end 2014.

Provisions for employee-related and other disputes totaled 78 million euros at December 31, 2015 (83 million euros at end-2014) 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

(in millions of euros)	2015	2014
Gross operating cash flows	1,808	1,430
Income taxes paid	(190)	(163)
Changes in working capital	111	40
Net cash flows from operating activities	1,729	1,307
Net payments for purchases of intangible assets and property, plant and equipment	(1,109)	(936)
Elimination of change in sales of non-recurring accounts and notes receivable	(55)	(44)
FREE CASH FLOW	565	327
Change in sales of non-recurring accounts and notes receivable ⁽¹⁾	55	44
Net change in certain non-current financial asset items	(10)	(3)
Acquisitions of investments with gain of control, net of cash acquired	(8)	(104)
Disposals of investments with loss of control, net of cash transferred	-	(5)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(201)	(144)
Sale (purchase) of treasury stock/Dividend withholding tax	18	(81)
Net interest paid/received	(70)	(83)
Acquisitions of investments without gain of control	(3)	-
Bond exchange premiums	-	(91)
NET CASH FLOW	346	(140)

(1) Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. An agreement spanning one or more years is drawn up for recurring transactions.

Gross operating cash flows jumped 26% from 1,430 million euros in 2014 to 1,808 million euros in 2015. Net cash flows from operating activities were also up 32% on the previous year, at 1,729 million euros in 2015 compared to 1,307 million euros in 2014.

In addition to the rise in gross operating cashflows, working capital improved year on year (111 million euros in 2015 compared to 40 million euros in 2014), partially offset by higher tax payments in 2015 than in 2014 (190 million euros compared to 163 million euros). Acquisitions of property, plant and equipment and intangible assets in 2015 represented a net cash outflow of 1,109 million euros, a 173 million euro increase on 2014 (936 million euros). Given the record order intake over the past years, the Group is continuing its strategy of capital investment.

Free cash flow, which corresponds to net cash from operating activities of 1,729 million euros less net outflows on property, plant and equipment and intangible assets (1,109 million euros) and additional sales of non-recurring accounts and notes receivable in 2015 compared to 2014 (55 million euros), rose significantly to 565 million euros, a 73% increase on 2014 (327 million euros).

In 2015, cash outflows arising on acquisitions of investments with gain of control, net of cash acquired, represented 8 million euros (cash outflows of 104 million euros in 2014). These cash outflows of 104 million euros in 2014 essentially reflect the cash impact resulting from the Group's purchase of Osram GmbH's stake in Valeo Slovakia.

Net cash flow in 2015 amounted to an inflow of 346 million euros compared to an outflow of 140 million euros in 2014. It corresponds to free cash flow (565 million euros) less (i) additional non-recurring sales of receivables in 2015 for 55 million euros, (ii) cash flows in respect of investing activities, relating to acquisitions with a gain of control and disposals of investments with a loss of control (net outflow of 8 million euros and no transactions during the year, respectively) and to changes in certain items shown in non-current financial assets (outflow of 10 million euros), and (iii) cash flows in respect of financing activities, relating to dividends paid (outflow of 201 million euros), treasury share purchases and sales (net inflow of 18 million euros), interest paid and received (net outflow of 70 million euros), and acquisitions of equity interests without a change of control (outflow of 3 million euros).

In 2015, cash flows relating to financing activities mainly included dividends paid to Valeo shareholders for 172 million euros and to non-controlling interests for 29 million euros, net interest paid in an amount of 70 million euros, net treasury share purchases for 18 million euros, and repayments of long-term loans and borrowings for 104 million euros (mainly relating to two private placements carried out by Valeo for an aggregate amount of 100 million euros in the first half of 2015), as well as repayments made on long-term borrowings for 90 million euros (including the third 56 million euro installment on the 225 million euro loan from the European Investment Bank (EIB) taken out in 2009 and the first annual installment of 26 million US dollars on the second US dollar loan from the EIB). In all, financing activities resulted in a net outflow of 242 million euros in 2015 compared with a net outflow of 347 million euros in 2014.

Net consolidated cash and cash equivalents rose 357 million euros, compared with a decrease of 7 million euros in 2014.

Net debt⁽¹⁾ stood at 124 million euros at December 31, 2015, down significantly compared with end-December 2014 (377 million euros). The leverage ratio (net debt/EBITDA) came out at less than 0.1 and the gearing ratio (net debt/stockholders' equity excluding non-controlling interests) stood at 4% compared to 14% at end-2014. Net debt at end-December 2015 includes 39 million euros of short-term debt reflecting the value of the put option on its non-controlling interests granted to STEC, the Group's partner in the Chinese joint venture Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd, and 66 million euros in current financial liabilities corresponding to derivative instruments intended to cover the debt.

Investments over the past three years

2015

To support the record order intake achieved in the past few years, investments recorded in 2015 were up 18% on 2014.

Investments stood at 1,125 million euros, or 7.7% of sales, and concerned property plant and equipment⁽²⁾ for 714 million euros and intangible assets⁽²⁾ for 411 million euros (including 364 million euros in capitalized development expenditure).

The Group continued to invest in fast-growing regions such as Asia, Central and Eastern Europe and North America, which accounted for 29%, 16% and 15%, respectively, of investments in property, plant and equipment.

Investments remained significant in Western Europe (40%) as growth reported by Valeo outpaced market growth.

Significant investments were also undertaken in 2015 to set up and extend capacity of plants in China, Mexico and Poland. Capital expenditure was mainly earmarked for Driving Assistance, Transmission Systems, Thermal Powertrain and Lighting Systems.

In line with its development strategy in the area of innovative technologies focusing on the reduction of CO₂ emissions, intuitive driving and geographic expansion in high-growth regions, Valeo announced the following transactions:

- on December 21, 2015, the acquisition of the German company peiker, a major supplier of on-board telematics and mobile connectivity solutions. peiker's technological expertise will allow the Group to offer automakers new telematics systems equipped with the high-speed connectivity and cybersecurity features that this high-growth

market demands. The acquisition of peiker, which reported sales of around 310 million euros in 2015, will have a positive impact on Valeo's results starting in 2016;

- on December 23, 2015, an agreement with Deutsche Beteiligungs AG (DBAG) to acquire Spheros, the worldwide leader in air conditioning systems for buses. The acquisition will allow Valeo to extend its thermal management activities to the vibrant bus market, which is expected to grow by more than 5% annually over the coming years. The acquisition of Spheros, which reported sales of around 250 million euros in 2015, will have a positive impact on Valeo's results starting in 2016.

(See section 5.4.6, Notes 2.2.1.3 and 2.2.1.4 to the 2015 consolidated financial statements, page 275)

These two acquisitions, currently pending clearance from the competent competition authorities, have no impact on the 2015 consolidated financial statements.

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⁽³⁾ for 616 million euros and intangible assets⁽³⁾ for 340 million euros (including 298 million euros in capitalized development expenditure⁽³⁾).

The Group continued to invest in fast-growing regions such as Asia, Central and 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, 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

(1) Valeo changed its definition of net debt in 2015. Net debt comprises all long-term debt, derivative instruments hedging borrowings and debt, liabilities associated with put options granted to holders of non-controlling interests, short-term debt and bank overdrafts, less loans and other non-current financial assets and cash and cash equivalents. Net debt at December 31, 2014 increased by 36 million euros taking into account the fair value of instruments hedging interest rate and currency risks on financial assets and liabilities included in net debt but not included in the definition in 2014.

(2) Acquisitions (see section 5.4.6, Notes 6.2 and 6.3 to the 2015 consolidated financial statements, pages 300 to 301).

(3) Acquisitions (see section, 5.4.6, Notes 6.2 and 6.3 to the 2014 consolidated financial statements).

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 section 5.4.6, Note 2.2.1.1 to the 2014 consolidated financial statements, page 254).

In a further move consistent with the strategy focusing on the reduction of CO₂ emissions, intuitive driving and geographic expansion in Asia and emerging markets, on February 18, 2014 Valeo confirmed the sale of the Access Mechanisms business of its Indian joint venture to Minda Capital Limited (see section 5.4.6, Note 2.2.1.3 to the 2014 consolidated financial statements, page 255).

2013⁽¹⁾

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⁽²⁾ for 586 million euros and intangible assets⁽²⁾ for 310 million euros (including 286 million euros in capitalized development expenditure⁽²⁾).

The Group continued to invest in fast-growing regions such as Asia, Central and 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.

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 section 5.4.6, Note 2.2.2.1 to the 2014 consolidated financial statements, page 255).

Commitments

The table below shows the main commitments given:

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014	December 31, 2013
Lease commitments	190	174	133
Guarantees given	13	14	8
Non-cancelable asset purchase commitments	253	272	199
Other commitments given	24	64	66
TOTAL	480	524	406

The Group continues to enter into new commitments to lease additional premises due to its rapid expansion. Non-cancelable asset purchase commitments remain significant, reflecting a sustained investment program.

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 24 million euros at December 31, 2015 (64 million euros at December 31, 2014) and mainly include commitments given at the time of the sale of the Access Mechanisms business in 2013. The decrease in other commitments given in 2015 mainly reflects the expiry of commitments in connection with the sale of the Wiring harness business at January 1, 2015.

Commitments received totaled 28 million euros at December 31, 2015 (70 million euros at December 31, 2014) and correspond to guarantees granted to Valeo in connection with its acquisitions. The decrease in the period is chiefly attributable to vendor warranties received in respect of the acquisition of the Niles group in 2011 for which the statutory limitation period expired in 2015. Details of these commitments are provided in section 5.4.6, Note 2.3 to the consolidated financial statements on page 276 for commitments given and received in relation to the consolidated group, and section 5.4.6, Note 6.5 to the consolidated financial statements on page 306 for commitments relating to non-current assets and leases.

(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.

(2) Acquisitions (see section 5.4.6, Notes 6.2 and 6.3 to the 2014 consolidated financial statements).

5.2 Subsequent events

On March 1, 2016, the sale of the Engine Control business was confirmed further to clearance from the relevant anti-trust authorities.

On March 3, 2016, Standard & Poor's upgraded Valeo's credit rating outlook from "stable" to "positive", and confirmed its long-term BBB and short-term A-2 ratings.

On March 8, 2016, the acquisition of peiker, which was completed on December 21, 2015, was confirmed further to clearance from the relevant anti-trust authorities.

On March 11, 2016, Valeo announced the successful placement of 600 million euros' worth of new bonds maturing on March 18, 2026.

5.3 Trends and outlook

Based on the following assumptions:

- an increase in global automotive production of around 2.5%, including:
 - around 2% in Europe,
 - around 5% in China,
 - around 2% in North America;
- raw material prices and exchange rates in line with current levels;

Valeo has set the following objectives for 2016:

- strong sales growth, outperforming the market in the main production regions, including China;
- a slight increase in the operating margin⁽¹⁾ (as a percentage of sales), despite the increase in net Research and Development expenditure required for the Group's future growth engines of CO₂ emissions reduction and intuitive driving.

The objectives of the strategic plan are set out in Chapter 1, section 1.1.4 "Strategic plan", on pages 14 and 15.

⁽¹⁾ Including share in net earnings of equity-accounted companies, see Financial Glossary, page 406.

5.4 2015 consolidated 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 consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2014, set out on pages 240 to 315 and 316 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers – AMF*) on March 27, 2015 under number D.15-0220;
- 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 AMF on March 28, 2014 under number D.14-0234.

5.4.1 Consolidated statement of income

(in millions of euros)	Notes	2015	2014
SALES	4.1	14,544	12,725
Cost of sales ⁽¹⁾	4.3	(11,971)	(10,522)
GROSS MARGIN	4.3	2,573	2,203
as a % of sales		17.7%	17.3%
Research and Development expenditure, net	4.5.1	(797)	(685)
Selling expenses		(230)	(207)
Administrative expenses		(486)	(449)
OPERATING MARGIN		1,060	862
as a % of sales		7.3%	6.8%
Share in net earnings of equity-accounted companies	4.5.3.1	56	51
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	4.5	1,116	913
as a % of sales		7.7%	7.2%
Other income and expenses	4.6.2	(117)	(54)
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	4.6.1	999	859
Interest expense	8.2.1	(92)	(101)
Interest income	8.2.1	8	10
Other financial income and expenses	8.2.2	(35)	(46)
INCOME BEFORE INCOME TAXES		880	722
Income tax expense	9.1	(106)	(129)
NET INCOME FOR THE YEAR		774	593
Attributable to:			
■ Owners of the Company		729	562
■ Non-controlling interests	10.1.7	45	31
Earnings per share:			
■ Basic earnings per share (in euros)	10.2	9.33	7.23
■ Diluted earnings per share (in euros) ⁽²⁾	10.2	9.15	7.07

(1) Cost of sales shown for 2014 differs from the amount presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the impacts of the first-time application of IFRIC 21 – “Levies” as from January 1, 2015 on a retrospective basis (see section 5.4.6, Notes 1.1.1 and 1.3, pages 270 and 272).

(2) Diluted earnings per share shown for 2014 differs from the amount presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the impacts of dilutive equity instruments.

Operating performance indicator

(in millions of euros)	Notes	2015	2014
EBITDA	3.2	1,847	1,526
(as a % of sales)		12.7%	12.0%

The Notes are an integral part of the consolidated financial statements.

5.4.2 Consolidated statement of comprehensive income

(in millions of euros)	2015	2014
NET INCOME FOR THE YEAR⁽¹⁾	774	593
Share of changes in comprehensive income from equity-accounted companies recycled to income	10	10
<i>o/w income taxes</i>	-	-
Translation adjustment	97	136
Cash flow hedges:		
■ Gains (losses) taken to equity	16	16
■ (Gains) losses transferred to income for the year	(22)	7
<i>o/w income taxes</i>	3	(4)
Remeasurement of available-for-sale financial assets	-	-
<i>o/w income taxes</i>	-	-
OTHER COMPREHENSIVE INCOME RECYCLED TO INCOME	101	169
Share of changes in comprehensive income from equity-accounted companies not recycled to income	2	(2)
<i>o/w income taxes</i>	-	-
Actuarial gains (losses) on defined benefit plans	66	(180)
<i>o/w income taxes</i>	(27)	45
OTHER COMPREHENSIVE INCOME (LOSS) NOT RECYCLED TO INCOME	68	(182)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	169	(13)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	943	580
Attributable to:		
■ Owners of the Company	892	532
■ Non-controlling interests	51	48

(1) The consolidated statement of comprehensive income shown for 2014 differs from that presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the impacts of the first-time application of IFRIC 21 – “Levies” as from January 1, 2015 on a retrospective basis (see section 5.4.6, Notes 1.1.1 and 1.3, pages 270 and 272).

The Notes are an integral part of the consolidated financial statements.

5.4.3 Consolidated statement of financial position

(in millions of euros)	Notes	December 31, 2015	December 31, 2014
ASSETS			
Goodwill	6.1	1,450	1,374
Other intangible assets	6.2	1,148	1,012
Property, plant and equipment	6.3	2,744	2,497
Investments in equity-accounted companies	4.5.3.2	192	167
Other non-current financial assets	8.1.1	55	59
Assets relating to pensions and other employee benefits	5.3	1	-
Deferred tax assets	9.2	526	359
NON-CURRENT ASSETS		6,116	5,468
Inventories, net	4.4	1,161	938
Accounts and notes receivable, net	4.2	1,964	1,681
Other current assets	4.5.2	371	366
Taxes recoverable		16	25
Other current financial assets	8.1.1	25	44
Cash and cash equivalents	8.1.3.2	1,725	1,497
Assets held for sale	2.2.1.1	62	-
CURRENT ASSETS		5,324	4,551
TOTAL ASSETS		11,440	10,019
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	245	145
Retained earnings ⁽¹⁾	10.1.4	1,556	929
STOCKHOLDERS' EQUITY		3,473	2,746
Non-controlling interests	10.1.7	219	209
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		3,692	2,955
Provisions for pensions and other employee benefits – long-term portion	5.3	914	985
Other provisions – long-term portion	7.1	255	175
Long-term debt – long-term portion	8.1.2.1	1,145	1,458
Other financial liabilities – long-term portion	8.1.1	1	5
Subsidies and grants – long-term portion		35	20
Deferred tax liabilities	9.2	39	37
NON-CURRENT LIABILITIES		2,389	2,680
Accounts and notes payable		3,224	2,700
Provisions for pensions and other employee benefits – current portion	5.3	87	74
Other provisions – current portion	7.1	190	159
Subsidies and grants – current portion		12	8
Taxes payable		69	57
Other current liabilities ⁽¹⁾		1,012	914
Current portion of long-term debt	8.1.2.1	472	124
Other financial liabilities – current portion	8.1.1	90	91
Liabilities associated with put options granted to holders of non-controlling interests	2.2.1.2	39	-
Short-term debt	8.1.2.2	128	257
Liabilities held for sale	2.2.1.1	36	-
CURRENT LIABILITIES		5,359	4,384
TOTAL EQUITY AND LIABILITIES		11,440	10,019

⁽¹⁾ The consolidated statement of financial position shown for December 31, 2014 differs from that presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the impacts of the first-time application of IFRIC 21 – “Levies” as from January 1, 2015 on a retrospective basis (see section 5.4.6, Notes 1.1.1 and 1.3, pages 270 and 272).

The Notes are an integral part of the consolidated financial statements.

5.4.4 Consolidated statement of cash flows

(in millions of euros)	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year ⁽¹⁾		774	593
Share in net earnings of equity-accounted companies		(56)	(51)
Net dividends received from equity-accounted companies		44	36
Expenses (income) with no cash effect	11.1	856	632
Cost of net debt		84	91
Income taxes (current and deferred)		106	129
GROSS OPERATING CASH FLOWS		1,808	1,430
Income taxes paid		(190)	(163)
Changes in working capital ⁽¹⁾	11.2	111	40
NET CASH FLOWS FROM OPERATING ACTIVITIES		1,729	1,307
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(412)	(338)
Acquisitions of property, plant and equipment		(707)	(620)
Disposals of property, plant and equipment and intangible assets		10	22
Net change in non-current financial assets		(10)	(3)
Acquisitions of investments with gain of control, net of cash acquired	11.3	(8)	(104)
Disposals of investments with loss of control, net of cash transferred	11.3	-	(5)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(1,127)	(1,048)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(172)	(132)
Dividends paid to non-controlling interests in consolidated subsidiaries		(29)	(12)
Dividend equalization tax	11.5	-	(28)
Sale (purchase) of treasury stock		18	(53)
Issuance of long-term debt	11.4	104	702
Interest paid		(76)	(93)
Interest received		6	10
Bond exchange premiums	11.4	-	(91)
Repayments of long-term debt	11.4	(90)	(650)
Acquisitions of investments without gain of control		(3)	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(242)	(347)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(3)	81
NET CHANGE IN CASH AND CASH EQUIVALENTS		357	(7)
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,240	1,247
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		1,597	1,240
o/w:			
■ Cash and cash equivalents		1,725	1,497
■ Short-term debt		(128)	(257)

(1) The consolidated statement of cash flows shown for 2014 differs from that presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the impacts of the first-time application of IFRIC 21 – “Levies” as from January 1, 2015 on a retrospective basis (see section 5.4.6, Notes 1.1.1 and 1.3, pages 270 and 272).

The Notes are an integral part of the consolidated financial statements.

5.4.5 Consolidated statement of changes in stockholders' equity

						Total stockholders' equity including non-controlling interests restated ⁽¹⁾		
Number of shares	(in millions of euros)	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings ⁽¹⁾	Stockholders' equity	Non-controlling interests	Total
STOCKHOLDERS' EQUITY								
77,642,818	AT JANUARY 1, 2014	238	1,434	18	697	2,387	147	2,534
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 ⁽¹⁾	-	-	-	562	562	31	593
	Other comprehensive income (loss), net of tax	-	-	127	(157)	(30)	17	(13)
	TOTAL COMPREHENSIVE INCOME	-	-	127	405	532	48	580
STOCKHOLDERS' EQUITY								
77,767,218	AT DECEMBER 31, 2014	238	1,434	145	929	2,746	209	2,955
686,967	Dividends paid	-	-	-	(172)	(172)	(29)	(201)
	Treasury stock	-	-	-	18	18	-	18
	Capital increase	-	-	-	-	-	-	-
	Share-based payment	-	-	-	17	17	-	17
	Other movements	-	-	-	(28)	(28)	(12)	(40)
	TRANSACTIONS WITH OWNERS	-	-	-	(165)	(165)	(41)	(206)
	Net income for the year	-	-	-	729	729	45	774
	Other comprehensive income (loss), net of tax	-	-	100	63	163	6	169
	TOTAL COMPREHENSIVE INCOME	-	-	100	792	892	51	943
STOCKHOLDERS' EQUITY								
78,454,185	AT DECEMBER 31, 2015	238	1,434	245	1,556	3,473	219	3,692

(1) The consolidated statement of changes in stockholders' equity shown for 2014 differs from that presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the impacts of the first-time application of IFRIC 21 – "Levies" as from January 1, 2015 on a retrospective basis (see section 5.4.6, Notes 1.1.1 and 1.3, pages 270 and 272).

(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 section 5.4.6, Notes 10.1.6, page 327).

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, 2015 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, modules and services 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, 2015 were authorized for issue by the Board of Directors on February 18, 2016.

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 effective for reporting periods beginning on or after January 1, 2015

1.1.1.1 First-time application of IFRIC 21 – “Levies”

On June 14, 2014, the European Union adopted IFRIC 21 – “Levies”. This interpretation is effective as of 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.

The Group reviewed the due dates for its levies in line with IFRIC 21. This resulted in retrospective changes to the methods used to recognize the following two levies:

- change in the date of recognition for the liability in respect of the additional social security levy (*Contribution Sociale de Solidarité des Sociétés* – C3S) in France, which was previously recognized when the sales representing the basis for the tax were made. Under IFRIC 21 however, the liability and expense relating to this levy should be recognized in full at January 1 of the following reporting period, i.e., when the tax falls due. As a result, consolidated retained earnings at January 1, 2014 differ by 6 million euros from the opening balance of consolidated retained earnings in the 2014 consolidated financial statements published in February 2015 with an offsetting entry deducted from “Other payables”;
- change in the timing of recognition for the liability in respect of property tax, which was previously recognized on a prorata basis over the year in which it was due. Under IFRIC 21 however, the liability corresponding to this tax should be recognized in full at January 1 of the year in which it is due. In this particular case, the new requirement has no impact on the annual financial statements but affects the interim consolidated financial statements.

The impact of the first-time application of IFRIC 21 on the 2014 consolidated statement of income was not material.

Following an analysis carried out in the countries where the Group operates, no other levies were identified as having a material impact on the Group's consolidated financial statements.

1.1.1.2 Other standards, amendments and interpretations

The annual improvements to IFRS for 2011-2013 had no impact on the Group's consolidated financial statements.

1.1.2 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning after January 1, 2015 and not early adopted by the Group

The following standards, amendments and interpretations have 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;
- Amendments to IFRS 11 – “Accounting for Acquisitions of Interests in Joint Operations”;
- Amendments to IAS 16 and IAS 38 – “Clarification of Acceptable Methods of Depreciation and Amortisation”;
- Amendments to IAS 1 – “Disclosure Initiative”;

(1) http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

- Amendments to IAS 7 – “Disclosure Initiative”;
- Annual improvements to IFRS for 2012-2014.

These new publications are not expected to have a material impact on the Group's consolidated financial statements.

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 IFRS 10 and IAS 28 – “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” (first-time application date deferred by the IASB to a date yet to be specified);
- IFRS 16 – “Leases”;
- Amendments to IAS 12 – “Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses”.

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 assets 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.

On May 28, 2014, the IASB published IFRS 15 – “Revenue from Contracts with Customers”. IFRS 15 will replace 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. Initially set to be effective for reporting periods beginning on or after January 1, 2017, the first-time application date for IFRS 15 was deferred to reporting periods beginning on or after January 1, 2018 pursuant to an IASB decision published on September 11, 2015. Changes to the standard are currently being discussed by the IASB following the publication of the “Clarifications to IFRS 15” exposure draft in July 2015.

A more detailed analysis of the main impacts of these two new standards on the Group's consolidated financial statements will be conducted in 2016 to assess any adjustments and restatements that may be necessary.

On January 16, 2016, the IASB published IFRS 16 – “Leases”. IFRS 16 will replace IAS 17 and the related IFRIC and SIC interpretations, and will eliminate the previous distinction between operating and finance leases. Lessees will be required to account for all leases with a term of over one year in the same way as currently required by IAS 17 for finance leases, thereby recognizing an asset and liability in respect of the rights and obligations created by the lease agreement. The Group will analyze the impacts of this standard, which is effective as of January 1, 2019, at a later date.

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, 2015 chiefly concern:

- the conditions for capitalizing Research and Development expenditure (see Note 4.5.1.1, page 284);
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6, page 299);
- 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 291 and 307);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9.2, page 325).

1.3 Changes in accounting policies and restatement of prior-year financial information

IFRS requires previously published comparative periods to be retrospectively restated to reflect changes in accounting policies (subject to the transitional provisions applicable upon the first-time adoption of new standards).

The presentation of the consolidated financial statements set out in this report differs from that of the consolidated financial statements published in February 2015 due to the retrospective application of IFRIC 21 at January 1, 2014. The related impacts are presented in Note 1.1.1, page 270. The impacts of applying this new interpretation are not deemed material at December 31, 2015.

Note 2 Scope of consolidation

2.1 Accounting policies relating to the scope of consolidation

2.1.1 Consolidation methods

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. 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.

Goodwill arising on the acquisition of associates or joint ventures is included in the carrying amount of investments in equity-accounted companies.

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 principle

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 the partial or full repayment of loans or borrowings equates 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.

2.1.6 Liabilities associated with put options granted to holders of non-controlling interests

The Group may grant put options to third parties holding non-controlling interests, on all or some of their shares. These puts are considered by the Group as non-interest bearing debt.

In accordance with IAS 32, this debt is recognized at the present value of the option exercise price. The offsetting entry for the debt associated with these commitments is a decrease in Stockholders' equity – Non-controlling interests. The difference between the present value of the exercise price of the options granted and the carrying amount of non-controlling interests is posted to Stockholders' equity and reduces consolidated retained earnings.

The amount of the debt is adjusted at the end of each period in order to reflect changes in the option exercise price, and a corresponding entry is recorded in Stockholders' equity.

2.2 Changes in the scope of consolidation

2.2.1 Transactions carried out in 2015

2.2.1.1 Sale of the Engine Control business

On July 27, 2015, Valeo announced its plan to sell its Engine Control business, part of the Powertrain Systems Business Group. This project, begun during the first half of 2015, culminated in the signature of a sale agreement in the second half of the year which should be effective in early 2016.

In accordance with IFRS 5, the assets and liabilities relating to the Engine Control business were therefore classified as assets and liabilities held for sale in the consolidated

statement of financial position published at June 30, 2015 and December 31, 2015. Valeo has chosen this classification for these assets and liabilities since it believes that their carrying amount will be recovered principally through a sale transaction rather than through their continuing use. The amounts reclassified as assets and liabilities held for sale represented 69 million euros and 36 million euros, respectively, at December 31, 2015.

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.

The Engine Control business had sales of 52 million euros in 2015 (43 million euros in 2014) and an operating margin of 10.2% (4.5% in 2014).

Based on information available at the reporting date, Valeo estimated the likely consequences of the sale and recognized an 8 million euro impairment loss in other income and expenses.

2.2.1.2 Reorganization of the Wiper Systems business in China

On June 16, 2015, an addendum to a partnership agreement between STEC and Valeo changed the organization of the Group's Wiper Systems business in China. Under the terms of the amended agreement, STEC and Valeo respectively own 27% and 73% of Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd., compared to a respective 45% and 55% previously.

Put and call options were also set up on STEC's interest in Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd:

- Valeo was granted a call option on STEC's interest in Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd;
- STEC was granted a put option allowing it to sell its entire interest in Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd to Valeo for a sale price calculated based on an EBITDA multiple.

This agreement came into effect as of December 31, 2015 once all conditions precedent had been met. Accordingly, at December 31, 2015, the Group recognized debt for 39 million euros reflecting the estimated value of the put option granted to STEC. Recognition of this debt led to a 16 million euro decrease in the related non-controlling interests (see Note 10.1.7, page 328) and a 23 million decrease in consolidated retained earnings attributable to the owners of the Company. Since the options are exercisable at any time over a ten-year period, the debt was classified within current liabilities in the consolidated statement of financial position.

2.2.1.3 Acquisition of peiker

On December 21, 2015 Valeo announced the acquisition of German-based peiker, a major supplier of on-board telematics and mobile connectivity solutions. The transaction will enable Valeo to widen its range of connectivity solutions and strengthen its leadership in autonomous and connected vehicles, and thereby offer automakers new telematics systems equipped with the high-speed connectivity and cybersecurity features that this high-growth market demands. The acquisition of peiker, which is expected to report sales of around 310 million euros for 2015, will have a positive impact on Valeo's earnings as from 2016.

This acquisition, currently pending clearance from the competent competition authorities, has no impact on the 2015 consolidated financial statements.

2.2.1.4 Agreement between Valeo and Deutsche Beteiligung AG (DBAG)

On December 23, 2015, Valeo announced that it had signed an agreement with Deutsche Beteiligungs AG (DBAG) to acquire Spheros, the worldwide leader in air conditioning systems

for buses. With annual revenue of around 250 million euros, Spheros harnesses its technological leadership to supply air conditioning systems to all major bus manufacturers and fleet operators. Spheros has a global sales network and a vast industrial footprint, with plants in Germany, Finland, Turkey, the United States, Brazil, China and India.

The acquisition will allow Valeo to extend its thermal management activities to the vibrant bus market. It is consistent with the Group's strategy which aims to introduce new drivers of growth, particularly in CO₂ emissions reduction systems.

This acquisition, currently pending clearance from the competent competition authorities, has no impact on the 2015 consolidated financial statements.

2.2.2 Transactions carried out in 2014

2.2.2.1 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 the estimated 2014 EBITDA). Since January 21, 2014, Valeo has therefore owned all of the capital of Valeo Sylvania LLC in the United States, and of its subsidiary Valeo Sylvania Iluminación in Mexico. These entities were therefore fully consolidated as from 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 sector. 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 2014.

These companies contributed 442 million euros to consolidated sales in 2014 and 553 million euros in 2015.

2.2.2.2 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 Valeo Samsung Thermal Systems Co. Ltd within the Thermal Systems Business Group. This addendum gave Valeo control of the company by allowing it to hold the majority of votes on the Board of Directors at no cash consideration. 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.

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.

This company contributed 43 million euros to consolidated sales in 2014 and 42 million euros in 2015.

2.2.2.3 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.

2.2.2.4 Acquisition of a controlling interest in Nanjing Valeo Clutch Co. Ltd

In early July 2014, the Chinese authorities approved an addendum 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 was accounted for by the equity method until July 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.

This company contributed 60 million euros to consolidated sales in 2015 (27 million euros 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, 2015, 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, 2015, 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 Put option granted in respect of Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd

At December 31, 2015, Valeo and STEC owned 73% and 27%, respectively, of China-based Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd.

STEC has been granted a put option which it may exercise at any time for a period of ten years. At December 31, 2015, Valeo recognized debt at the present value of the option exercise price, i.e., 39 million euros (see Note 2.2.1.2, page 275).

2.3.1.4 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 24 million euros at December 31, 2015 (64 million euros at December 31, 2014) and mainly include commitments given at the time of the sale of the Access Mechanisms business in 2013. The decrease in other commitments given in 2015 mainly reflects the expiry of commitments given in connection with the 2007 sale of the Wiring harness business at January 1, 2015.

2.3.2. Commitments received

Commitments received totaled 28 million euros at December 31, 2015 (70 million euros at December 31, 2014) and correspond to guarantees granted to Valeo in connection with its acquisitions. The decrease in the period is chiefly attributable to vendor warranties received in respect of the acquisition of the Niles group in 2011 for which the statutory limitation period had expired.

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**, which has three Product Groups: Driving Assistance; Interior Controls and Interior Electronics. It focuses on the driver experience and develops a range of unique solutions to make driving more intuitive, automated and connected through innovative interfaces between the driver, the vehicle and the surrounding environment, thereby making mobility safer, more connected and greener.
- **Powertrain Systems**, comprising four Product Groups: Electrical Systems, Transmission Systems, Combustion Engine Systems and Electronics. It develops innovative

powertrain solutions aimed at reducing fuel consumption, CO₂ emissions and other pollutants without compromising driving performance or pleasure. 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 the electric car.

- **Thermal Systems**, comprising four Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, and Thermal Front End. It develops and manufactures systems, modules and components to ensure thermal energy management of the powertrain and in-vehicle comfort during all phases of vehicle use and for all types of powertrain.

- Visibility Systems, comprising two Product Groups: Lighting Systems and Wiper Systems. This Business Group designs and produces 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 key performance indicators for each segment as presented in the tables below are as follows:

- sales;
- EBITDA, which corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin), and (ii) net dividends received from 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.

2015

<i>(in millions of euros)</i>	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
■ segment (excluding Group)	2,702	3,706	4,032	4,073	31	14,544
■ intersegment (Group)	18	56	42	112	(228)	-
EBITDA	394	482	437	521	13	1,847
Research and Development expenditure, net	(254)	(167)	(148)	(216)	(12)	(797)
Investments in property, plant and equipment and intangible assets	306	278	244	266	31	1,125
Segment assets	1,454	1,815	1,498	1,850	78	6,695

2014

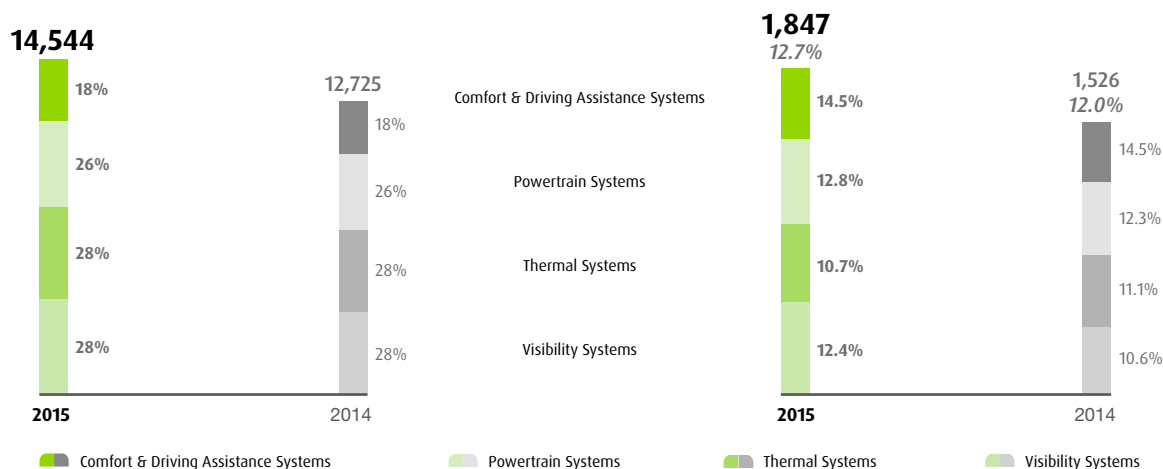
<i>(in millions of euros)</i>	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ segment (excluding Group)	2,291	3,292	3,598	3,515	29	12,725
■ intersegment (Group)	20	45	39	99	(203)	-
EBITDA⁽¹⁾	336	410	404	382	(6)	1,526
Research and Development 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

(1) Consolidated EBITDA shown for 2014 differs from the amount presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the impact on cost of sales of the first-time application of IFRIC 21 - "Levies" as from January 1, 2015 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 270 and 272).

Segment data

Breakdown of sales by Business Group (including intersegment sales)

(in million of euros and as a % of total sales)



(1) Consolidated EBITDA shown for 2014 differs from the amount presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the impact on cost of sales of the first-time application of IFRIC 21 – “Levies” as from January 1, 2015 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 270 and 272).

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	2015	2014
Operating margin	1,060	862
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses ⁽²⁾	743	628
Dividends paid by equity-accounted companies	44	36
EBITDA⁽¹⁾	1,847	1,526

(1) Consolidated EBITDA shown for 2014 differs from the amount presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the impact on cost of sales of the first-time application of IFRIC 21 – “Levies” as from January 1, 2015 on a retrospective basis (see Notes 1.1.1 and 1.3, pages 270 and 272).

(2) Impairment losses recorded in operating margin only.

This indicator is used by Management to monitor and track Business Group performance and to decide the allocation of resources.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	December 31, 2015	December 31, 2014
Segment assets	6,695	5,988
Accounts and notes receivable	1,964	1,681
Other current assets	371	366
Taxes recoverable	16	25
Assets held for sale ⁽¹⁾	62	-
Financial assets	1,806	1,600
Deferred tax assets	526	359
TOTAL GROUP ASSETS	11,440	10,019

(1) Assets classified as held for sale correspond to the assets of the Engine Control business (see Note 2.2.1.1, page 274).

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.

2015

<i>(in millions of euros)</i>	External sales by market	Sales by production area	Non-current assets
France	1,174	2,899	694
Other European countries and Africa	6,109	4,791	1,277
North America	3,085	3,066	629
South America	351	298	37
Asia	3,825	4,107	1,447
Eliminations	-	(617)	-
TOTAL	14,544	14,544	4,084

2014

<i>(in millions of euros)</i>	External sales by market	Sales by production area	Non-current assets
France	1,119	2,756	739
Other European countries and Africa	5,518	4,230	1,087
North America	2,454	2,436	506
South America	455	400	95
Asia	3,179	3,419	1,249
Eliminations	-	(516)	-
TOTAL	12,725	12,725	3,676

3.4 Breakdown of sales by major customer

In 2015, two global automakers represented 29.8% of the Group's sales, and each of these individually accounted for more than 10% of the Group's sales.

In 2014, two global automakers represented 30.9% 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 receivable, 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:

- for finished products, sales are recognized in accordance with contractually specified incoterms;
- for tooling, in cases where the Group retains control of the future related risks and rewards, any contributions received from customers are recognized over the duration of the manufacturing phase of the project, within the limit of four years. If this is not the case, sales are recognized as from the start of volume production for the project.

Group sales rose 14.3% to 14,544 million euros in 2015 from 12,725 million euros in 2014.

The increase reflects a 7.1% positive currency effect, relating mainly to the appreciation of the US dollar and Chinese renminbi. Changes in scope of consolidation in the second half of 2014 had a 0.2% positive impact. Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2015 climbed 7.0% on the previous year.

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.

Accounts and notes receivable may be discounted and sold to banks within the scope of recurring or one-off transactions. 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 as appropriate.

If this is not the case, the accounts and notes receivable continue to be carried on the consolidated statement of financial position and a debt is recorded to the extent of the discounted amount.

Accounts and notes receivable can be analyzed as follows:

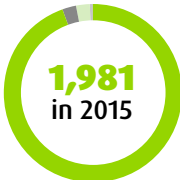
(in millions of euros)	December 31, 2015	December 31, 2014
Accounts and notes receivable, gross	1,981	1,697
Impairment	(17)	(16)
Accounts and notes receivable, net	1,964	1,681

At December 31, 2015, Valeo's largest automotive customer accounted for 15% of the Group's accounts and notes receivable (14% at December 31, 2014).

The average days' sales outstanding stood at 45 days at December 31, 2015, stable compared with December 31, 2014.

The Group's credit rate risk management policy is described in Chapter 2, section 2.1.4, page 73.

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, 2015	December 31, 2014
 1,981 in 2015	94.6% – Not yet due	1,874	1,599
	2.7% – Less than 1 month past due	53	48
	2.3% – More than 1 month but less than 1 year past due	45	42
	0.5% – More than 1 year past due	9	8
	Accounts and notes receivable, gross	1,981	1,697

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2015 totaled 1,874 million euros and 53 million euros, respectively, and represented 97% of total gross accounts and notes receivable, the same percentage as at end-2014. Past due receivables were written down in an amount of 17 million euros at December 31, 2015 (16 million euros at December 31, 2014).

Accounts and notes receivable falling due after December 31, 2015, for which substantially all of the risks and rewards have been transferred and which are no longer carried

in assets in the statement of financial position, represented an amount of 306 million euros at December 31, 2015 versus 236 million euros at December 31, 2014. A total of 83 million euros out of the 306 million euros relates to sale operations carried out on a recurring basis (68 million euros at December 31, 2014). The financial cost of these transactions, recognized in cost of net debt, amounted to just over 3 million euros in 2015 (stable as compared to 2014).

4.3 Gross margin and cost of sales

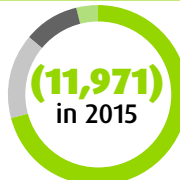
Gross margin is defined as the difference between sales and cost of sales.

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, 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 acquisitions are made.

Gross margin for the period totaled 2,573 million euros in 2015, or 17.7% of sales (17.3% of sales in 2014).

Cost of sales can be analyzed as follows:

(in millions of euros and as a % of sales)		2015	2014
 (11,971) in 2015	58.5% ⁽²⁾ – Raw materials consumed	(8,510)	(7,423)
	12.4% ⁽²⁾ – Labor	(1,806)	(1,642)
	8.3% ⁽²⁾ – Direct production costs and production overheads	(1,209)	(1,092)
	3.1% ⁽²⁾ – Depreciation and amortization ⁽¹⁾	(446)	(365)
	Cost of sales	(11,971)	(10,522)

(1) This amount does not include amortization charged against capitalized development costs, which is recognized in Research and Development expenditure, net.

(2) 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 301 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, 2015, inventories break down as follows:

(in millions of euros)	December 31, 2015			December 31, 2014
	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	477	(81)	396	345
Work-in-progress	120	(13)	107	93
Finished goods and supplies	461	(73)	388	321
Specific tooling	271	(1)	270	179
Inventories, net	1,329	(168)	1,161	938

Impairment losses taken against inventories amounted to 168 million euros at December 31, 2015 (148 million euros at December 31, 2014), including an allowance (net of reversals)

of 16 million euros during the period. Allowances to provisions for impairment of inventories net of reversals amounted to 8 million euros in 2014.

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.

Operating margin including share in net earnings of equity-accounted companies corresponds to operating income before other income and expenses.

In 2015, operating margin including share in net earnings of equity-accounted companies totaled 1,116 million euros, or 7.7% of sales (7.2% of sales in 2014).

Share in net earnings of equity-accounted companies amounted to 56 million euros in 2015 and 51 million euros in 2014. Note 4.5.3, page 285, provides 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 in excess of its carrying amount, 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 drawing 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.

Capitalized development costs 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 costs in 2015 and 2014 are analyzed below:

<i>(in millions of euros)</i>	2015	2014
GROSS CARRYING AMOUNT AT JANUARY 1	1,792	1,493
Accumulated amortization and impairment	(1,026)	(864)
NET CARRYING AMOUNT AT JANUARY 1	766	629
Capitalized development expenditure	364	298
Disposals	-	(1)
Changes in scope of consolidation	-	19
Impairment	(8)	(16)
Amortization	(193)	(174)
Translation adjustment	13	13
Reclassifications	(49)	(2)
NET CARRYING AMOUNT AT DECEMBER 31	893	766

Reclassifications at December 31, 2015 chiefly relate to the intangible assets of the Engine Control business classified as held for sale (see Note 2.2.1.1, page 274).

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 2015 and 2014:

(in millions of euros)	2015	2014
Research and Development expenditure	(1,307)	(1,130)
Contributions received and subsidies	353	323
Capitalized development expenditure	364	298
Amortization and impairment of capitalized development expenditure	(207)	(176)
Research and Development expenditure, net	(797)	(685)

The Group continued to step up its Research and Development efforts in 2015 to meet the sharp 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 research tax credit in France represented income of 51 million euros in 2015 (55 million in 2014, of which 3 million euros related to the additional research tax credit for 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 290) 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 debt is recorded for the discounted amount.

At December 31, 2015, amounts receivable in respect of the CICE tax credit for 2013, 2014 and 2015, and the 2013 and 2014 research tax credit in France are no longer carried in

the consolidated statement of financial position, which now includes only the 51 million euros receivable in respect of the 2015 research tax credit.

These derecognized receivables were transferred as follows:

- the 2013 CICE and research tax credit receivables on June 19, 2014 for an amount of 10 million euros and 55 million euros, respectively;
- the 2014 CICE tax credit receivable on December 16, 2014 for 15 million euros;
- the 2014 research tax credit on June 26, 2015 for 56 million euros;
- the 2015 CICE tax credit receivable on December 18, 2015 for 15 million euros.

The cost of these transfers for the Group, recognized in cost of net debt for the period, was slightly less than 3 million euros (slightly less than 4 million euros in 2014).

At December 31, 2014, only the 2014 research tax credit receivable was still carried on the consolidated statement of financial position for 52 million euros.

4.5.3 Associates and joint ventures

4.5.3.1 Share in net earnings of equity-accounted companies

(in millions of euros)	2015	2014
Share in net earnings (losses) of associates	21	(18)
Share in net earnings of joint ventures	35	69
Share in net earnings of equity-accounted companies	56	51

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 Group 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>	2015	2014
Ichikoh Industries Ltd	8	(18)
Detroit Thermal Systems	13	1
Valeo Pyeong Hwa Metals Co. Ltd	-	(1)
Share in net earnings (losses) of associates	21	(18)

Ichikoh Industries Limited, which is 31.6%-owned by Valeo, 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 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. In 2015, the share in net earnings of associates covers a period of 12 months (October 1, 2014 to September 30, 2015) as compared to a period of nine months in 2014.

Share in net earnings of joint ventures

<i>(in millions of euros)</i>	2015	2014
<i>Share in net earnings</i>		
■ Chinese joint ventures	34	32
■ Other joint ventures	1	1
<i>Gain (loss) on previously-held interests</i>		
■ Valeo Sylvania LLC/Valeo Sylvania Iluminacion ⁽¹⁾	-	21
■ Nanjing Valeo Clutch Co. Ltd ⁽²⁾	-	15
Share in net earnings of joint ventures	35	69

(1) See Note 2.2.2.1, page 275.

(2) See Note 2.2.2.4, page 276.

4.5.3.2 Investments in equity-accounted companies

Investments in associates

Changes in the "Investments in associates" caption can be analyzed as follows:

<i>(in millions of euros)</i>	2015	2014
INVESTMENTS IN ASSOCIATES AT JANUARY 1	55	73
Share in net earnings (losses) of associates	21	(18)
Dividend payments	(7)	(1)
Impact of changes in scope of consolidation	-	-
Translation adjustment	3	2
Other	2	(1)
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	74	55

The Group's investments in associates are detailed below:

	% interest		Carrying amount (in millions of euros)	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Ichikoh Industries Ltd	31.6	31.6	53	40
Detroit Thermal Systems	49.0	49.0	22	15
Valeo Pyeong Hwa Metals Co. Ltd ⁽¹⁾	49.0	49.0	(1)	-
Investments in associates			74	55

(1) The investment in Valeo Pyeong Hwa Metals Co. Ltd is recorded in "Other financial liabilities – long-term portion".

The market value of Valeo's interest in Ichikoh Industries Limited (listed on the Tokyo stock market) was 55 million euros at December 31, 2015 and 53 million euros at December 31, 2014.

Investments in joint ventures

Changes in the "Investments in joint ventures" caption can be analyzed as follows:

(in millions of euros)	2015	2014
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	112	128
Net earnings of joint ventures	35	69
Dividend payments	(37)	(26)
Impact of changes in scope of consolidation	-	(70)
Translation adjustment	7	11
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	117	112

Investments in joint ventures chiefly relate to Chinese joint ventures for 111 million euros (106 million euros at end-2014).

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, 2015	December 31, 2014
Non-current assets	380	320
Current assets	344	300
Non-current liabilities	272	290
Current liabilities	305	230

(in millions of euros)	2015	2014
Sales	973	597
Operating expenses	(909)	(651)

Joint ventures

Summarized financial data in respect of joint ventures are set out in the table below:

(in millions of euros)	December 31, 2015	December 31, 2014
Non-current assets	133	120
Current assets	299	275
Non-current liabilities	23	22
Current liabilities	250	218

<i>(in millions of euros)</i>	2015	2014
Sales	711	650
Operating expenses	(630)	(571)

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

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Accounts and notes receivable	5	5
Accounts and notes payable	8	13
Net debt (cash)	11	11

<i>(in millions of euros)</i>	2015	2014
Sales of goods and services	24	11
Purchases of goods and services	(48)	(49)

Transactions with joint ventures

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Accounts and notes receivable	13	12
Accounts and notes payable	3	3
Net debt (cash)	10	10

<i>(in millions of euros)</i>	2015	2014
Sales of goods and services	22	22
Purchases of goods and services	(8)	(9)

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 income including share in net earnings of equity-accounted companies totaled 999 million euros in 2015 versus 859 million euros in 2014.

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:

- transaction costs and capital gains and losses arising on changes in the scope of consolidation;
- 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 non-current 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 2015 and 2014:

<i>(in millions of euros)</i>	<i>Notes</i>	2015	2014
Transaction costs and capital gains and losses arising on changes in the scope of consolidation	4.6.2.1		
■ Acquisition fees		(5)	(1)
■ Sale of the Engine Control business		(8)	-
■ Sale of the Access Mechanisms business		-	(1)
Claims and litigation:	4.6.2.2		
■ Anti-trust proceedings		(2)	(3)
■ Other disputes		(7)	(4)
Restructuring plans	4.6.2.3	(69)	(29)
Impairment of non-current assets	4.6.2.4	(27)	(15)
Other		1	(1)
Other income and expenses		(117)	(54)

4.6.2.1 Transaction costs and capital gains and losses arising on changes in the scope of consolidation

Acquisition fees recognized in 2015 relate to the acquisitions of peiker and Spheros (see Notes 2.2.1.3 and 2.2.1.4, page 275).

In 2015, the Group estimated the likely consequences of the sale of the Engine Control business (see Note 2.2.1.1, page 274), and as a result recognized an impairment loss totaling 8 million euros.

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 2015 and 2014, claims and litigation mainly comprised legal advisory costs relating to these investigations (see Note 7.2, page 308).

4.6.2.3 Restructuring plans

Restructuring costs for 2015 mainly relate to early retirement plans for certain sites in Germany, a phased shutdown of operations at a plant in Spain, a new headcount adjustment

plan in South America in response to the collapse in local automotive production, a plan to restructure European Research and Development operations for the Wiper Systems Product Group, and a lay-off plan in Japan.

Restructuring costs for 2014 represented an amount of 29 million euros and essentially related to the costs of two restructuring plans launched in South America and Japan in the first half of 2014, and to the cost of early retirement plans in Germany in the period.

4.6.2.4 Impairment of non-current assets

As a result of the cash-generating unit (CGU) impairment tests carried out in 2015, an impairment loss recognized against the Interior Electronics Product Group was reversed in an amount of 8 million euros, thereby increasing the carrying amount of the assets concerned up to the value that would have been determined (net of depreciation) had no impairment loss been recognized against the CGU. This impairment loss had been recognized in 2014 for a total of 15 million euros (see Note 6.4, page 303).

During 2011, Valeo had recognized an 11 million euro impairment loss against specific property, plant and equipment at a site belonging to the Transmission Systems Product Group. Since the site has returned to profit and in light of its future financial prospects, the previously recognized impairment loss was reversed in an amount of 7 million euros in 2015, thereby

increasing the carrying amount of the assets up to the value that would have been determined (net of depreciation) had no impairment loss been recognized.

A non-recurring 42 million euro impairment loss was recognized in 2015 against assets in Brazil and Argentina (see Note 6.4.6, page 306).

Note 5 Personnel expenses and employee benefits

5.1 Headcount

The Group had a total headcount of 82,800 at December 31, 2015 including temporary staff (78,500 at December 31, 2014).

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 in which 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 291) 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)	2015	2014
Wages and salaries ⁽¹⁾	2,447	2,184
Social security charges	492	459
Share-based payment	18	14
Pension expenses under defined contribution plans	78	87
TOTAL	3,035	2,744

(1) 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). 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 2015, stable compared with 2014.

Pension expenses under defined benefit plans are set out in Note 5.3, page 291.

Provisions for restructuring plans and employee disputes are set out in Note 7.1, page 307.

5.3 Provisions for pensions and other employee benefits

As indicated in Note 5.2, page 290, 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, 2015, 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/South Korea/United States) or as a result of the choice made by the company on setting up the plan (Japan).

Most plans in the United States 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 United States. 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 specifically to the Group's executive managers in France is detailed in Note 5.5, page 298.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each geographic area at December 31, 2015:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,390	14,870	7,032	7,080	41,372
Active employees having left the Group	-	1,555	3,063	-	4,618
Retirees	-	3,402	3,141	-	6,543
Total employees	12,390	19,827	13,236	7,080	52,533
Average duration of the defined benefit plans (years)	12	21	14	9	

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

For the 2015 financial year, the Group changed the benchmark index it uses to calculate discount rates for the United States to the iBoxx \$-Corporate AA 10 year+ index. It previously used the Citigroup Pension Discount Curve. Since both indexes have

seen very similar trends over the past few years, this change did not have a material impact on the discount rate.

For other regions, 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, 2015	December 31, 2014
Eurozone	iBoxx Euro-Corporate AA 10-year+	2.2	1.7
United Kingdom	iBoxx £-Corporate AA 15-year+	4.0	3.8
United States	iBoxx \$-Corporate AA 10-year+	4.3	3.8
Japan	10-year government bonds	0.9	0.9
South Korea	10-year government bonds	2.7	3.0

The weighted average long-term salary inflation rate was around 2.7% at December 31, 2015, slightly up on 2014.

The rate of increase for medical costs in the United States used to value the Group's main obligations was 8.0% at December 31, 2015 (as in 2014), gradually falling to 5% by 2032.

The sensitivity of the Group's main obligations to a 0.5 point rise or fall in discount rates and the inflation rate is set out in Note 5.3.7, page 296.

5.3.3 Breakdown and movements in obligations

Pension obligations and provisions break down as follows by major geographic area:

2015

(in millions of euros)	France	Other European countries	North America ⁽²⁾	Asia	Total
Present value of unfunded obligations	207	430	110	46	793
Present value of funded obligations	39	97	494	103	733
Market value of plan assets	(10)	(78)	(354)	(84)	(526)
Provisions recognized at December 31, 2015	236	449	250	65	1,000
Permanent employees at December 31, 2015 ⁽¹⁾	12,129	22,178	10,357	12,998	57,662

(1) Permanent employees shown in the table 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) Unfunded pension obligations in North America include medical plans in the United States representing 86 million euros.

2014

(in millions of euros)	France	Other European countries	North America ⁽²⁾	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 table 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) Unfunded pension obligations in North America include medical plans in the United States representing 93 million euros.

Movements in obligations in 2015 and 2014 are shown in the tables below by major geographic area:

2015

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2015	248	563	604	137	1,552
Actuarial gains and losses recognized in other comprehensive income	(4)	(54)	(57)	2	(113)
Benefits paid	(16)	(17)	(37)	(17)	(87)
Translation adjustment	-	5	68	10	83
Reclassifications	(1)	-	-	-	(1)
Expenses (income) for the year:	19	30	26	17	92
■ service cost	17	18	2	14	51
■ interest cost	4	12	25	2	43
■ other	(2)	-	(1)	1	(2)
BENEFIT OBLIGATIONS AT DECEMBER 31, 2015	246	527	604	149	1,526

Actuarial gains totaling 113 million euros in 2015 primarily reflect the impacts of the rise in discount rates in eurozone countries and in the United States.

2014

<i>(in millions of euros)</i>	France	Other European countries	North America ⁽¹⁾	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
■ <i>service cost</i>	14	11	3	12	40
■ <i>interest cost</i>	6	14	22	3	45
■ <i>other</i>	2	3	(1)	-	4
BENEFIT OBLIGATIONS AT DECEMBER 31, 2014	248	563	604	137	1,552

(1) Changes in the scope of consolidation chiefly related to the acquisition of Osram GmbH's shares in Valeo Slovakia at January 1, 2014.

Actuarial losses totaling 230 million euros in 2014 primarily reflected 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 that country.

5.3.4 Movements in provisions

Movements in provisions in 2015 and 2014, including items relating to pensions and other employee benefits, are shown in the table below:

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
PROVISIONS AT JANUARY 1, 2014	204	352	148	74	778
Actuarial gains and losses recognized in other comprehensive income	30	130	66	(1)	225
Amounts utilized 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
■ <i>service cost</i>	14	11	3	12	40
■ <i>net interest cost</i>	6	11	8	2	27
■ <i>other</i>	2	3	(1)	-	4
PROVISIONS AT DECEMBER 31, 2014	242	491	259	67	1,059
Actuarial gains and losses recognized in other comprehensive income	(4)	(52)	(39)	2	(93)
Amounts utilized during the year	(20)	(19)	(11)	(24)	(74)
Translation adjustment	-	1	29	6	36
Changes in scope of consolidation	(1)	-	-	-	(1)
Expenses (income) for the year:	19	28	12	14	73
■ <i>service cost</i>	17	18	2	14	51
■ <i>net interest cost</i>	4	9	11	1	25
■ <i>other</i>	(2)	1	(1)	(1)	(3)
PROVISIONS AT DECEMBER 31, 2015	236	449	250	65	1,000
Of which current portion (less than one year)	23	18	36	10	87

An expense of 73 million euros was recognized in 2015 in respect of pensions and other employee benefits (in line with the 2014 expense), of which 48 million euros were included in operating margin and 25 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, 2015 and 2014 is shown in the tables below:

2015

(in millions of euros)	France	Other European countries	North America	Asia ⁽¹⁾	Total
Cash at bank	-	-	1	28	29
Shares	10	44	209	17	280
Government bonds	-	18	49	13	80
Corporate bonds	-	16	95	23	134
Real estate	-	-	-	3	3
Breakdown of plan assets at December 31, 2015	10	78	354	84	526

(1) At December 31, 2015, a Japanese plan was in a surplus position, with a fair value of plan assets exceeding the value of the benefit obligation. The Group recognized a non-current financial asset to the extent of the surplus, i.e., 1 million euros, as it considers the right to a refund is unconditional within the meaning of IFRIC 14.

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

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 2015 and 2014 can be analyzed as follows:

2015

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2015	6	72	345	70	493
Expected return on plan assets	-	3	14	1	18
Contributions paid to external funds	8	5	3	16	32
Benefits paid	(4)	(3)	(29)	(9)	(45)
Actuarial gains and losses	-	(2)	(18)	-	(20)
Translation adjustment	-	3	39	6	48
PLAN ASSETS AT DECEMBER 31, 2015	10	78	354	84	526

The increase in the fair value of plan assets at December 31, 2015 is chiefly attributable to the US dollar impact. The difference between the actual return on plan assets (2 million euro loss) and the expected return (18 million euro gain) was recognized in other financial income and expenses and resulted from actuarial losses of 20 million euros arising on experience

adjustments. These losses were recognized within other comprehensive income in 2015.

Contributions of 32 million euros were paid to external funds in 2015. Contributions in 2016 are estimated at 26 million euros.

2014

(in millions of euros)	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 chiefly related to the acquisition of Osram GmbH's shares in Valeo Slovakia at January 1, 2014.

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)	2015	2014	2013 ⁽¹⁾	2012 ⁽¹⁾	2011
Benefit obligations	1,526	1,552	1,146	1,253	1,132
Financial assets	(526)	(493)	(368)	(358)	(351)
Net benefit obligations	1,000	1,059	778	895	781
Actuarial (losses) gains recognized in other comprehensive income	93	(225)	102	(153)	(90)

(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.

Net actuarial gains recognized in other comprehensive income in 2015 reflected:

- 109 million euros in actuarial gains on changes in actuarial assumptions, chiefly due to the rise in discount rates in eurozone countries and in the United States;

- 4 million euros in actuarial gains resulting from experience adjustments on benefit obligations; and
- 20 million euros in actuarial losses 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, 2015:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5 point rise	(13)	(50)	(37)	(6)	(106)
Impact of a 0.5 point fall	14	54	39	6	113
Salary inflation rate					
Impact of a 0.5 point rise	14	2	2	3	21
Impact of a 0.5 point fall	(12)	(2)	(2)	(3)	(19)

At December 31, 2015, 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 2015 service cost. A 0.5-point decrease in the discount rate would lead to an additional expense of 4 million euros, while a 0.5-point increase in the discount rate would reduce the expense by 4 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
2016	24	16	37	11	88
2017	10	17	37	13	77
2018	14	17	36	15	82
2019	25	15	34	13	87
2020	14	16	34	14	78
2021/2025	77	91	170	71	409
TOTAL	164	172	348	137	821

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, 2015 were as follows:

Terms and conditions of stock option plans

Year in which plan was set up	Number of shares under option	of which subject to conditions ⁽¹⁾	Exercise price (in euros) ⁽²⁾	Outstanding options not yet exercised at Dec. 31, 2015	Expiration date
2008	426,750	-	31.41	58,415	2016
2010	1,000,000	611,365	24.07	155,236	2018
2011	292,840	210,370	42.41	84,430	2019
2012	367,160	265,230	40.78	255,357	2020
TOTAL	2,086,750	1,086,965		553,438	

(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 plan was set up	Number of free shares authorized	of which subject to conditions ⁽¹⁾	Outstanding shares not yet remitted at Dec. 31, 2015	Year of vesting ⁽²⁾
2011	326,860	126,480	88,148	2014/2016
2012	213,140	117,220	36,032	2015/2017
2013	473,814	223,314	420,804	2016/2018
2014	323,480	105,590	295,082	2017/2019
2015	319,009	86,935	298,222	2018/2020
TOTAL	1,656,303	659,539	1,138,288	

(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 2015 and 2014 are detailed below:

2015

	Number of options and free shares granted	Weighted average exercise price
OPTIONS NOT EXERCISED AT JANUARY 1, 2015	2,192,591	18.26
Options granted/Free shares to be remitted	319,009	-
Options canceled	(56,648)	3.10
Options expired	(58,750)	36.82
Options exercised	(704,476)	25.74
OPTIONS NOT EXERCISED/FREE SHARES NOT REMITTED AT DECEMBER 31, 2015	1,691,726	11.57
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2015	553,438	35.35

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 remitted	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 REMITTED AT DECEMBER 31, 2014	2,192,591	18.26
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2014	837,520	31.65

The main data and assumptions underlying the valuation of equity instruments at fair value were as follows:

	2015		2014	
	France	Other countries	France	Other countries
Free shares				
Share price at grant date (<i>in euros</i>)	137.7	137.7	100.3	100.3
Risk-free rate (%)	0.1	0.3	0.6	1.0
Dividend rate (%)	2.7	-	2.9	-
Fair value of equity instruments (<i>in euros</i>)	120.0	120.6	86.8	87.4

An expense of 18 million euros was booked in 2015 in respect of stock purchase option and free share plans, of which 17 million euros within consolidated retained earnings (14 million euros in 2014).

5.5 Executive compensation (Related party transactions)

At December 31, 2015, 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 2015, stable year on year.

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 of control or strategy (except on the grounds of gross misconduct in the performance of his duties), equal to twice his annual compensation (average fixed and variable compensation received in the three years preceding the year of his departure) based on the full or partial achievement of

five performance criteria. This benefit is not payable if the Chief Executive Officer leaves Valeo of his own volition, if his duties within the Group change, or if he is able to claim his pension rights in the near term;

- 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. A prior decision of the Board of Directors is 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 he leaves Valeo to claim or after having claimed his pension rights.

The Group recognized an expense of 4 million euros in 2015 (2 million euros in 2014) in respect of stock 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 2 million euros in 2015 (3 million euros in 2014). At December 31, 2015, provisions included in the Group's statement of financial position in respect of these pension obligations amounted to 15 million euros (17 million euros at December 31, 2014).

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 273.

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 2015 and 2014 were carried out as described in Note 6.4, page 303.

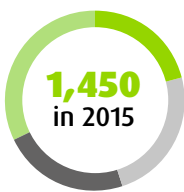
Changes in goodwill in 2015 and 2014 are analyzed below:

(in millions of euros)	2015	2014
NET GOODWILL AT JANUARY 1	1,374	1,210
Acquisitions during the year	2	102
Translation adjustment	74	62
NET GOODWILL AT DECEMBER 31	1,450	1,374
Including accumulated impairment losses at December 31	-	-

The translation adjustment in 2015 primarily reflects the impacts of fluctuations in the US dollar (37 million euros), Japanese yen (24 million euros) and Chinese renminbi (6 million euros) exchange rate.

Acquisitions in 2014 related to the controlling interests acquired in Valeo Sylvania (80 million euros – see Note 2.2.2.1, page 275), Nanjing Valeo Clutch Co. Ltd (15 million euros – see Note 2.2.2.4, page 276) and Valeo Samsung Thermal Systems Co. Ltd (7 million euros – see Note 2.2.2.2, page 276).

The main goodwill balances are broken down by Business Group as follows:

(in millions of euros)	December 31, 2015	December 31, 2014
 1,450 in 2015 21% – Comfort & Driving Assistance Systems 24% – Powertrain Systems 23% – Thermal Systems 32% – Visibility Systems 0% – Other	309	290
	350	344
	329	309
	461	430
	1	1
Goodwill	1,450	1,374

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 303.

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 284. 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, 2015			December 31, 2014
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	244	(201)	43	27
Patents and licenses	109	(73)	36	28
Capitalized development expenditure	1,973	(1,080)	893	766
Intangible assets in progress	31	-	31	37
Customer relationships and other intangible assets	273	(128)	145	154
Other intangible assets	2,630	(1,482)	1,148	1,012

Changes in intangible assets in 2015 and 2014 are analyzed below:

2015

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Intangible assets in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2015	212	96	1,792	277	37	2,414
Accumulated amortization and impairment	(185)	(68)	(1,026)	(123)	-	(1,402)
NET CARRYING AMOUNT AT JANUARY 1, 2015	27	28	766	154	37	1,012
Acquisitions	10	6	364	6	25	411
Disposals	-	-	-	-	(1)	(1)
Impairment	(1)	-	(8)	(1)	-	(10)
Amortization	(19)	(5)	(193)	(15)	-	(232)
Translation adjustment	-	2	13	8	-	23
Reclassifications	26	5	(49)	(7)	(30)	(55)
NET CARRYING AMOUNT AT DECEMBER 31, 2015	43	36	893	145	31	1,148

Reclassifications to "Capitalized development expenditure" and "Customer relationships and other intangible assets" at December 31, 2015 chiefly relate to the intangible assets of the Engine Control business classified as held for sale (see Note 2.2.1.1, page 274).

2014

<i>(in millions of euros)</i>	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Intangible assets in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2014	191	104	1,493	230	19	2,037
Accumulated amortization and impairment	(171)	(79)	(864)	(94)	-	(1,208)
NET CARRYING AMOUNT AT JANUARY 1, 2014	20	25	629	136	19	829
Acquisitions	12	6	298	2	22	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)	11	(4)	11
NET CARRYING AMOUNT AT DECEMBER 31, 2014	27	28	766	154	37	1,012

Customer relationships recognized at December 31, 2014 included 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 2.2.2.2 and 2.2.2.4, page 276) for 14 million euros. Capitalized development expenditure included expenditure recognized in connection with the acquisition of Osram GmbH's shares in Valeo Sylvania (see Note 2.2.2.1, page 275).

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 303.

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" in line with the depreciation 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, 2015			December 31, 2014
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	212	(12)	200	194
Buildings	1,283	(844)	439	403
Machinery and industrial equipment	5,170	(3,816)	1,354	1,196
Specific tooling	1,713	(1,537)	176	173
Other property, plant and equipment	488	(431)	57	74
Property, plant and equipment in progress	522	(4)	518	457
Property, plant and equipment	9,388	(6,644)	2,744	2,497

Certain items of property, plant and equipment were pledged as security at December 31, 2015 (see Note 6.5.2, page 306).

Changes in property, plant and equipment in 2015 and 2014 are analyzed below:

2015

(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, 2015	208	1,179	4,731	1,601	480	458	8,657
Accumulated depreciation and impairment	(14)	(776)	(3,535)	(1,428)	(406)	(1)	(6,160)
NET CARRYING AMOUNT							
AT JANUARY 1, 2015	194	403	1,196	173	74	457	2,497
Acquisitions	1	45	220	46	23	379	714
Disposals	-	-	(7)	(3)	(1)	(1)	(12)
Changes in scope of consolidation	-	-	5	-	-	-	5
Impairment	-	(2)	(27)	(3)	(3)	(1)	(36)
Depreciation	-	(55)	(297)	(101)	(39)	-	(492)
Translation adjustment	11	13	38	3	2	13	80
Reclassifications	(6)	35	226	61	1	(329)	(12)
NET CARRYING AMOUNT							
AT DECEMBER 31, 2015	200	439	1,354	176	57	518	2,744

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 in 2014 chiefly reflect the controlling interests acquired in Valeo Sylvania and Valeo Samsung Thermal Systems Co. Ltd, and include revalued property assets (see Notes 2.2.2.1 and 2.2.2.2, page 275 and 276).

Finance leases

Finance leases transferring substantially all of 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 of 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 306.

Finance leases included within property, plant and equipment can be analyzed as follows:

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Buildings	6	5
Machinery and industrial equipment	3	5
Other property, plant and equipment	3	4
TOTAL	12	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 2015. 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. These tests compare the asset's net carrying amount with its fair value less costs to sell. Impairment losses are recognized as appropriate.

Valeo may review the value in use of certain assets and recognize exceptional impairment losses where appropriate, if significant, prolonged adverse factors arise for the Group

such as a deterioration in a country's economic environment or in one of the Group's plants or contractual disputes.

Goodwill is tested for impairment at the level of the Business Groups, as set out in Note 3, page 277, 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 year, 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

Following this review, 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 1.5% (1% in 2014), which is in line with the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 9% (2014: 8.5%). The method used to calculate the discount rate was reviewed by an independent expert in 2015. The sample of comparable companies has been updated and includes around a dozen companies from the automotive equipment industry. The main components of WACC are a market risk premium, a risk-free rate corresponding to the average interest rate on long-term government bonds, and beta calculated based on a sample of companies in the industry, which came out at 1.10.

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 budget 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 2016-2020 are underpinned by the following assumptions:

- world automotive production of 102 million vehicles in 2020, representing average annual growth of 2.8% over 2015-2020. This is consistent with several independent external forecasts available in October 2015, 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 18% and South America 4%;
- 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: 1.15 US dollars, 7.48 Chinese renminbi, 152 Japanese yen, 1,288 South Korean won and 4.83 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 2015 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 2014.

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:

- 1-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 headroom 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:

	Headroom of the test	Impact on the headroom of the test			
	Based on assumptions for 2015	WACC of 10.0% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.5-pt decrease in the operating margin used to calculate the terminal value	Combination of all three factors
<i>(in millions of euros)</i>					
Comfort & Driving Assistance Systems	1,397	(360)	(154)	(131)	(581)
Powertrain Systems	2,773	(549)	(230)	(197)	(881)
Thermal Systems	2,528	(449)	(189)	(182)	(737)
Visibility Systems	2,786	(529)	(223)	(205)	(862)

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 2015 or a fall of more than 20% in 2015 sales compared to 2014.

The scope of the CGUs tested for impairment was defined at the end of October 2015 and remained unchanged at the end of the period, since no adverse events occurred. Two CGUs were selected:

- the Electronics Product Group (part of the Powertrain Systems Business Group);
- the Interior Electronics Product Group (part of the Comfort & Driving Assistance Systems Business Group).

Following an upward revision of the order intake potential for 2016 to 2020 in the medium-term business plan for the Interior

Electronics Product Group, related mainly to a new partnership put in place, the test conducted on this revised basis led the Group to reverse 8 million euros of the impairment loss it had recognized against this CGU in 2014. This reversal was recognized under "Other income and expenses" in the consolidated statement of income (see Note 4.6.2.4, page 289).

6.4.5 Sensitivity of CGU impairment tests

Changes in the following assumptions were used to check the sensitivity of CGU impairment tests:

- 1-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.

The impact on the headroom of changes in key assumptions is set out in the following table for both of the CGUs tested for impairment:

	Headroom of the test	Impact on the headroom of the test			
	Based on assumptions for 2015	WACC of 10.0% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.5-pt decrease in the operating margin used to calculate the terminal value	Combination of all three factors
<i>(in millions of euros)</i>					
Electronics Product Group CGU	401	(84)	(36)	(30)	(135)
Interior Electronics Product Group CGU	9	(11)	(5)	(9)	(22)

6.4.6 Impairment of Brazilian and Argentine assets

The Group is faced with a particularly tough climate in South America, where the collapse in automotive production has led to significant operating losses for its businesses in the region. The medium-term business plans for 2016-2020 were revised downward and the amount of cash flows generated by the continuing use of the assets is considered marginal.

In response to this situation, the Group tested the related assets for impairment, which revealed a 42 million euro impairment loss at end-December 2015, of which 38 million euros regarding assets in Brazil and 4 million euros regarding assets in Argentina. This impairment loss was allocated to non-current assets except those with a recoverable amount such as land, buildings and other capacity equipment. This impairment loss was recognized under "Other income and expenses" in the consolidated statement of income (see Note 4.6.2.4, page 289).

6.5 Off-balance sheet commitments relating to operating activities

6.5.1 Lease commitments

Future minimum lease commitments in force at December 31, 2015 and 2014 (excluding capital leases) are as follows:

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Less than 1 year	58	52
1 to 5 years	102	91
More than 5 years	30	31
TOTAL	190	174

Lease rentals recognized as expenses in the period in respect of outstanding lease agreements (excluding payments under finance leases) totaled 73 million euros in 2015 and 65 million euros in 2014.

Lease commitments in respect of capital leases are as follows at December 31, 2015 and 2014:

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Future minimum lease payments:		
Less than 1 year	2	3
1 to 5 years	7	8
More than 5 years	1	-
TOTAL	10	11
Of which interest charges	(1)	(1)
Present value of future lease payments:		
Less than 1 year	1	3
1 to 5 years	7	7
More than 5 years	1	-
TOTAL	9	10

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 253 million euros at December 31, 2015 (272 million euros at December 31, 2014).

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, 2015	December 31, 2014
Property, plant and equipment	11	11
Financial assets	2	3
TOTAL	13	14

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 contracts.

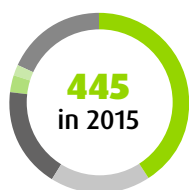
Provisions intended to cover commercial, employee and tax risks and disputes arising in the ordinary course of operations are also included in this caption.

Movements in provisions in 2015 and 2014 are shown in the table below:

(in millions of euros)	2015	2014
PROVISIONS AT JANUARY 1	334	345
Amounts utilized during the year	(95)	(145)
Impact of changes in scope of consolidation	-	23
Translation adjustment	2	10
Reclassification	-	5
Additions	247	134
Reversals	(43)	(38)
PROVISIONS AT DECEMBER 31	445	334
Of which current portion (less than one year)	190	159

At December 31, 2015 and 2014, provisions break down as follows:

(in millions of euros)	December 31, 2015	December 31, 2014
■ 41% - Provisions for product warranties	183	160
■ 18% - Provisions for tax-related disputes	79	23
■ 18% - Provisions for restructuring costs	82	49
■ 3% - Environmental provisions	14	16
■ 2% - Provisions for loss-making contracts	9	3
■ 18% - Provisions for employee-related and other disputes	78	83
Provisions for other contingencies	445	334



The 78 million euros recognized within "Provisions for employee-related and other disputes" at December 31, 2015 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 of 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, Valeo is 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.

In Europe, investigations by the European anti-trust authorities are still in progress. Valeo is cooperating fully with the European Commission in connection with its investigations. At this stage, the Group is unable to predict the outcome of these investigations. However, Valeo cannot rule out that they could have a material adverse impact on its future earnings.

The Group is also unable to predict the outcome of any compensation claims filed or that may be filed by customers. However, it cannot rule out that any civil claims could 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-term debt, liabilities associated with put options granted to holders of non-controlling interests, and short-term credit and bank overdrafts, which make up gross debt (see Note 8.1.2, page 310);
- loans and other non-current financial assets (see Note 8.1.3.1, page 313);
- cash and cash equivalents (see Note 8.1.3.2, page 313);
- derivative instruments (see Note 8.1.4, page 314);
- other current and non-current financial assets and liabilities (see Note 8.1.5, page 317).

8.1.1 Fair value of financial assets and liabilities

(in millions of euros)	2015 carrying amount under IAS 39			Dec. 31, 2015	Dec. 31, 2014
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
■ Available-for-sale financial assets	-	31	-	31	4
■ Loans	1	-	-	1	1
■ Deposits and guarantees	-	-	19	19	18
■ Other non-current financial assets	-	-	4	4	8
■ Trading derivatives	-	-	-	-	28
Assets relating to pensions and other employee benefits	-	1	-	1	-
Accounts and notes receivable	1,964	-	-	1,964	1,681
Other current financial assets:					
■ Hedging derivatives	-	8	-	8	19
■ Trading derivatives	-	-	17	17	25
Cash and cash equivalents	-	-	1,725	1,725	1,497
LIABILITIES					
Non-current financial liabilities:					
■ Other non-current financial liabilities	-	-	-	-	1
■ Hedging derivatives	-	-	-	-	4
Bonds	1,138	-	-	1,138	1,030
Syndicated loan	250	-	-	250	249
EIB (European Investment Bank) loans	122	-	-	122	187
Other long-term debt	107	-	-	107	116
Accounts and notes payable	3,224	-	-	3,224	2,700
Other current financial liabilities:					
■ Hedging derivatives	-	8	-	8	4
■ Trading derivatives	-	-	82	82	87
Liabilities associated with put options granted to holders of non-controlling interests	-	39	-	39	-
Short-term debt	128	-	-	128	257

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 1,241 million euros at December 31, 2015 versus 1,279 million euros at December 31, 2014.

The fair value of the syndicated loan, the EIB loans and the private placements 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 two-year credit default swaps. This method corresponds to Level 2 in the fair value hierarchy.

These issuer spreads were estimated (source: Markit Reuters) at:

- 0.14% for the 250 million euro syndicated loan;
- 0.14% for the 56 million euro EIB loan;
- 0.24% (two-year CDS including the US dollar/euro basis swap of 0.2%) for the EIB loan drawn in the amount of USD 77 million at December 31, 2015;
- 0.14% for the private placements in an aggregate amount of 100 million euros.

At December 31, 2015, the fair values of these items were estimated at 252 million euros for the syndicated loan, 129 million euros for the EIB loans (254 million euros and 189 million euros, respectively, at December 31, 2014) and 100 million euros for the private placements.

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, 2015 and 2014, this has only a minimal impact on the Group.

8.1.2 Gross debt

Gross debt includes long-term debt, liabilities associated with put options granted to holders of non-controlling interests, and short-term credit and bank overdrafts.

The definition of gross debt was revised in the period in order to take into account liabilities associated with put options granted to holders of non-controlling interests (see Note 2.1.6, page 274, and Note 2.2.1.2, page 275).

At December 31, 2015, the Group's gross debt can be analyzed as follows:

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Long-term debt – long-term portion	1,145	1,458
Current portion of long-term debt	472	124
Liabilities associated with put options granted to holders of non-controlling interests	39	-
Short-term debt	128	257
Gross debt	1,784	1,839

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 multiplying the loan's effective interest rate by 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, 2015	December 31, 2014
Bonds	1,138	1,030
Syndicated loan	250	249
EIB (European Investment Bank) loans	122	187
Lease obligations	9	10
Other borrowings	58	64
Accrued interest	40	42
Long-term debt	1,617	1,582

Long-term debt increased during the year, standing at 1,617 million euros at December 31, 2015 versus 1,582 million euros at December 31, 2014.

In first-half 2015, Valeo carried out two private placements in the form of floating-rate notes for an aggregate amount of 100 million euros under its Euro Medium Term Note financing program. The notes have a maturity of 13 and 18 months.

In first-half 2014, Valeo carried out several transactions 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. It 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 thereby redeemed 354,400 notes of its 5.75% Euro Medium Term Note issue of January 19, 2012 maturing on January 19, 2017, and 226,500 notes of its 4.875% seven-year issue of May 12, 2011.

Since the tender 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, 2015, long-term debt chiefly includes:

- 700 million euros worth of ten-year bonds issued on January 22, 2014 under a Euro Medium Term Note financing program and maturing in 2024. 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 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 worth of bonds maturing in 2017 issued by Valeo on January 19, 2012 under the Euro Medium Term Note program. The original amount of the issue was 500 million euros and paid a coupon of 5.75%. Valeo redeemed part of this issue in January 2014 for a nominal amount of 354 million euros. The effective interest rate remains unchanged at 5.92%;
- two new private placements carried out in June 2015 for an aggregate amount of 100 million euros:
 - an initial 30 million euro loan maturing in 13 months and bearing variable interest at 1-month Euribor +0.22% for the first tranche falling due on July 1, 2015, then 3-month Euribor +0.22% thereafter. An interest rate swap was taken out in respect of the loan, exchanging variable interest for a fixed rate of 0.23%;
 - a second 70 million euro loan maturing in 18 months and bearing variable interest at 3-month Euribor +0.30%. An interest rate swap was also set up in respect of this loan, exchanging variable interest for a fixed rate of 0.3225%;
- a syndicated loan for a total amount of 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. 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 partially 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. A further amount of 13 million euros was unwound in January 2015. The remaining balance was unwound in full on February 4, 2015;
- 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 56 million euros was outstanding at December 31, 2015 following repayment of three installments for a total

amount of 169 million euros), 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 103 million US dollar loan (on which an amount of 77 million dollars was outstanding at December 31, 2015 following repayment of the first 26 million dollar installment), taken out on November 3, 2011 for a seven-year term and 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 2015 was a positive 1 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 2015 was a positive 1 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 322.

Maturities of long-term debt – long term portion

(in millions of euros)	2017	2018	2019	2020	2021 and beyond	Total
Bonds	145	272	-	-	621	1,038
EIB (European Investment Bank) loans	23	23	-	-	-	46
Lease obligations	1	-	-	6	1	8
Other borrowings	15	6	5	4	23	53
TOTAL	184	301	5	10	645	1,145

Current portion of long-term debt

(in millions of euros)	December 31, 2015	December 31, 2014
EIB (European Investment Bank) loans	76	72
Syndicated loan	250	-
Bonds (private placements)	100	-
Lease obligations	1	3
Other borrowings	5	7
Accrued interest	40	42
Current portion of long-term debt	472	124

At December 31, 2015, the current portion of long-term debt primarily includes:

- two annual installments under the EIB loans: the first for 54 million euros due in August 2016 and the second for 22 million euros due in November 2016;
- the repayment of the private placements in July 2016 and December 2016 for 30 million euros and 70 million euros, respectively; and
- the repayment of the 250 million euro syndicated loan to be made in June 2016.

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.

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Commercial paper	40	208
Short-term loans and overdrafts	88	49
Short-term debt	128	257

The 88 million euros in short-term bank loans relate mainly to overdraft facilities.

8.1.3 Net debt

The definition of net debt was revised in 2015 in order to take into account liabilities associated with put options granted to holders of non-controlling interests and the fair value of instruments hedging interest rate and currency risks on financial assets and liabilities included in net debt.

Net debt is now defined as all long-term debt, liabilities associated with put options granted to holders of non-controlling interests (see Note 2.1.6, page 274), and short-term credit and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents, and the fair value of derivative instruments hedging interest rate and currency risks associated with these items (see Note 8.1.4, page 314).

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014 ⁽¹⁾
Long-term debt – long-term portion	1,145	1,458
Current portion of long-term debt	472	124
Long-term loans and receivables	(1)	(1)
Long-term debt	1,616	1,581
Short-term debt	128	257
Cash and cash equivalents	(1,725)	(1,497)
Short-term cash position	(1,597)	(1,240)
Derivative instruments associated with interest rate and currency risks	66	36
Liabilities associated with put options granted to holders of non-controlling interests	39	-
Net debt	124	377

(1) Net debt shown for December 31, 2014 differs from the amount presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the revised definition of net debt in 2015.

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 into 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, 2015	December 31, 2014
Marketable securities	1,025	816
Cash	700	681
Cash and cash equivalents	1,725	1,497

Marketable securities consist of money market funds (SICAV) for 1,025 million euros. Cash equivalents consist solely of bank deposits.

These items were measured using Level 1 inputs.

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 48 million euros at December 31, 2015 and 55 million euros at December 31, 2014.

8.1.3.3 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	December 31, 2015	December 31, 2014 ⁽¹⁾
Euro	420	615
US dollar	75	147
Japanese yen	(59)	(93)
Brazilian real	(1)	(21)
South Korean won	(46)	(64)
Chinese renminbi	(209)	(145)
Other currencies	(56)	(62)
TOTAL	124	377

(1) Net debt shown for December 31, 2014 differs from the amount presented in the 2014 consolidated financial statements published in February 2015 since it has been adjusted to reflect the revised definition of net debt in 2015.

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 highly probable future transactions generally considered material. 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 hedge accounting to future cash flows. 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, 2015 and 2014 are set out below:

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
ASSETS		
Trading derivatives:		
■ Foreign currency derivatives	-	28
■ Interest rate derivatives	-	-
Total other non-current financial assets	-	28
Hedging derivatives:		
■ Foreign currency derivatives	7	17
■ Commodity derivatives	1	2
Trading derivatives:		
■ Foreign currency derivatives	17	25
■ Commodity derivatives	-	-
Total other current financial assets	25	44
LIABILITIES		
Hedging derivatives:		
■ Foreign currency derivatives	-	-
■ Interest rate derivatives	-	(4)
Total other non-current financial liabilities	-	(4)
Hedging derivatives:		
■ Interest rate derivatives	(1)	-
■ Commodity derivatives	(7)	(4)
■ Foreign currency derivatives	-	-
Trading derivatives:		
■ Foreign currency derivatives	(82)	(87)
■ Commodity derivatives	-	-
Total other current financial liabilities	(90)	(91)

The fair values of derivative instruments at December 31, 2015 and 2014 by category of hedged risk are set out below:

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
ASSETS		
■ Derivative financial instruments associated with commodity risk	1	2
■ Derivative financial instruments associated with foreign currency risk on debt	6	47
■ Other derivative financial instruments associated with foreign currency risk	18	23
Total assets	25	72
LIABILITIES		
■ Derivative financial instruments associated with commodity risk	(7)	(4)
■ Derivative financial instruments associated with interest rate risk on debt	(1)	(4)
■ Derivative financial instruments associated with foreign currency risk on debt	(71)	(79)
■ Other derivative financial instruments associated with foreign currency risk	(11)	(8)
Total liabilities	(90)	(95)
Derivative instruments included in net debt	(66)	(36)

At December 31, 2015, derivative instruments hedging currency risk on debt essentially relate to currency swaps. Changes in the fair value of these derivatives are recognized in other financial income and expenses and are offset by changes in the fair value of the underlying debt.

The impact of financial instruments on income for the years ended December 31, 2015 and December 31, 2014 is set out in Note 8.3, page 319.

8.1.4.1 Fair value of foreign currency derivatives

<i>(in millions of euros)</i>	December 31, 2015		December 31, 2014	
	Nominal	Fair value	Nominal	Fair value
Forward foreign currency purchases	484	17	206	21
Forward foreign currency sales	(148)	1	(41)	2
Currency swaps	615	6	105	19
Cross currency swaps	-	-	(133)	28
Total assets	951	24	137	70
Forward foreign currency purchases	220	(8)	176	(5)
Forward foreign currency sales	(218)	(3)	(75)	(4)
Currency swaps	(415)	(71)	(710)	(78)
Total liabilities	(413)	(82)	(609)	(87)
Net impact	-	(58)	-	(17)

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, 2015		December 31, 2014	
	Nominal	Fair value	Nominal	Fair value
Swaps – Purchases	31	1	27	2
Swaps – Sales	-	-	(4)	-
Total assets	31	1	23	2
Swaps – Purchases	97	(7)	87	(4)
Swaps – Sales	-	-	-	-
Total liabilities	97	(7)	87	(4)
Net impact	-	(6)	-	(2)

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, 2015		December 31, 2014	
	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
EIB (European Investment Bank) loan	56	(1)	113	(4)
Private placements	100	-	-	-
Total liabilities	156	(1)	113	(4)

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. Securities are classified in non-current financial assets.

At December 31, 2015, available-for-sale financial assets stood at 31 million euros, up 27 million euros compared to the December 31, 2014 figure. The year-on-year change in this item can be analyzed as follows:

- On June 18, 2015, Valeo acquired a 10.5% stake in Aledia for an amount of 5 million euros by subscribing to Aledia's capital increase. Aledia is a technology start-up which develops cutting-edge 3D LED technology for general and automotive lighting. Valeo's aim is to accelerate and expand in the medium term its offering of innovative interior and exterior automotive lighting solutions.

- On August 28, 2015, Valeo invested in Cathay Capital's Sino-French Innovation Fund. The Group recognized an available-for-sale asset of 22 million euros, corresponding to Valeo's total commitment, of which 3 million euros was paid during the year. The fund is a cross-border investment vehicle active across France, China and the United States and provides venture capital financing for innovative start-ups.

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 281. In the ordinary course of its operations in China, Valeo may be paid by its customers or may 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, 2015, these instruments represented 54 million euros of accounts and notes receivable and 92 million euros of accounts and notes payable (37 million euros and 71 million euros, respectively, at December 31, 2014).

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)	2015	2014
Interest expense ⁽¹⁾	(92)	(101)
Interest income	8	10
Cost of net debt	(84)	(91)

(1) Including in 2015 finance costs for 2 million euros on undrawn credit lines and financial expenses for 5 million euros arising on discounting arrangements for accounts and notes receivable and amounts receivable under 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 on 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 includes 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.

(in millions of euros)	2015	2014
Net interest cost on provisions for pensions and other employee benefits	(25)	(27)
Currency gains (losses)	(6)	(15)
Gains (losses) on commodity derivatives (trading and ineffective portion)	(1)	-
Gains (losses) on interest rate derivatives (ineffective portion)	(1)	(1)
Other	(2)	(3)
Other financial income and expenses	(35)	(46)

8.3 Risk management policy

A detailed description of the Group's risk management policy is set out in Chapter 2, pages 61 to 74.

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 Chapter 2, pages 61 to 74.

Exposure to foreign currency risk

The Group systematically hedges statement of financial position exposure and three-month commercial transaction forecasts. Subsidiaries principally hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties (leading banks). The corresponding currency instruments are classified in the trading book in accordance with the standard on financial instruments.

For specific, material transactions, the Group also enters into longer-term hedges (based on a budget or contractual period). In this case, it applies hedge accounting rules as permitted by

the standard on financial instruments. 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.

In 2015, an unrealized gain of 7 million euros related to these hedges was recognized directly in other comprehensive income. In 2014, an unrealized gain of 17 million euros related to these hedges was recognized directly in other comprehensive income; a portion of this gain was reclassified to operating income during 2015.

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 matched the loan in terms of maturity and was not eligible for hedge accounting within the meaning of IAS 39. Portions of this swap were successively repaid in 2013 (35 million euros), 2014 (69 million euros) and 2015 (133 million euros), in line with the repayments of identical amounts by Valeo Japan.

The Group's net exposure to foreign currency risk based on notional amounts arises on the following main currencies (excluding entities' functional currencies):

(in millions of euros)	December 31, 2015				December 31, 2014
	USD	JPY	EUR	Total	Total
Accounts and notes receivable	91	12	403	506	442
Other financial assets	62	51	70	183	717
Accounts and notes payable	(165)	(33)	(505)	(703)	(701)
Long-term debt	(128)	(10)	(324)	(462)	(443)
Gross exposure	(140)	20	(356)	(476)	15
Forward sales	(623)	(115)	(92)	(830)	(1,299)
Forward purchases	1,068	170	88	1,326	1,004
Net exposure	305	75	(360)	20	(280)

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 Central and Eastern Europe – mainly the Czech Republic – which are financed in euros by Valeo.

At December 31, 2014, the breakdown by currency of the net exposure in the statement of financial position for a negative amount of 280 million euros is as follows:

- a positive amount of 220 million euros relating to the US dollar;

- a positive amount of 20 million euros relating to the Japanese yen;
- a negative amount of 520 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 1.09 US dollars, 131.07 yen, and 27.02 Czech koruna for 1 euro at December 31, 2015 (1.21 US dollars, 145.23 yen and 27.73 Czech koruna, respectively, at December 31, 2014).

An increase of 10% in the value of the euro against these currencies at December 31, 2015 and December 31, 2014 would have had the following pre-tax impacts:

(in millions of euros)	December 31, 2015		December 31, 2014	
	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Exposure US dollar	(6)	(24)	(3)	(19)
Exposure Japanese yen	(5)	(3)	(1)	(1)
Exposure euro	(11)	(6)	(10)	(6)
TOTAL	(22)	(33)	(14)	(26)

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, 2015 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 71.

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, 2015 and December 31, 2014 break down as follows:

(in tons)	December 31, 2015	December 31, 2014
Aluminum	29,708	28,404
Secondary aluminum	11,904	11,745
Copper	13,906	8,787
Zinc	684	763
TOTAL	56,202	49,699

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized loss of 6 million euros related to existing hedges was recognized directly in other comprehensive income for 2015 in accordance with IAS 39.

An unrealized loss of 2 million euros recognized in other comprehensive income in 2014 and arising on commodity hedges purchased in first-half 2015 was reclassified in full to operating income in 2015.

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, 2015 and 2014.

(in millions of euros)	December 31, 2015		December 31, 2014	
	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 10% rise in metal futures prices	-	9	-	9
Impact of a 10% fall in metal futures prices	-	(9)	-	(9)

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 72.

Exposure to interest rate risk

The Group may use interest rate swaps to convert the interest rates on its debt into either a variable or a fixed rate, either at inception 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. In June 2015, two interest rate swaps were issued to hedge variable interest on the private placements. The fair value of these derivatives 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 2015, changes in the fair value of these swaps 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:

2015

(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	46	558	457	47	724	-	1,227	605	1,832
Loans	-	-	-	(1)	-	-	-	(1)	(1)
Cash and cash equivalents	-	(1,725)	-	-	-	-	-	(1,725)	(1,725)
Net position before hedging	46	(1,167)	457	46	724	-	1,227	(1,121)	106
Derivative instruments	156	(156)	-	-	-	-	156	(156)	-
Net position after hedging	202	(1,323)	457	46	724	-	1,383	(1,277)	106

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

Analysis of sensitivity to interest rate risk

At December 31, 2015, 75% of long-term debt is at fixed rates (72% at December 31, 2014).

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, 2015		December 31, 2014	
	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 1-point change in interest rates	11	-	12	3

Similarly, at December 31, 2015, 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 Chapter 2, section 2.1.4, page 72.

Assets financing pension plans (plan assets) are detailed in Note 5.3.5, page 295.

The Group's cash and cash equivalents are set out in Note 8.1.3.2, page 313.

8.3.2 Liquidity risk

The Group's liquidity risk management policy is described in Chapter 2, section 2.1.4, page 69.

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, 2015, Valeo had 1.7 billion euros in cash and cash equivalents (1.5 billion euros at December 31, 2014). Cash comprises bank deposits for 700 million euros and cash equivalents (mainly money market funds) for 1,025 million euros.

Other sources of liquidity were as follows:

- confirmed bank credit lines with an average maturity of 4 years, representing an aggregate amount of 1.2 billion euros. None of these credit lines had been drawn down at December 31, 2015. 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 3 billion euros, on which 1.2 billion euros had been drawn at December 31, 2015.

Covenants: bank credit lines, the syndicated 250 million euro loan, along with 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, 2015, the ratio calculated over 12 months was less than 0.1.

Bonds include an option granted to 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. This clause also applies to most credit lines. 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 the consolidated financial statements were authorized for issue, the Group expects to comply with all debt covenants over the next few months.

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

- On April 2, 2015, Standard & Poor's confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook.
- On May 11, 2015, Moody's upgraded Valeo's short-term and long-term credit ratings from P-3 to P-2 and from Baa3 to Baa2, respectively, with a stable outlook.

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, 2015 was used for variable-rate interest.

At December 31, 2015

(in millions of euros)	Carrying amount	Contractual cash flows						Total
		2016	2017	2018	2019	2020	2021 and beyond	
Bonds	1,138	144	190	310	23	-	814	1,481
EIB (European Investment Bank) loans	122	84	25	25	-	-	-	134
Syndicated loan	250	251	-	-	-	-	-	251
Other long-term debt	107	46	16	6	5	10	24	107
Liabilities associated with put options granted to holders of non-controlling interests	39	39	-	-	-	-	-	39
Accounts and notes payable	3,224	3,224	-	-	-	-	-	3,224
Short-term debt	128	128	-	-	-	-	-	128

Residual contractual maturities of derivative financial instruments

The European Central Bank (ECB) closing rates and forward rates at December 31, 2015 were used to value foreign currency

derivatives. The London Metal Exchange (LME) forward rates at December 31, 2015 were used for commodity derivatives, while the forward interest rate curve at December 31, 2015 was used for interest rate swaps.

At December 31, 2015

(in millions of euros)	Carrying amount	Contractual cash flows						Total
		2016	2017	2018	2019	2020	2021 and beyond	
Forward foreign currency contracts used as hedges:								
■ Assets	18	18	-	-	-	-	-	18
■ Liabilities	(11)	(8)	-	(1)	(1)	(1)	-	(11)
Currency swaps used as hedges:								
■ Assets	6	6	-	-	-	-	-	6
■ Liabilities	(71)	(71)	-	-	-	-	-	(71)
Commodity derivatives:								
■ Assets	1	1	-	-	-	-	-	1
■ Liabilities	(7)	(7)	-	-	-	-	-	(7)
Interest rate swaps:								
■ Assets	-	-	-	-	-	-	-	-
■ Liabilities	(1)	(1)	-	-	-	-	-	(1)

8.3.3 Credit risk

The Group's credit risk management policy is described in Chapter 2, section 2.1.4, pages 72 and 73.

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 manufacturing or retail 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 in 2015.

Note 4.2, page 281, 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 322, on liquidity risk.

Note 9 Income tax expense

9.1 Income tax expense

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)	2015	2014
Current taxes	(268)	(171)
Deferred taxes	162	42
Income tax expense	(106)	(129)

The Group recognized income tax expense of 106 million euros in 2015, corresponding to an effective tax rate of 12.9%.

This includes a positive impact of 175 million euros relating to the partial recognition of deferred tax assets arising on the tax consolidation group in the United States. The deferred tax assets were recognized in view of the earnings performance for this scope and the sharp improvement in its five-year

profitability outlook as per the fiscal plan since 2013. Valeo recognized a deferred tax asset of 22 million euros on this tax consolidation group in 2014, and 51 million euros in 2013.

This positive impact on income tax expense was partly offset by the cancellation of deferred taxes previously recognized in Germany in an amount of 19 million euros, in order to reflect the revised five-year profitability outlook.

9.1.2 Tax proof

(in millions of euros)	2015	2014
Net income before income taxes excluding share in net earnings (losses) of equity-accounted companies	824	671
Standard tax rate in France ⁽¹⁾	34.4%	34.4%
Theoretical income tax expense	(284)	(231)
Impact of:		
■ unrecognized deferred tax assets and unused tax losses (current year)	(80)	(87)
■ recognition of previously unrecognized deferred tax assets	193	57
■ other tax rates	40	52
■ utilization of prior-year tax losses	85	90
■ permanent differences between accounting income and taxable income	(47)	3
■ tax credits	5	2
■ <i>Cotisation sur la Valeur Ajoutée des Entreprises (CVAE)</i>	(18)	(15)
Group income tax expense	(106)	(129)

(1) 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 2015, unrecognized deferred tax assets and tax losses for the period not utilized by the Group's main countries result essentially from South America, including Brazil for 33 million euros and Argentina for 5 million euros, and from the write-down of deferred taxes in Germany in an amount of 19 million euros.

Previously unrecognized deferred tax assets for 193 million euros essentially relate to deferred tax assets recognized for the US tax consolidation in 2015.

The positive 40 million euro impact relating to other tax rates is broken down by major country in the table below:

Country	Recurring tax rate ⁽¹⁾	2015	2014
China	25.0%	8	22
Poland	19.0%	14	13
South Korea	24.2%	12	12
Thailand	20.0%	5	5
Turkey	20.0%	5	5
Czech Republic	19.0%	4	5
Japan	35.6%	(3)	(5)
United States	40.0%	(9)	(8)
Other countries		4	3
TOTAL		40	52

(1) The recurring tax rate shown is the effective tax rate at the reporting date. The tax rate used to calculate deferred taxes takes into account any changes adopted in the tax rate for the coming years.

Utilizations of prior-year tax losses for which no deferred tax assets have been recognized chiefly reflect the use of 65 million euros in tax losses on the US tax consolidation group.

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 2015 therefore includes a net expense of 18 million euros in respect of the CVAE tax (15 million euros in 2014).

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 Valeo 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:

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Loss carryforwards	1,038	1,035
Capitalized development expenditure	(213)	(177)
Pensions and other employee benefits	242	236
Other provisions	59	74
Inventories	47	42
Provisions for restructuring costs	19	12
Tooling	(3)	(1)
Non-current assets	42	46
Other	144	98
Total deferred taxes, gross	1,375	1,365
Unrecognized deferred tax assets	(888)	(1,043)
Total deferred taxes	487	322
o/w:		
■ Deferred tax assets	526	359
■ Deferred tax liabilities	(39)	(37)

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 518 million euros at December 31, 2015.

A total of 297 million euros in deferred tax assets was recognized in connection with the US tax consolidation group at December 31, 2015 (89 million euros at end-2014), due to an improved economic outlook. Residual unrecognized net deferred tax assets related to this tax consolidation group totaled 131 million euros at December 31, 2015 (341 million euros at December 31, 2014).

In contrast, due to particularly tough economic conditions in Brazil, no deferred assets were recognized for this country at December 31, 2015. Residual unrecognized net deferred tax assets represented 55 million euros at December 31, 2015.

There were no residual net deferred tax assets recognized in Germany at December 31, 2015 (55 million euros at end-2004), since the assets were canceled during the period in order to reflect the five-year profitability outlook as per the fiscal plan. Residual unrecognized net deferred tax assets represented 45 million euros at December 31, 2015.

At December 31, 2015, deferred tax assets not recognized by the Group can be analyzed as follows:

<i>(in millions of euros)</i>	Tax basis	Potential tax saving
Tax losses available for carryforward from 2016 through 2020	65	15
Tax losses available for carryforward in 2020 and thereafter	463	174
Tax losses available for carryforward indefinitely	1,702	560
Current tax loss carryforwards	2,230	749
Unrecognized deferred tax assets on temporary differences		139
TOTAL		888

Note 10 Stockholders' equity and earnings per share

10.1 Stockholders' equity

10.1.1 Share capital

At December 31, 2015, 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 (3,562,732 shares at December 31, 2015).

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, 2015, 26,500 shares and 18,958,006 euros had been allocated to this liquidity agreement compared with 9,000 shares and 19,302,904 euros at December 31, 2014. 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 100 million euros (unrealized gain of 127 million euros at

December 31, 2014). This essentially reflected in 2015 (i) the rise in the value of the Chinese renminbi (48 million euros), Japanese yen (43 million euros) and to a lesser extent the US dollar (22 million euros), and (ii) the fall in the value of the Brazilian real (17 million euros) during the year.

10.1.4 Consolidated retained earnings

Consolidated retained earnings include attributable income for the year of 729 million euros prior to appropriation.

10.1.5 Dividend per share

Parent company reserves available for distribution amounted to 1,934 million euros at December 31, 2015 (1,819 million euros at end-2014) after deduction of the carrying amount of treasury shares held at December 31, 2015 for 67 million euros (99 million euros at end-2014).

A dividend of 2.20 euros per share was paid in 2015, representing a total payout of 172 million euros. The dividend paid in 2014 was 1.70 euros per share, representing a total payout of 132 million euros.

10.1.6 Treasury shares and share buyback program

At December 31, 2015, Valeo owns 1,008,355 of its own shares, representing 1.3% of share capital (1,695,322 shares, representing 2.1% of share capital at December 31, 2014).

In 2014, Valeo had 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. This share buyback program was to 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. This arrangement was terminated on August 11, 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.

10.1.7 Non-controlling interests

Changes in non-controlling interests can be analyzed as follows:

<i>(in millions of euros)</i>	2015	2014
Non-controlling interests at January 1	209	147
Equity in net earnings	45	31
Dividends paid	(29)	(10)
Translation adjustment	6	17
Changes in scope of consolidation	(12)	24
Non-controlling interests at December 31	219	209

Changes in the scope of consolidation in 2015 chiefly reflect the impacts of the reorganization of the Wiper Systems business in China (see Note 2.2.1.2, page 275), including a 16 million euro decrease in non-controlling interests related to the estimated value of the put option granted to STEC and a 3 million euro increase reflecting changes in the percent interest held in Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd. and Taizhou Valeo – Wenling Automotive Systems Company Ltd.

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 2.2.2.2 and 2.2.2.4, page 276). 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:

Partner	Carrying amount of non-controlling interests <i>(in millions of euros)</i>	
	December 31, 2015	December 31, 2014
Pyeong Hwa Company		
Valeo Pyeong Hwa International Co. Ltd	118	119
Ichikoh Alliance entities	32	26
Other	69	64
Non-controlling interests	219	209

10.2 Earnings per share

Earnings per share (before dilution) are calculated by dividing consolidated net income by the weighted average number of shares outstanding during the year, excluding the average number of shares held in treasury stock.

Diluted earnings per share is calculated by dividing consolidated net income by the weighted average number of shares outstanding during the year, plus the weighted average number of ordinary shares that would be outstanding had all the potentially dilutive ordinary shares been converted. Stock options and free shares have a dilutive impact when their exercise price is below market price. This calculation method – known as the treasury stock method – serves to determine the “unpurchased” shares to be added to the shares of common stock outstanding for the purposes of computing the dilution.

	2015	2014
Net income attributable to owners of the Company <i>(in millions of euros)</i>	729	562
Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>	78,111	77,705
Basic earnings per share <i>(in euros)</i>	9.33	7.23

	2015	2014
Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>	78,111	77,705
Dilutive effect from <i>(in thousands)</i> :		
■ Stock options	614	992
■ Free shares	932	756
Weighted average number of ordinary shares outstanding adjusted for impact of dilutive shares <i>(in thousands of shares)</i>	79,657	79,453
Diluted earnings per share <i>(in euros)</i>	9.15	7.07

Note 11 Breakdown of cash flows

11.1 Expenses (income) with no cash effect

Expenses and income with no cash effect can be analyzed as follows in 2015 and 2014:

<i>(in millions of euros)</i>	2015	2014
Depreciation, amortization and impairment of non-current assets	770	642
Net additions to (reversals from) provisions	51	(15)
Losses (gains) on sales of non-current assets	10	(9)
Expenses related to share-based payment	17	14
Impairment of assets and liabilities held for sale	8	-
TOTAL	856	632

In 2015, Valeo recognized an 8 million euro impairment loss against assets classified as held for sale relating to its Engine Control business (see Note 2.2.1.1, page 274).

11.2 Changes in working capital

Changes in the main components of working capital in 2015 and 2014 are shown in the table below:

(in millions of euros)	2015	2014
Inventories	(201)	(56)
Accounts and notes receivable	(207)	(82)
Accounts and notes payable	409	186
Other receivables and payables	110	(8)
TOTAL	111	40

Accounts and notes receivable falling due after December 31, 2015 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 (accounts receivable), page 281, and in Note 4.5.2 (research and CICE tax credit receivables), page 285.

11.3 Acquisitions and sales of equity interests with gain or loss of control

Acquisitions of controlling interests in 2015 led to a cash outflow of 8 million euros.

Acquisitions of controlling interests in 2014 led to a net cash outflow of 104 million euros, 111 million euros of which related to the acquisition of Osram GmbH's shares in Valeo Sylvania (see Note 2.2.2.1, page 275).

11.4 Issuance and repayment of long-term debt

On June 1, 2015, within the scope of the EMTN program, Valeo subscribed to a 30 million euro bond maturing on July 1, 2016 (paying interest at 1-month Euribor +0.22% up to June 30, 2015 and 3-month Euribor +0.22% thereafter) and a 70 million euro bond maturing on December 1, 2016 (paying interest at 3-month Euribor +0.30%). Repayments made on long-term borrowings chiefly include the partial repayment of EIB (European Investment Bank) loans for 56 million euros on August 5, 2015 and for 26 million dollars on November 3, 2015 (see Note 8.1.2, page 310).

11.5 Other cash flows from financing activities

In the second half of 2014, Valeo paid over 28 million euros to the French tax authorities in connection with a dispute based on the unlawful nature of the withholding tax paid on dividends distributed in 2000. In a ruling at the end of December 2007, the administrative court found in favor of Valeo, which was reimbursed an amount of 28 million euros in April 2008. The tax authorities had lodged an appeal against this decision and the court found in favor of the authorities in 2014. Accordingly, Valeo was required to pay over this amount to the tax authorities.

11.6 Free cash flow and net cash flow

Free cash flow corresponds to net cash from operating activities (excluding changes in non-recurring sales of accounts and notes receivable) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.

This indicator reflects the Group's ability to generate cash from operating activities and is taken into account by General Management to define its investment strategy and financing policy.

Net cash flow corresponds to free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments with a change of 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 of control, and (iii) changes in non-recurring sales of accounts and notes receivable.

Free cash flow and net cash flow can be reconciled as follows with the consolidated statement of cash flows between 2015 and 2014:

<i>(in millions of euros)</i>	2015	2014
Gross operating cash flows	1,808	1,430
Income taxes paid	(190)	(163)
Changes in working capital	111	40
Net cash flows from operating activities	1,729	1,307
Net payments for purchases of intangible assets and property, plant and equipment	(1,109)	(936)
Elimination of change in sales of non-recurring accounts and notes receivable ⁽¹⁾	(55)	(44)
Free cash flow	565	327
Change in sales of non-recurring accounts and notes receivable ⁽¹⁾	55	44
Net change in non-current financial assets	(10)	(3)
Acquisitions of investments with gain of control, net of cash acquired	(8)	(104)
Disposals of investments with loss of control, net of cash transferred	-	(5)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(201)	(144)
Sale (purchase) of treasury stock/Dividend withholding tax	18	(81)
Net interest paid/received	(70)	(83)
Acquisitions of investments without gain of control	(3)	-
Bond exchange premiums	-	(91)
Net cash flow	346	(140)

⁽¹⁾ Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. An agreement spanning one or more years is drawn up for recurring transactions. Each contract is analyzed in light of IAS 39 on the derecognition of financial assets in order to determine whether the risks and rewards inherent to ownership of the receivables has been transferred (see Note 4.2, page 281).

Note 12 Subsequent events

To Valeo's knowledge, no events have occurred since December 31, 2015 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, 2015		December 31, 2014	
	Consolidation method	% interest	Consolidation method	% interest
EUROPE				
France				
Valeo (parent company)				
DAV	FC	100	FC	100
Équipement 1	FC	100	FC	100
Équipement 2	FC	100	FC	100
Équipement 11	FC	100	FC	100
Équipement 16	FC	100	-	-
SC2N	FC	100	FC	100
Société de Participations Valeo	FC	100	FC	100
Valeo Bayen	FC	100	FC	100
Valeo Comfort and Driving Assistance ⁽²⁾	-	-	FC	100
Valeo Embrayages	FC	100	FC	100
Valeo Équipements Électriques Moteur	FC	100	FC	100
Valeo Finance	FC	100	FC	100
Valeo Management Services	FC	100	FC	100
Valeo Matériaux de Friction	FC	100	FC	100
Valeo Plastic Omnium SNC	EM	50	EM	50
Valeo Sécurité Habitacle	FC	100	FC	100
Valeo Service	FC	100	FC	100
Valeo Systèmes de Contrôle Moteur	FC	100	FC	100
Valeo Systèmes d'Essuyage	FC	100	FC	100
Valeo Systèmes Thermiques	FC	100	FC	100
Valeo Vision	FC	100	FC	100
Spain				
Valeo Climatización, SA	FC	100	FC	100
Valeo España, SA	FC	100	FC	100
Valeo Iluminación, SA	FC	100	FC	100
Valeo Service España, SA	FC	100	FC	100
Valeo Termico, SA	FC	100	FC	100
Italy				
Valeo Service Italia, SpA	FC	99.9	FC	99.9
Valeo, SpA	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 272).

(1) See Note 2.2.1.2, page 275.

(2) Mergers and liquidations.

(3) See Note 2.2.2.2, page 276.

(4) See Note 2.2.2.4, page 276.

(5) Change of corporate name as of January 1, 2016.

Company	December 31, 2015		December 31, 2014	
	Consolidation method	% interest	Consolidation method	% interest
Germany				
Valeo Auto-Electric GmbH	FC	100	FC	100
Valeo GmbH	FC	100	FC	100
Valeo Holding GmbH	FC	100	-	-
Valeo Klimasysteme GmbH	FC	100	FC	100
Valeo Schalter und Sensoren GmbH	FC	100	FC	100
Valeo Service Deutschland GmbH	FC	100	FC	100
Valeo Wischersysteme GmbH	FC	100	FC	100
United Kingdom				
Valeo (UK) Limited	FC	100	FC	100
Valeo Climate Control Limited	FC	100	FC	100
Valeo Engine Cooling UK Limited	FC	100	FC	100
Valeo Management Services UK Limited	FC	100	FC	100
Valeo Service UK Limited	FC	100	FC	100
Valeo Air Management UK Limited	FC	100	FC	100
Ireland				
Connaught Electronics Limited	FC	100	FC	100
HI-KEY Limited	FC	100	FC	100
Valeo Ichikoh Holding Limited	FC	89.7	FC	89.7
Belgium				
Valeo Service Belgique	FC	100	FC	100
Valeo Vision Belgique	FC	100	FC	100
Luxembourg				
Coreval	FC	100	FC	100
Norway				
Valeo Powertrain Energy Conversion AS	FC	100	FC	100
Netherlands				
Valeo CV (Netherlands)	FC	100	-	-
Valeo Holding Netherlands BV	FC	100	FC	100
Valeo International Holding BV	FC	100	FC	100
Valeo Service Benelux BV	FC	100	FC	100
Czech Republic				
Valeo Automotive ks	FC	100	-	-
Valeo Autoklimatizace ks	FC	100	FC	100
Valeo Compressor Europe Sro	FC	100	FC	100
Valeo Vymeniky Tepla ks	FC	100	FC	100
Poland				
Valeo Autosystemy SpZOO	FC	100	FC	100
Valeo Electric and Electronic Systems SpZOO	FC	100	FC	100
Valeo Service Eastern Europe SpZOO	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 272).

(1) See Note 2.2.1.2, page 275.

(2) Mergers and liquidations.

(3) See Note 2.2.2.2, page 276.

(4) See Note 2.2.2.4, page 276.

(5) Change of corporate name as of January 1, 2016.

Company	December 31, 2015		December 31, 2014	
	Consolidation method	% interest	Consolidation method	% interest
Hungary				
Valeo Auto-Electric Hungary LLC	FC	100	FC	100
Romania				
Valeo Lighting Injection SA	FC	100	FC	100
Valeo Sisteme Termice SRL	FC	100	FC	100
Russia				
Valeo Climate Control Tomilino LLC	FC	100	FC	100
Valeo Service Limited Liability Company	FC	100	FC	100
Turkey				
Valeo Otomotiv Sanayi ve Ticaret AS (formerly Valeo Otomotiv Sistemleri Endustrisi AS)	FC	100	FC	100
AFRICA				
Tunisia				
DAV Tunisie SA	FC	100	FC	100
Valeo Embrayages Tunisie SA	FC	100	FC	100
Valeo Tunisie SA	FC	100	FC	100
Morocco				
Cablinal Maroc, SA	FC	100	FC	100
Valeo Vision Maroc, SA	FC	100	FC	100
Egypt				
Valeo Interbranch Automotive Software Egypt	FC	100	FC	100
South Africa				
Valeo Systems South Africa (Proprietary) Ltd	FC	51	FC	51
NORTH AMERICA				
United States				
Valeo Climate Control Corp.	FC	100	FC	100
Valeo North America, Inc	FC	100	FC	100
Valeo Radar Systems, Inc.	FC	100	FC	100
Detroit Thermal Systems LLC	EM	49	EM	49
Detroit Thermal Systems Leverage Lender LLC	EM	49	EM	49
Canada				
Valeo Canada, Inc.	FC	100	FC	100
Mexico				
Delmex de Juarez S de RL de CV	FC	100	FC	100
Valeo Climate Control de Mexico Servicios, S de RL de CV	FC	100	FC	100
Valeo Sistemas Automotrices de México, SA de CV	FC	100	FC	100
Valeo Sistemas Electricos Servicios, S de RL de CV	FC	100	FC	100
Valeo Sistemas Electricos, SA de CV	FC	100	FC	100
Valeo Sistemas Electronicos, S de RL de CV	FC	100	FC	100
Valeo Iluminacion Servicios, S de RL de CV (formerly Valeo Sylvania Services, S de RL de CV)	FC	100	FC	100
Valeo Termico Servicios, S de RL de CV	FC	100	FC	100
Valeo Transmisiones Servicios de Mexico S de RL de CV	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 272).

(1) See Note 2.2.1.2, page 275.

(2) Mergers and liquidations.

(3) See Note 2.2.2.2, page 276.

(4) See Note 2.2.2.4, page 276.

(5) Change of corporate name as of January 1, 2016.

Company	December 31, 2015		December 31, 2014	
	Consolidation method	% interest	Consolidation method	% interest
SOUTH AMERICA				
Brazil				
Valeo Sistemas Automotivos Ltda	FC	100	FC	100
Argentina				
Cibie Argentina, SA	FC	100	FC	100
Emelar Sociedad Anonima	FC	100	FC	100
Valeo Embragues Argentina, SA	FC	100	FC	100
Valeo Termico Argentina, SA	FC	100	FC	100
ASIA PACIFIC				
Thailand				
Valeo Automotive (Thailand) Co. Ltd (formerly Valeo Compressor [Thailand] Co. Ltd)	FC	98.5	FC	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd	FC	99.4	FC	99.4
Valeo Siam Thermal Systems Co. Ltd	FC	74.9	FC	74.9
Valeo Thermal Systems Sales (Thailand) Co. Ltd	FC	74.9	FC	74.9
Valeo Comfort and Driving Assistance Systems (Thailand) Ltd (formerly Valeo Niles [Thailand] Co. Ltd) ⁽⁵⁾	FC	100	FC	100
South Korea				
Valeo Automotive Korea	FC	100	FC	100
Valeo Electrical Systems Korea, Ltd	FC	100	FC	100
Valeo Pyeong HWA Co. Ltd	FC	50	FC	50
Valeo Pyeong HWA International Co. Ltd	FC	50	FC	50
Valeo Samsung Thermal Systems Co. Ltd ⁽³⁾	FC	50	FC	50
Valeo Pyeong HWA Metals Co. Ltd	EM	49	EM	49
Indonesia				
PT Valeo AC Indonesia	FC	100	FC	100
Malaysia				
Valeo Malaysia SDN.BHD.	FC	100	-	-
Taiwan				
Niles CTE Electronic Co. Ltd	FC	51	FC	51
Australia				
Valeo Service Australia PTY Ltd	FC	100	-	-
Japan				
Ichikoh Industries Ltd	EM	31.6	EM	31.6
Valeo Japan Co. Ltd	FC	100	FC	100
Valeo Unisia Transmissions KK	FC	66	FC	66
Nitto Manufacturing Co. Ltd	FC	87.2	FC	87.2

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 272).

(1) See Note 2.2.1.2, page 275.

(2) Mergers and liquidations.

(3) See Note 2.2.2.2, page 276.

(4) See Note 2.2.2.4, page 276.

(5) Change of corporate name as of January 1, 2016.

Company	December 31, 2015		December 31, 2014	
	Consolidation method	% interest	Consolidation method	% interest
China				
Faw-Valeo Climate Control Systems Co. Ltd	EM	36.5	EM	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd	FC	89.7	FC	89.7
Fuzhou Niles Electronic Co. Ltd	FC	51	FC	51
Guangzhou Valeo Engine Cooling Co. Ltd	FC	100	FC	100
Huada Automotive Air Conditioner (Hunan) Co. Ltd	EM	45	EM	45
Nanjing Valeo Clutch Co. Ltd ⁽⁴⁾	FC	55	FC	55
Shanghai Valeo Automotive Electrical Systems Company Ltd	EM	50	EM	50
Shenyang Valeo Auto Lighting Co. Ltd	FC	89.7	FC	89.7
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	FC	50	FC	50
Tianjin Valeo Xinyue Auto Parts Co. Ltd	FC	100	FC	60
Taizhou Valeo-Wenling Automotive Systems Company Ltd ⁽¹⁾	FC	73	FC	100
Valeo Auto Parts Trading (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	FC	100	FC	100
Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd	FC	100	FC	100
Valeo Engine Cooling (Foshan) Co. Ltd	FC	100	FC	100
Valeo Engine Cooling (Shashi) Co. Ltd	FC	100	FC	100
Valeo Compressor (Changchun) Co. Ltd	FC	100	FC	100
Valeo Friction Materials (Nanjing) Co. Ltd	FC	50	FC	50
Valeo Ichikoh (China) Auto Lighting Co. Ltd	FC	89.7	FC	89.7
Valeo Interior Controls (Shanghai) Co. Ltd	FC	100	-	-
Valeo Interior Controls (Shenzhen) Co. Ltd	FC	100	FC	100
Valeo Lighting Hubei Technical Center Co. Ltd	FC	89.7	FC	89.7
Valeo Management (Beijing) Co. Ltd	FC	100	FC	100
Valeo Management (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Niles (Guangzhou) Electronics Co. Ltd	FC	100	FC	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd ⁽¹⁾	FC	73	FC	55
Guangzhou Niles Trading Co. Ltd	FC	100	FC	100
Wuhu Valeo Automotive Lighting Systems Co. Ltd	FC	89.7	FC	89.7
Wuxi Valeo Automotive Components and System Co. Ltd.	FC	100	FC	100
India				
Amalgamations Valeo Clutch Private Ltd	EM	50	EM	50
Valeo Friction Materials India Ltd	FC	60	FC	60
Valeo Lighting Systems (India) Private Ltd	FC	100	FC	100
Valeo India Private Ltd	FC	100	FC	100
Valeo Service India Auto Parts Private Ltd	FC	60	FC	60

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 272).

(1) See Note 2.2.1.2, page 275.

(2) Mergers and liquidations.

(3) See Note 2.2.2.2, page 276.

(4) See Note 2.2.2.4, page 276.

(5) Change of corporate name as of January 1, 2016.

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, 2015

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, 2015, 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, 2015 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

II. 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 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 notes to the consolidated financial statements provide appropriate disclosures;
- 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 correct translation into figures of the assumptions 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, verifying the quantified impact of the aforementioned hypotheses and assessing on this basis the reasonableness of the estimates made.

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 specific 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 18, 2016
The Statutory Auditors

MAZARS

Lionel Gotlib

Gaël Lamant

ERNST & YOUNG et Autres

Philippe Berteaux

Gilles Puissochet

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. It holds financial investments that give it direct or indirect control over the Group's companies and is the head of the tax consolidation group in France. It also implements the financing policy and centralizes the management of the market risks to which the subsidiaries and Group are exposed.

Valeo reported a net operating loss of 50 million euros in 2015, compared with a net operating loss of 42 million euros in 2014. Trademark license agreements, under which certain French subsidiaries benefit from Group services, were partially revised in 2015. Trademark license fees were therefore reduced by 5 million euros, leading to a reduction in operating income during the period.

Net financial income came in at 281 million euros for 2015, up 53 million euros on 2014 (228 million euros). Dividends received or receivable by the Company rose slightly to 172 million euros from 165 million euros one year earlier. The increase in financial income in 2015 is also due to net reversals in impairment and provisions for investments in subsidiaries and affiliates totaling 19 million euros, compared to a net addition of 11 million euros in 2014. Valeo's cash management activities also produced better results in 2015 than in 2014, mainly due to the use of foreign currency risk hedges.

The Company reported a non-recurring expense of 4 million euros in 2015 versus non-recurring income of 11 million euros in 2014 as a result of receiving insurance indemnities. Income tax represents a net benefit of 17 million euros in 2015 versus a net expense of 23 million euros in 2014. Valeo reported a net benefit for the year in respect of tax consolidation amounting to 23 million euros versus a net expense of 19 million euros one year earlier. As from January 1, 2015, Valeo no longer recognizes a provision for repayment of tax losses to subsidiaries that are members of the tax consolidation group (the provision was increased by 16 million euros in 2014). Based on the Opinion issued by the CNC's Emerging Issues Taskforce on October 12, 2005, Valeo does not meet the conditions for recognizing such a

provision. This change also involves a reversal of 20 million euros from the provision that was previously recognized, of which 11 million euros was recorded in retained earnings and 9 million euros in tax benefit in the income statement. The tax benefit received from subsidiaries in an amount of 14 million euros was also recognized in tax income in the income statement. Lastly, a provision of 6 million euros was recognized in 2015 in respect of the additional tax on dividend payouts in France (4 million euros in 2014).

Net income came in at 244 million euros in 2015, compared with 174 million euros in 2014.

At December 31, 2015, Valeo's stockholders' equity stood at 3,702 million euros, up 83 million euros compared to the December 31, 2014 figure. This reflects a 244 million euro increase in net income for 2015 and the 11 million euro reversal in the provision for repayment of tax losses to subsidiaries recognized in retained earnings, less the 172 million euro dividend paid by Valeo to its shareholders in June 2015 in respect of its 2014 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, 2015, trade payables less accrued payables totaled 1.1 million euros, including 0.9 million euros payable by end-December 2015 and 0.2 million euros payable in January 2016. At December 31, 2014, trade 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.

Valeo recognized no sumptuary expenses that were not deductible for tax purposes in 2015.

No overheads were added back to income for tax purposes during the year.

5.6 2015 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, 2014, set out on pages 318 to 337 and 338 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 27, 2015 under number D.15-0220;

- 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 AMF on March 28, 2014 under number D.14-0234.

5.6.1 Income statement

(in millions of euros)	Notes	2015	2014
Provision reversals	3.1.3	19	10
Other operating income	4.1	26	37
Expense transfers	4.2.1	-	91
TOTAL OPERATING INCOME		45	138
Other purchases and external charges	4.2.2	(29)	(118)
Personnel expenses	3.2	(20)	(9)
Other taxes		(1)	(2)
Depreciation and amortization	4.2.3	(10)	(10)
Provisions	3.1.3	(35)	(41)
Total operating expenses		(95)	(180)
OPERATING LOSS		(50)	(42)
Net financial income	7	281	228
INCOME BEFORE TAX AND NON-RECURRING ITEMS		231	186
Non-recurring income (expense)	8	(4)	11
Income tax	9.2	17	(23)
NET INCOME FOR THE YEAR		244	174

The Notes are an integral part of these financial statements.

5.6.2 Balance sheet

		December 31, 2015			December 31, 2014
(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	5	5,003	(708)	4,295	4,063
TOTAL NON-CURRENT ASSETS		5,008	(712)	4,296	4,064
Prepaid and recoverable taxes	9.4/11.1	69	-	69	62
Other operating receivables	11.1	9	-	9	2
Other receivables	11.1	-	-	-	-
Financial receivables	6.1.4	1,479	-	1,479	1,889
Cash and cash equivalents	6.1.5	1,205	-	1,205	1,060
Prepaid expenses	4.2.4	77	-	77	93
TOTAL CURRENT ASSETS		2,839	-	2,839	3,106
TOTAL ASSETS		7,847	(712)	7,135	7,170

(in millions of euros)	Notes	December 31, 2015	December 31, 2014
EQUITY AND LIABILITIES			
Share capital	10.2	238	238
Additional paid-in capital	10.3	1,434	1,434
Legal reserve		25	25
Untaxed reserves		4	4
Other reserves		263	263
Retained earnings		1,494	1,481
Net income for the year		244	174
STOCKHOLDERS' EQUITY	10	3,702	3,619
Provisions for risks arising on stock option and free share plans	3.1.3	78	62
Provisions for pensions and other employee benefits	3.3	2	2
Other provisions for contingencies and charges	4.3.2	22	36
Provisions for contingencies and charges		102	100
Long-term portion of long-term debt	6.1.2	1,166	1,489
Current portion of long-term debt	6.1.2	470	117
Short-term debt	6.1.3	1,415	1,608
Operating payables	11.1	12	7
Other payables	9.5/11.1	268	230
Deferred income		-	-
TOTAL LIABILITIES		3,331	3,451
TOTAL EQUITY AND LIABILITIES		7,135	7,170

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>	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		244	174
Expenses (income) with no cash effect:			
■ depreciation and amortization/deferred charges		11	(80)
■ net additions to/(reversals from) impairment and provisions		(7)	31
■ other expenses (income) with no cash effect		4	-
GROSS OPERATING CASH FLOWS		252	125
Changes in working capital:			
■ operating receivables		(14)	22
■ operating payables		5	3
■ other receivables and payables		50	42
NET CASH FROM OPERATING ACTIVITIES		293	192
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions and capital increases in long-term financial assets	5.2	(8)	(185)
Loans and advances to subsidiaries and affiliates	5.2	(206)	(107)
Disposals and capital decreases in long-term financial assets	5.2	1	-
NET CASH USED IN INVESTING ACTIVITIES		(213)	(292)
Net cash generated (used) before financing activities		80	(100)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	10.4	(172)	(132)
Change in long-term debt:			
■ issuance of long-term debt	6.1.2	100	700
■ repayment of long-term debt	6.1.2	(80)	(637)
NET CASH USED IN FINANCING ACTIVITIES		(152)	(69)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(72)	(169)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,341	1,510
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,269	1,341

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 Description of the Company

Valeo is the parent company of the Valeo Group.

It acts as a holding company through financial investments, which give it direct or indirect control over the Group's companies. It is the head of the tax consolidation group in France.

It also implements the Group financing policy and ensures that the subsidiaries' financing requirements are covered, and centralizes the management of market risks (changes in interest rates, exchange rates and listed commodity prices) to which the subsidiaries and the Group are exposed.

Note 2 Accounting policies

2.1 Basis of preparation

The financial statements of Valeo (the Company) have been prepared in accordance with Standard No. 2014-03 issued by the French accounting standards-setter (*Autorité des normes comptables* – ANC) on June 5, 2014. Assets and liabilities are measured at historical cost, contribution value or revalued amount. The accounting policies applied in order to prepare the 2015 parent company financial statements are consistent with those used to prepare the 2014 financial statements, with the exception of the change detailed in Note 9.1, page 354, regarding the provision for repayment of tax losses to subsidiaries in the tax consolidation group.

The financial statements are presented in millions of 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. The Group 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 various 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 2016-2020 are based on an average estimated rise of 2.8% in global automotive production per annum (i.e., an assumed global automotive production of 102 million vehicles by 2020). This is consistent with several independent external forecasts available in October 2015, when the business plans were revised. At the end of the period covered by the business plans, Asia and the Middle East are expected to represent 54% of global production, Europe and Africa 24%, North America 18% and South America 4%.

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.

2.2 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 rate or the rate of any hedges allocated to them.

Any differences resulting from the translation of foreign currency receivables and payables at the year-end exchange rate are recognized within prepaid expenses/deferred income in the balance sheet. Provisions are recognized for unrealized foreign exchange losses at year-end to the extent of the unhedged risk.

Note 3 Personnel expenses and employee benefits

3.1 Free shares and stock options

Some Valeo Group employees receive equity-settled compensation in the form of share-based payment. Virtually all costs relating to these free share and stock option awards are recognized in Valeo's financial statements.

No accounting entries are recorded in respect of these free shares and stock options at the grant date. 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.

In the case of treasury shares covering plans that are deemed to be non-exercisable, a provision for contingencies is recognized when the market value of the shares is lower than their carrying amount.

Plans are considered to be non-exercisable in the event that:

- market value is lower than the option exercise price for stock option plans;

- performance conditions are unlikely to be met for performance share plans.

No provisions for impairment are booked in the case of treasury shares covering exercisable plans.

However, a provision for contingencies and charges is recognized in respect of these plans as appropriate, corresponding to:

- for stock purchase plans, the difference between the carrying amount of the shares allocated to the plans and the exercise price set in the plan if lower than the carrying amount;
- for free share plans, the carrying amount of the shares allocated to these plans.

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 purchase option or free share plans. These treasury shares are recognized within marketable securities (see Note 6.1.5, page 351).

3.1.1 Terms and conditions of stock option plans

The terms and conditions of the shareholder-approved employee stock option plans operated by the Valeo Group at December 31, 2015 were as follows:

Year in which 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 December 31, 2015	Expiration date
2008	426,750	-	31.41	58,415	2016
2010	1,000,000	611,365	24.07	155,236	2018
2011	292,840	210,370	42.41	84,430	2019
2012	367,160	265,230	40.78	255,357	2020
TOTAL	2,086,750	1,086,965		553,438	

(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.

3.1.2 Terms and conditions of free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by Valeo at December 31, 2015 were as follows:

Year in which plan was set up	Number of free shares authorized	of which subject to conditions ⁽¹⁾	Outstanding shares not yet remitted at December 31, 2015	Year of vesting ⁽²⁾
2011	326,860	126,480	88,148	2014/2016
2012	213,140	117,220	36,032	2015/2017
2013	473,814	223,314	420,804	2016/2018
2014	323,480	105,590	295,082	2017/2019
2015	319,009	86,935	298,222	2018/2020
TOTAL	1,656,303	659,539	1,138,288	

(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.

3.1.3 Provisions for risks arising on stock option and free share plans

Movements in provisions for risks arising on stock option and free share plans in 2014 and 2015 were as follows:

<i>(in millions of euros)</i>	2015	2014
Provisions at January 1	62	31
Utilizations	(19)	(7)
Reversals	-	(3)
Additions	35	41
Provisions at December 31	78	62
<i>Of which current portion (less than 1 year)</i>	<i>22</i>	<i>14</i>

At December 31, 2014 and 2015, these provisions concern treasury shares held to cover stock option and free share plans and shown within marketable securities (see Note 6.1.5, page 351).

In 2015, an amount of 35 million euros was set aside in respect of risks arising on stock option and free share plans (41 million euros in 2014). This provision is attributable to the 38% rise in the Valeo share price, leading to an increase in the total value of the shares to be delivered to beneficiaries under these plans in the future.

The 19 million euro provision reversal recognized in the income statement in 2015 relates mainly to the delivery of shares to French beneficiaries under the March 23, 2012 free share plan. In 2014, the 7 million euro provision reversal related to the delivery of shares to non-French beneficiaries under the 2010 free share plan and to the delivery of shares to French beneficiaries under the 2011 free share plan.

3.2 Personnel expenses

<i>(in millions of euros)</i>	2015	2014
Employee compensation	(3)	(3)
Other personnel expenses	(17)	(6)
Personnel expenses	(20)	(9)

In 2015, the Company delivered 152,369 shares to French beneficiaries under the March 23, 2012 free share plan and recognized an expense of 14 million euros corresponding to the net carrying amount of the treasury shares delivered. The provision set aside in respect of this plan was also reversed in an amount of 13 million euros (see Note 3.1, page 344). Other personnel expenses also include an expense of 2 million euros arising on the exercise of stock options and social security charges amounting to 1 million euros.

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. Other personnel expenses also included income of 2 million euros arising on the exercise of stock options in 2014 and social security charges amounting to 1 million euros.

3.3 Provisions for pensions and other employee benefits

The Company accounts for its pension obligations in accordance with ANC Recommendation No. 2013-02 of November 7, 2013 on the measurement and recognition of pension and employee benefit obligations.

These pension obligations solely correspond to supplementary pension benefits payable to former employees. No additional entitlement to these benefits was therefore recognized in 2015 or 2014.

These obligations are calculated on an actuarial basis at the end of each reporting period, based on the projected unit credit method and end-of-career salaries. These calculations include macroeconomic assumptions (chiefly the discount rate) and demographic assumptions (life expectancy). The discount

rate is determined by reference to the market yield 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 which are taken to income.

The calculations were made using an annual discount rate of 2.20% at December 31, 2015 and 1.70% at December 31, 2014.

The provision amounts to 2 million euros at December 31, 2015, virtually the same as at December 31, 2014.

3.4 Other information

	2015	2014
Headcount at December 31	2	2
Compensation paid to corporate officers (<i>in thousands of euros</i>)	2,432	2,432
Directors' fees (<i>in thousands of euros</i>)	637	555

Note 4 Other operating items

4.1 Other operating income

(<i>in millions of euros</i>)	2015	2014
Trademark license fees	23	28
Other	3	9
Other operating income	26	37

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 23 million euros in 2015, slightly less than in 2014 due to the change of rate and calculation basis on one of the agreements.

The amount recorded under "Other" corresponds to rebillings to subsidiaries.

4.2 Deferred recognition of bond redemption expense and issue fees

4.2.1 Expense transfers

Expense transfers totaling 91 million euros in 2014 related to the January 2014 issuance and exchange of bonds (see Note 4.2.2, page 346).

4.2.2 Other purchases and external charges

(<i>in millions of euros</i>)	2015	2014
Bond redemption expense and issue fees	-	(91)
Other	(29)	(27)
Other purchases and external charges	(29)	(118)

Other purchases and external charges in 2014 included mainly 91 million euros relating to the cost 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 are being expensed over the term of the new issue (see Note 6.1.2, page 349).

"Other" items consist of fees, commissions and contributions incurred by Valeo in the course of its activities.

4.2.3 Depreciation and amortization

Depreciation and amortization totaling 10 million euros in 2014 and 2015 relate to the bond redemption expense and issue fees for the new January 2014 bond issue (see Note 6.1.2, page 349).

4.2.4 Prepaid expenses

At December 31, 2015 and 2014, prepaid expenses relate primarily to deferred charges on bonds.

4.3 Other provisions for contingencies and charges

4.3.1 Other provisions for contingencies and charges

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Provision for repayment of tax losses to subsidiaries	-	20
Provisions for contingencies related to subsidiaries	1	2
Provisions for disputes	21	14
Other provisions for contingencies and charges	22	36

At December 31, 2015, other provisions for contingencies and charges comprise:

- a provision for contingencies relating to subsidiaries, representing 1 million euros and intended to cover the negative net equity of certain subsidiaries;

- a provision for disputes totaling 21 million euros, chiefly intended to cover tax and employee disputes and clean-up costs for Valeo's former plants.

As from January 1, 2015, Valeo no longer recognizes a provision for repayment of tax losses to subsidiaries that are members of the tax consolidation group (see Note 9.1, page 354).

4.3.2 Movements

Movements in other provisions for contingencies and charges in 2015 and 2014 are shown in the table below:

<i>(in millions of euros)</i>	2015	2014
Other provisions at January 1	36	70
Utilizations	(2)	(52)
Reversals	(21)	(6)
Additions	9	24
Other provisions at December 31	22	36
<i>Of which current portion (less than 1 year)</i>	<i>12</i>	<i>6</i>

The main change in 2015 results from the fact that as from January 1, 2015, Valeo no longer recognizes a provision for repayment of tax losses to subsidiaries that are members of the tax consolidation group (see Note 9.1, page 354).

Movements in other provisions for contingencies and charges in 2014 reflected the reimbursement of the 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 in respect of 2000 from its European Union-based subsidiaries. Since the French State had lodged an appeal against this decision, a provision had been 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.

Note 5 Long-term financial assets

Investments in subsidiaries and affiliates are initially 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 (CNC) Emerging Issues Task Force (*Comité d'urgence*), since 2007 the Company has included acquisition costs in the initial recognition cost of the shares 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.

5.1 Analysis by type

(in millions of euros)	December 31, 2015			December 31, 2014
	Gross	Impairment	Net	Net
Investments in subsidiaries and affiliates	2,697	(707)	1,990	1,964
Loans and advances to subsidiaries and affiliates	2,303	-	2,303	2,097
Other investment securities	3	(1)	2	2
Long-term financial assets	5,003	(708)	4,295	4,063

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.

The 2 million euros invested in the Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Equipementiers Automobiles - FMEA*) is shown in the "Other investment securities" line.

5.2 Movements

(in millions of euros)	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, 2013	1,813	1,990	2	3,805
Acquisitions and increase in the share capital of subsidiaries	185	-	-	185
Disposals and decrease in the share capital of subsidiaries	-	-	-	-
Changes in impairment losses and other movements	(34)	107	-	73
NET CARRYING AMOUNT AT DECEMBER 31, 2014	1,964	2,097	2	4,063
Acquisitions and increase in the share capital of subsidiaries	8	-	-	8
Disposals and decrease in the share capital of subsidiaries	(1)	-	-	(1)
Changes in impairment losses and other movements	19	206	-	225
NET CARRYING AMOUNT AT DECEMBER 31, 2015	1,990	2,303	2	4,295

Valeo carried out an 8 million euro share capital increase in its subsidiary Equipment 11 in 2015. 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 in 2015 led the Company to recognize net reversals from impairment provisions for investments in subsidiaries and affiliates totaling 18 million euros (net additions totaling 34 million euros in 2014 – see Note 7, page 353).

Note 6 Financing and risk hedging

6.1 Net debt

6.1.1 Analysis of net debt

The Company's net debt at December 31 can be analyzed as follows:

(in millions of euros)	Notes	December 31, 2015	December 31, 2014
Long-term portion of long-term debt	6.1.2	1,166	1,489
Current portion of long-term debt	6.1.2	470	117
Total long-term debt		1,636	1,606
Short-term debt	6.1.3	1,415	1,608
Financial receivables	6.1.4	(1,479)	(1,889)
Cash and cash equivalents	6.1.5	(1,205)	(1,060)
Short-term cash position		(1,269)	(1,341)
Net debt		367	265

6.1.2 Analysis of long-term debt

(in millions of euros)	December 31, 2015				December 31, 2014
	Less than 1 year	1 to 5 years	More than 5 years	Total	Total
Bonds	100	419	700	1,219	1,119
Syndicated loans	250	-	-	250	250
EIB (European Investment Bank) loans	80	47	-	127	197
Accrued interest	40	-	-	40	40
Long-term debt	470	466	700	1,636	1,606

In first-half 2015, Valeo carried out two private placements in the form of floating-rate notes for an aggregate amount of 100 million euros under its Euro Medium Term Note financing program. The notes have a maturity of 13 and 18 months.

In 2014, Valeo carried out several transactions early in the year which allowed it to extend 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 medium- and long-term 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 thereby 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) are being expensed over a period of 10 years (see Note 4.2, page 346).

At December 31, 2015, 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;

- two new private placements carried out in June 2015 for an aggregate amount of 100 million euros:
 - an initial 30 million euro loan maturing in 13 months and bearing variable interest at 1-month Euribor +0.22% for the first tranche falling due on July 1, 2015, then 3-month Euribor +0.22% thereafter. An interest rate swap was taken out in respect of the loan, exchanging variable interest for a fixed rate of 0.23%,
 - a second 70 million euro loan maturing in 18 months and bearing variable interest at 3-month Euribor +0.3%. An interest rate swap was also set up in respect of this loan, exchanging variable interest for a fixed rate of 0.3225%;
- a syndicated loan for 250 million euros contracted by the Group on June 30, 2011 with three banks as part of a club deal and intended to finance Valeo's 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. A further amount of 13 million euros was unwound in January 2015, the last such partial unwinding operation. The remaining balance was unwound in full on February 4, 2015;
- 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 56 million euros was outstanding at December 31, 2015 following repayment of three installments for a total amount of 169 million euros), 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 103 million US dollar loan (on which an amount of 77 million US dollars was outstanding at December 31, 2015 following repayment of the first 26 million US dollar installment), taken out on November 3, 2011 for a seven-year term and repayable in four equal annual installments as from 2015. This loan bears variable interest at 6-month USD Libor +1.9%.

6.1.3 Analysis of short-term debt

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Borrowings from subsidiaries	1,302	1,331
Commercial paper	40	208
Bank overdrafts	8	-
Other short-term debt	65	69
Short-term debt	1,415	1,608

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 in an amount of 65 million euros at December 31, 2015 (69 million euros at December 31, 2014).

6.1.4 Analysis of financial receivables

<i>(in millions of euros)</i>	December 31, 2015	December 31, 2014
Loans to subsidiaries	1,353	1,735
Other financial receivables	126	154
Financial receivables	1,479	1,889

Financial receivables consist primarily of loans granted to subsidiaries. At December 31, 2015, other financial receivables chiefly include a dividend receivable from Valeo International Holding BV for 125 million euros (125 million euros at December 31, 2014).

At end-2014, other financial receivables also included the fair value of financial instruments hedging foreign currency loans granted to subsidiaries (27 million euros).

6.1.5 Cash and cash equivalents

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.

(in millions of euros)	December 31, 2015	December 31, 2014
Marketable securities	1,068	910
Cash	137	150
Cash and cash equivalents	1,205	1,060

At December 31, 2015, the Company's marketable securities portfolio included mainly money market funds for 1,001 million euros (811 million euros at December 31, 2014), 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 1,008,355 treasury shares with a net carrying amount of 67 million euros. At December 31, 2014, Valeo held 1,695,322 of its own shares with a net carrying amount of 99 million euros.

Valeo 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 signed 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, 2015, 26,500 shares had been allocated to this liquidity agreement compared with 9,000 shares at December 31, 2014. In 2015, the Company purchased 1,330,142 and sold 1,312,462 of its own shares under this agreement.

For shares allocated to stock option and free share plans, the Company applies ANC Standard No. 2014-03. This opinion sets out the methods applicable for recognizing provisions over the vesting period of plans served by existing shares (see Note 3.1.3, page 345). At December 31, 2015 and 2014, shares serving stock option and free share plans only comprise shares to be allotted to employees and allocated to the specified plans. No shares were available for allotment to employees. In 2015, the Company delivered 704,467 shares under stock option and free share plans.

6.2 Liquidity reserve and covenants

6.2.1 Credit lines

At December 31, 2015, Valeo had several confirmed bank credit lines with an average maturity of four years, representing an aggregate amount of 1.2 billion euros. None of these credit lines were drawn down during 2015. 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.

6.2.2 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 3 billion euros, under which 1.2 billion euros had been drawn down at December 31, 2015.

6.2.3 Debt rating

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

- on April 2, 2015, Standard & Poor's confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook;
- on May 11, 2015, Moody's upgraded Valeo's short-term and long-term credit ratings from P-3 to P-2 and from Baa3 to Baa2, respectively, with a stable outlook.

6.2.4 Covenants

Bank credit lines, the syndicated 250 million euro loan, along with 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, 2015, the ratio calculated over 12 months was less than 0.1.

Bonds include an option granted to 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. This clause also applies to most credit lines. 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 date of issue of these financial statements, the Group expects to comply with all debt covenants over the next few months.

6.3 Currency, interest rate and commodity hedging

Gains and losses on financial instruments used as hedges are recognized on a symmetrical basis with the loss or gain on the hedged items. Commitments concerning probable future transactions are deemed to be hedging transactions.

6.3.1 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, and swaps.

At December 31, 2015, Valeo's net position in the main foreign currencies was as follows:

(in millions of euros)	December 31, 2015					December 31, 2014
	USD	GBP	JPY	Other	Total	Total
Forward sales with subsidiaries	(422)	(2)	(91)	(231)	(746)	(558)
Forward purchases with subsidiaries	256	6	21	120	403	320
Net position with subsidiaries	(166)	4	(70)	(111)	(343)	(238)
Forward sales with external counterparties	(581)	(54)	(114)	(130)	(879)	(1,287)
Forward purchases with external counterparties	1,067	11	170	235	1,483	1,016
Net position with external counterparties	486	(43)	56	105	604	(271)
Total net position	320	(39)	(14)	(6)	261	(509)

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 77 million dollars.

The net positions in yen and pounds sterling reflect hedges of loans granted to Group subsidiaries.

The market value of currency hedging instruments included in the net position with external counterparties represented an unrealized loss of 57 million euros at December 31, 2015 (unrealized loss of 44 million euros at December 31, 2014).

6.3.2 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.

Commodities hedged at December 31, 2015 were as follows:

(in millions of euros)	December 31, 2015			December 31, 2014
	With subsidiaries	With external counterparties	Total	Total
Forward sales	-	(92)	(92)	(84)
Forward purchases	80	-	80	84
Total net position	80	(92)	(12)	-

At December 31, 2015, the positions were not perfectly matched since certain hedges were only transferred to subsidiaries at the beginning of 2016.

The market value of instruments hedging metals prices included in the net position with external counterparties represented an unrealized loss of 6 million euros at December 31, 2015 (unrealized loss of 2 million euros at December 31, 2014).

6.3.3 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, 2015 and 2014, 80% of long-term debt was at fixed rates, 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	1,845	419	47	700	-	1,159	1,892	3,051
Financial receivables	-	(1,479)	-	-	-	-	-	(1,479)	(1,479)
Cash and cash equivalents	-	(1,205)	-	-	-	-	-	(1,205)	(1,205)
Net position before hedging	40	(839)	419	47	700	-	1,159	(792)	367
Derivative instruments	156	(156)	-	-	-	-	156	(156)	-
Net position after hedging	196	(995)	419	47	700	-	1,315	(948)	367

Net short-term cash was 1,205 million euros at December 31, 2015, 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 and the private placements, under which the variable rate was swapped for a fixed rate (see Note 6.1.2, page 349).

Note 7 Net financial income

(in millions of euros)	2015	2014
Dividends	172	165
Interest income	133	157
Interest expense	(64)	(81)
Net additions to/reversals from provisions for impairment and for investments in subsidiaries and affiliates	19	(11)
Other financial income and expenses	21	(2)
Net financial income	281	228

Dividend income in 2015 chiefly relates to the 125 million euro dividend from Valeo International Holding BV, the 22 million euro dividend from Turkish subsidiary Valeo Otomotiv Sanayi ve Ticaret AS and the 21 million euro dividend from South Korean subsidiary Valeo Pyeong Hwa International. Valeo also collected a 125 million euro dividend from Valeo International Holding BV in 2014, and a 35 million euro dividend from Turkish subsidiary Valeo Otomotiv Sanayi ve Ticaret AS (formerly Valeo Otomotiv Sistemleri Endustrisi AS).

Net interest income for 2015 was down compared to 2014 due to persistently low interest rates during the year.

In 2015, the measurement of the portfolio of investments in subsidiaries and affiliates led to a net 18 million euro reversal from impairment provisions (see Note 5.2, page 348) and a net 1 million euro reversal from provisions for contingencies relating to subsidiaries (see Note 4.3.1, page 347). The net balance of this caption therefore represents income of 19 million euros. Reversals totaling 84 million euros chiefly concern investments in Valeo Vision, whose performance has

steadily recovered over the past two years. Additions totaling 65 million euros in 2015 chiefly relate to Group subsidiaries Valeo Embrayages, Valeo Auto-Electric Beteiligungs GmbH and Valeo Systèmes de Contrôle Moteur.

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 and a net reversal of 23 million euros from provisions for contingencies relating to subsidiaries. The net balance of this caption therefore represented an expense of 11 million euros. Additions in 2014 chiefly related to Group subsidiaries Valeo Systèmes de Contrôle Moteur and Valeo Service. Reversals in the year mainly concerned investments in the financial holding company Valeo International Holding BV, which benefited from the continued improvement in the performance of its US subsidiaries, and Valeo Vision.

Other financial income and expenses in 2015 include a 17 million euro foreign exchange gain arising on Group investments in Mexico.

Note 8 Non-recurring income

The majority of the non-recurring expenses of 4 million euros in 2015 relate to employee disputes.

Non-recurring income totaling 11 million euros in 2014 mainly reflected insurance indemnities collected in the year.

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.

As from January 1, 2015, Valeo no longer recognizes a provision for repayment of tax losses to subsidiaries that are members of the tax consolidation group. Based on Opinion No. 2005-G issued by the CNC's Emerging Issues Taskforce on October 12, 2005, Valeo does not meet the conditions for recognizing such a provision.

This change also involves a reversal of 20 million euros from the provision that was previously recognized. This reversal is recognized within retained earnings for 11 million euros in respect of the change in accounting policy that should have been

applied in 2005 in view of the first-time application of Opinion No. 2005-G (i.e., the provision existing at December 31, 2004), and tax income in the income statement for 9 million euros as regards the portion of the provision arising subsequently to December 31, 2004.

At December 31, 2015, the amount of tax savings arising from tax losses transferred to Valeo by its subsidiaries came to 1,089 million euros (1,007 million euros at December 31, 2014). If a subsidiary returns to profit, it will utilize the previous tax losses and Valeo SA will be required to pay over the corresponding tax saving to the French State. If a subsidiary leaves the tax consolidation group, Valeo SA may be required to pay over the related tax saving to this subsidiary, based on the terms and conditions stipulated in the sale agreement.

9.2 Income tax

<i>(in millions of euros)</i>	2015	2014
Net tax benefit/(expense) arising on tax consolidation	23	(19)
Additional tax on dividend payouts	-	-
Net additions to/reversals from provisions for tax risks	(6)	(4)
Income tax	17	(23)

The net tax benefit arising on tax consolidation in 2015 (23 million euros) chiefly includes the tax benefit received from subsidiaries in an amount of 14 million euros and the 9 million euro reversal resulting from the cancellation of the provision for repayment of tax losses to subsidiaries that are members of the tax consolidation group (see Note 9.1, page 354).

The net tax expense arising on tax consolidation in 2014 (19 million euros) included an expense of 13 million euros relating to tax payable by Valeo Sécurité Habitable on the taxable disposal gain arising on the sale of the Access

Mechanisms business in 2013. It also included 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, partially offset by the tax benefit of 10 million euros received from subsidiaries.

In the absence of tax consolidation, the Company would have been liable for an income tax expense of 27 million euros in the year ended December 31, 2015 (25 million euros in the year ended December 31, 2014).

A provision of 6 million euros was recognized in 2015 in respect of the additional tax on dividend payouts in France (4 million euros in 2014).

9.3 Deferred tax position

(in millions of euros)	December 31, 2015		December 31, 2014	
	Tax basis	Corresponding tax	Tax basis	Corresponding tax
Timing differences between the recognition of income and expenses for accounting and tax purposes	63	21	63	21
Contribution premium	(50)	(17)	(50)	(17)
Tax loss carryforwards	1,450	499	1,471	506
TOTAL	1,463	503	1,484	510

9.4 Prepaid and recoverable taxes

At December 31, 2015, prepaid and recoverable taxes totaling 69 million euros include the research tax credit for 2015 amounting to 51 million euros and the tax benefit of 14 million euros arising on the 2015 tax consolidation (see Note 9.2, page 354).

At December 31, 2014, prepaid and recoverable taxes totaling 62 million euros included the research tax credit for 2014 amounting to 51 million euros and the tax benefit of 10 million euros arising on the 2014 tax consolidation.

The research tax credit receivable in respect of 2014 was sold by Valeo to several banks in 2015 along with the "CICE" tax credit (*Crédit d'Impôt pour la Compétitivité et l'Emploi*) in respect of 2015, for a total amount of 69 million euros. These receivables, including the 2015 CICE receivable at the so-called

"seed" stage, were derecognized on the balance sheet and an adjusting entry recorded in cash received.

9.5 Other payables

At December 31, 2015, "Other payables" totaling 268 million euros relate mainly to the 253 million euros owed to subsidiaries that are members of the tax consolidation group in respect of research tax credits for years 2012 to 2015 and CICE tax credits for years 2013 to 2015.

At December 31, 2014, "Other payables" included 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 10 Stockholders' equity

10.1 Share capital

At December 31, 2015, 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 (3,562,732 shares at December 31, 2015).

10.2 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.

10.3 Reserves

Reserves available for distribution amounted to 1,934 million euros at December 31, 2015 (1,819 million euros at December 31, 2014) before appropriation of income for the year and after deduction of the net carrying amount of treasury shares held at December 31, 2015 (67 million euros versus 99 million euros at December 31, 2014).

10.4 Movements

<i>(in millions of euros)</i>	Share capital	Additional paid-in capital	Reserves and other	Stockholders' equity
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2013	238	1,434	1,905	3,577
Dividends paid	-	-	(132)	(132)
Other movements	-	-	-	-
Capital increase	-	-	-	-
Net income for the year	-	-	174	174
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2014	238	1,434	1,947	3,619
Dividends paid	-	-	(172)	(172)
Other movements	-	-	11	11
Capital increase	-	-	-	-
Net income for the year	-	-	244	244
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2015	238	1,434	2,030	3,702

Other movements in 2015 relate to the reversal of the provision for repayment of tax losses to subsidiaries that are members of the tax consolidation group, previously recognized in retained earnings. This reversal is attributable to the change

in accounting policy which should have been applied in 2005 in view of the first-time application of Opinion No. 2005-G (i.e., the existing provision at December 31, 2004) (see Note 9.1, page 354).

Note 11 Other information

11.1 Maturity of receivables and payables

<i>(in millions of euros)</i>	December 31, 2015	Of which non-current portion (more than 1 year)	Of which current portion (less than 1 year)
Prepaid and recoverable taxes	69	52	17
Other operating receivables	9	-	9
Operating receivables	78	52	26

<i>(in millions of euros)</i>	December 31, 2015	Of which non-current portion (more than 1 year)	Of which current portion (less than 1 year)
Trade payables	10	-	10
Accrued taxes and payroll costs	2	-	2
Operating payables	12	-	12
Other payables	268	203	66

An analysis of long-term debt is provided in Note 6.1.2, page 349.

11.2 Related party transactions

11.2.1 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 2015 and 2014:

(in millions of euros)	2015	2014
Income statement		
Net financial income	307	309
Balance sheet at December 31		
Loans and advances to subsidiaries and affiliates	2,303	2,097
Financial receivables	1,470	1,735
Operating and other receivables	15	11
Debt	1,295	1,331
Operating and other payables	267	228

11.2.2 Transactions with related parties

No material related party transactions within the meaning of Article R.123-198 of the French Commercial Code (*Code de commerce*) that was not carried out at arm's length, was entered into in 2015.

11.3 Off-balance sheet commitments

11.3.1 Commitments given

(in millions of euros)	December 31, 2015			December 31, 2014		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Commitments given	-	176	176	35	185	220

Commitments given include a 152 million euro 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 (160 million euros at December 31, 2014). 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.

11.3.2 Commitments received

(in millions of euros)	December 31, 2015			December 31, 2014		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Commitments received	5	9	14	4	12	16

Commitments received include a vendor warranty for 15 million US dollars (14 million euros at December 31, 2015) granted by Osram GmbH in connection with the acquisition by Valeo Investment Holdings Inc. of Osram's 50% stake in Valeo Slovakia.

Note 12 List of subsidiaries and affiliates

At December 31, 2015

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 (loss)	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	(111)	100	838	838	565	-	-	41	-
Valeo Systèmes de Contrôle Moteur Cergy Saint-Christophe – France	55	(33)	100	502	21	66	-	454	(11)	-
Valeo International Holding BV Amsterdam – Netherlands	129	908	100	436	436	-	-	-	191	125
Valeo Systèmes Thermiques Le Mesnil Saint-Denis – France	37	169	47	215	215	319	-	439	56	-
Valeo Vision Bobigny – France	10	114	90	377	265	-	-	486	54	-
Valeo Embrayages Amiens – France	140	(89)	100	140	51	29	-	189	(32)	-
Valeo Matériaux de Friction Limoges – France	60	26	100	60	60	-	-	67	5	-
Valeo Service Saint-Denis – France	13	16	100	38	38	-	-	168	-	-
Valeo Auto-Electric GmbH Bietigheim – Germany	-	196	5	27	10	-	-	-	-	-
Valeo Otomotiv Sanayi ve Ticaret AS (formerly Valeo Otomotiv Sistemleri Endustrisi AS) ⁽³⁾ Bursa – Turkey	11	70	100	22	22	16	-	322	33	22
Valeo Pyeong Hwa Co. Ltd ⁽³⁾ Daegu – South Korea	13	163	50	15	15	-	-	482	17	21
Valeo Service Benelux BV Helmond – Netherlands	4	6	100	8	8	-	-	48	3	2
Équipement 11 Paris – France	-	1	100	8	1	8	-	-	-	-
Amalgamations Valeo Clutch Private Ltd ⁽²⁾⁽³⁾ Chennai – India	10	3	50	6	6	-	-	48	-	-

B – OTHER SUBSIDIARIES AND AFFILIATES

Subsidiaries not listed in A:

■ French subsidiaries (aggregate)	-	-	-	1	-	-	-	-	-	-
■ Foreign subsidiaries (aggregate)	-	-	-	4	4	-	-	-	-	2

Affiliates not listed in A:

■ French affiliates (aggregate)	-	-	-	-	-	-	-	-	-	-

TOTAL	-	-	-	2,697	1,990	-	-	-	-	172

(1) Including net income for 2015 before appropriation.

(2) Last financial year ended March 31, 2015.

(3) Translated at the year-end exchange rate and at average exchange rates for 2015.

Note 13 Subsequent events

To Valeo's knowledge, no events have occurred since December 31, 2015 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, 2015

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, 2015, 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 financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2015 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to Note 9.1 "Tax Group and taxable income" to the financial statements which outlines the effects related to the change in accounting method on the provision for repayment of tax losses to subsidiaries that are members of the tax consolidation group of which Valeo is the head.

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 Note 5 "Long-term financial assets" to the financial statements, investments in subsidiaries and affiliates are recognized at acquisition cost and written down where necessary to reflect their value in use, as described in the 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 (*Code de commerce*) 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 identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Courbevoie and Paris-La Défense, March 24, 2016

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, 2015

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 your company, we hereby report to you on related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the key terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement, as well as on the reasons for putting in place such agreements. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any other 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 in view of 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 agreements and commitments already approved by the Shareholders' Meeting.

We performed those procedures which we considered necessary to comply with professional guidance issued by the French 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 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 are no authorized agreements or commitments which should be submitted for approval by the Shareholders' Meeting 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.

Commitment with regard to Jacques Aschenbroich, Chief Executive Officer until February 18, 2016 and Chairman and Chief Executive Officer since that date

Pension plan

On October 20, 2009, the Board of Directors authorized the commitment to register Jacques Aschenbroich with the supplementary defined benefit pension plan for the Group's senior executives from January 1, 2010, crediting him with five additional years of seniority. The main features of this plan are as follows:

- due to the nature of the plan, the supplementary pension is capped 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.

At its meeting of February 18, 2016, and further to its decision to appoint Jacques Aschenbroich as Chairman and Chief Executive Officer, thereby combining the positions of Chairman of the Board of Directors and Chief Executive Officer, the Board of Directors decided to maintain this supplementary defined benefit plan in favor of Jacques Aschenbroich.

On February 18, 2016, acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors also decided, in accordance with Article L.225-42-1 of the French Commercial Code, that the vesting of conditional supplementary pension benefits under the supplementary defined benefit pension plan will be subject to performance conditions.

These will be achieved if the variable portion of the compensation of the Chairman and Chief Executive Officer, paid in the year following the reference year, corresponds to 100% of the fixed compensation payable for the reference year. In the event that the variable portion amounts to less than 100% of the fixed portion, rights would accrue on a prorata basis.

Shareholders are reminded that the variable compensation that may be granted to Jacques Aschenbroich in respect of his position as Chairman and Chief Executive Officer for the year ending December 31, 2016 will be calculated based on the following criteria:

- Quantitative criteria:
 - operating margin,
 - operating free cash flow,
 - net income,
 - return on capital employed (ROCE),
 - consolidated order intake.

The maximum amount of variable compensation as a percentage of the fixed compensation is 23% for each of the five quantitative criteria, i.e., a maximum of 115%. The expected level of achievement is determined precisely but is not publicly disclosed for reasons of confidentiality.

- Qualitative criteria:
 - financial communications,
 - strategic vision,
 - risk management.

The maximum amount of variable compensation as a percentage of the fixed compensation is 11% for financial communications, 22% for strategic vision and 22% for risk management (i.e., a maximum of 55%).

The Board of Directors considered that the initial reasons justifying the granting of this supplementary defined benefit pension plan to Jacques Aschenbroich, i.e., to retain the Chief Executive Officer and motivate him with regard to the Company's objectives, its corporate interest and following market practices, remain valid.

Agreements and commitments already approved by the 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 Shareholders' Meeting in prior years, were not implemented during the year.

Commitments and agreements with regard to Jacques Aschenbroich, Chief Executive Officer until February 18, 2016 and Chairman and Chief Executive Officer since that date

Termination benefits

The agreement granting Jacques Aschenbroich a termination benefit 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) continued in 2015. This commitment 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 Shareholders' Meeting on June 8, 2011, was amended by the Board of Directors on February 24, 2015 and presented in the Statutory Auditors' special report on related party agreements and commitments to the Shareholders' Meeting on May 26, 2015.

This commitment had no impact in 2015. Furthermore, following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors by the Board of Directors on February 18, 2016, thus becoming Chairman and Chief Executive Officer of Valeo, Jacques Aschenbroich notified the Board of Directors of his decision to waive, as from his appointment, his right to termination benefits. The Board of Directors duly noted the decision of Jacques Aschenbroich to waive his rights under this commitment.

The main features of this commitment were as follows:

- its maximum amount would have been determined based on twice the average compensation (fixed and variable) paid during the three financial years preceding the year in which the termination occurred;

- the five performance criteria on which the amount of the termination benefit would have been based were as follows:
 - payment of 50% of the average variable compensation for the three fiscal years preceding the year of departure,
 - return on capital employed (ROCE) of over 20% on average during the last three fiscal years,
 - a ratio of new orders to original equipment sales exceeding 1.3, based on the average over the previous three fiscal years,
 - the achievement of positive net income during the last fiscal year,
 - the achievement of gross margin exceeding 16% during the last fiscal year.

It had also been stated that the payment of termination benefits would be excluded if the Chief Executive Officer had elected to leave your Company in order to hold another position outside or within the Group, or if he had been able to benefit in the near future from his pension rights.

The total amount of the termination benefits that could have been paid would have been calculated based on the following scale:

- if five criteria were met: Jacques Aschenbroich would have received 100% of the severance benefits;
- if four criteria were met: Jacques Aschenbroich would have received 80% of the severance benefits;
- if three criteria were met: Jacques Aschenbroich would have received 60% of the severance benefits;
- if two criteria were met: Jacques Aschenbroich would have received 40% of the severance benefits;
- if fewer than two criteria were met: Jacques Aschenbroich would have received 0% of the severance benefits.

The Board of Directors would have reduced the severance benefits calculated above by 20% if a plan for significant job cuts had been introduced in the year preceding the termination of Jacques Aschenbroich's term of office.

Non-competition payment

The commitment granting Jacques Aschenbroich a non-competition payment if he were to leave your Company continued in 2015. This commitment 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 Shareholders' Meeting on June 3, 2010, was amended by the Board of Directors on February 24, 2015 and presented in the Statutory Auditors' special report on related party agreements and commitments to the Shareholders' Meeting on May 26, 2015.

The main features of this commitment are as follows:

- the maximum amount of the non-competition payment will be equal to 12 months of compensation calculated on the basis of the average compensation (fixed and variable) paid during the three fiscal years preceding the year in which the termination occurs;
- a prior decision of the Board of Directors is required to decide on whether or not the non-competition agreement will be upheld at the time Jacques Aschenbroich leaves, in particular if he leaves your Company to claim or after having claimed his pension rights.

If the non-competition clause is invoked, 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.

This commitment had no impact in 2015.

Life insurance

The commitment authorized by the Board of Directors on April 9, 2009 granting Jacques Aschenbroich life insurance covering death, disability or any consequences of any accidents during business travel continued in 2015. In respect of this commitment, your Company paid a premium of 2,300 euros including VAT for the period from April 30, 2015 to April 30, 2016.

Courbevoie and Paris-La Défense, March 24, 2016

The Statutory Auditors

MAZARS
Gaël Lamant

Lionel Gotlib

ERNST & YOUNG et Autres
Philippe Berteaux

Gilles Puissochet

5.8 Other financial and accounting information

5.8.1 Five-year financial summary

	2011	2012	2013	2014	2015
1 – SHARE CAPITAL AT DECEMBER 31					
Share capital (<i>in millions of euros</i>)	238	238	238	238	238
Number of ordinary shares outstanding	79,269,596	79,462,540	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	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 provisions	90	76	145	247	233
Income tax	19	13	23	(23)	17
Employee profit-sharing	-	-	-	-	-
Net income for the year	163	205	180	174	244
Net dividend	106	115	132	172	238
3 – PER SHARE DATA (<i>IN EUROS</i>)					
Net income after tax, but before depreciation, amortization and provisions	1.26	0.99	2.11	2.83	3.15
Net income for the year	2.05	2.58	2.26	2.19	3.07
Net dividend	1.40	1.50	1.70	2.20	3.00
4 – HEADCOUNT					
Headcount at December 31	2	2	2	2	2
Wages and salaries (<i>in millions of euros</i>)	2	10	2	8	19 ⁽¹⁾
Social security charges (<i>in millions of euros</i>)	1	1	1	1	1

(1) This amount includes an expense of 14 million euros relating to the delivery of free shares to French beneficiaries under the March 23, 2012 free share plan (see Note 3.2, page 345).

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	436
Valeo Vision	620,572	265
Valeo Systèmes Thermiques	1,151,133	215
Valeo Matériaux de Friction	4,002,550	60
Valeo Embrayages	9,335,883	51
Valeo Service	860,000	38
Valeo Otomotiv Sanayi ve Ticaret AS (formerly Valeo Otomotiv Sistemleri Endustrisi AS)	6,610,059	22
Valeo Systèmes de Contrôle Moteur	5,500,000	21
Valeo Pyeong Hwa Co. Ltd/Valeo Pyeong Hwa International Co. Ltd	1,642,698	15
Valeo Auto-Electric GmbH	1,305	10
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		5
Investments in subsidiaries and affiliates		1,990
FMEA	2,468	1
Other securities		1
Other investment securities		2
Amundi Tresor corporate	2,300	540
SGAM Monétaire Plus	842	20
CIC Union Cash	80	41
BNP Paribas Deposit	3,930	400
Money market funds		1,001
Treasury stock	1,008,355	67
TOTAL		3,060

SHARE CAPITAL AND OWNERSHIP STRUCTURE

6

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



€3

*Dividend per share
(submitted for approval
to the Shareholders' Meeting)*



36%

*Increase in dividend
compared to 2014*

32%

Payout ratio



38%

*Share price rise in 2015
Valeo is a member of the CAC 40*

6.1 Stock market data

	2013	2014	2015
Market capitalization at year-end <i>(in billions of euros)</i>	6.39	8.23	11.33
Number of shares	79,462,540	79,462,540	79,462,540
Highest share price <i>(in euros)</i>	81.15	106.05	156.70
Lowest share price <i>(in euros)</i>	37.25	73.94	99.60
Average share price <i>(in euros)</i>	55.22	93.75	132.78
Share price at year-end <i>(in euros)</i>	80.43	103.60	142.55

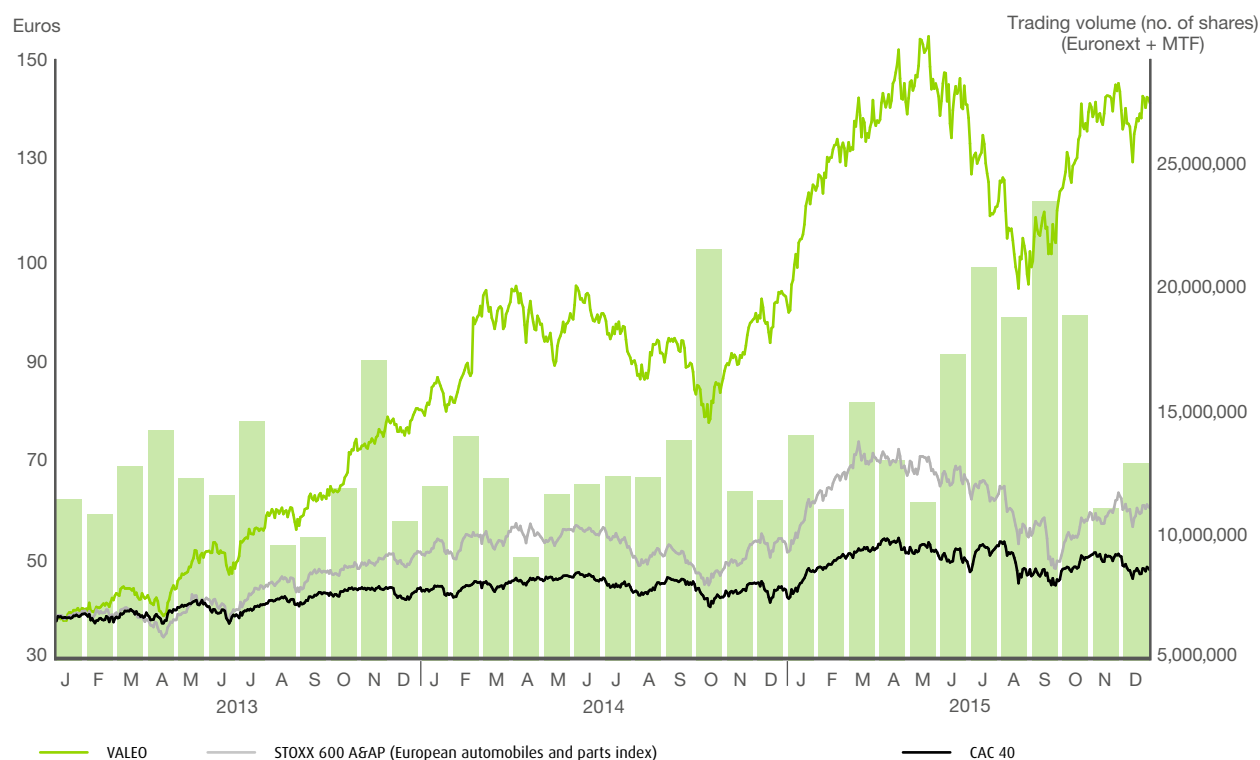
6.1.1 Share performance

Date	Price <i>(in euros)</i>		Closing (average)	Trading volume (no. of shares)		Volume on Euronext ⁽²⁾ <i>(in millions of euros)</i>
	High	Low		Volume on Euronext	Volume on MTF ⁽¹⁾	
December 2014	104.85	92.55	100.29	6,201,807	5,256,056	614.10
January 2015	127.25	99.60	114.02	7,415,215	6,647,249	852.60
February 2015	136.00	122.95	130.40	5,918,375	5,146,258	770.14
March 2015	145.70	129.15	136.83	9,112,329	6,273,980	1,246.47
April 2015	153.60	136.80	143.94	7,238,156	5,817,609	1,044.81
May 2015	156.70	139.20	149.03	6,712,093	4,632,252	992.30
June 2015	150.55	132.55	144.08	11,045,145	6,267,963	1,579.58
July 2015	148.25	117.75	130.94	12,782,043	8,022,437	1,658.36
August 2015	128.35	100.50	116.72	12,033,177	6,772,547	1,387.11
September 2015	121.80	105.25	114.90	14,261,583	9,191,735	1,636.55
October 2015	143.40	120.65	131.78	12,035,460	6,847,778	1,581.16
November 2015	148.40	136.25	142.22	6,885,246	4,238,108	976.45
December 2015	147.95	130.25	139.70	8,060,606	4,876,991	1,124.66

(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



6.2 Investor relations

The Group's Investor Relations Department serves as an interface between the Group and the international financial community, including institutional investors such as socially responsible investors (SRIs) and bond investors, as well as financial analysts and individual shareholders. Valeo aims to provide clear, thorough and transparent information in real time to all these market participants, in order to keep them informed of Valeo's strategy, products, activities, financial results, medium-term financial objectives and how it plans to achieve them.

Valeo's website, www.valeo.com, features a dedicated, regularly updated "Investors and shareholders" section for

its shareholders and the financial community. It contains the Company's regulatory information, in particular the Registration Document (including the Annual Financial Report, the Corporate Governance and Sustainable Development Report, and the Integrated Report), the Half-year Financial Report, all financial publications, presentations and press releases ("Publications and presentations" section), as well as information relating to debt ("Bond investors" section), shareholders ("Stock and shareholders" section) and the Shareholders' Meeting ("Shareholders' Meeting" section).

6.2.1 Institutional investors

The Group's Investor Relations Department closely and consistently interacts with the financial community, particularly when financial results are reported or when special events are announced. The Department places great importance on holding frequent meetings throughout the year with all shareholders, investors and financial analysts, whether at the Group's headquarters or major global financial centers (Europe, North America and Asia) during roadshows, conferences organized by brokers and major motor shows. The events take various forms, including one-on-one meetings, group events, conference calls and subject-specific or general presentations.

In all, more than 1,000 institutional investors and analysts participated in these events during 2015, with a large number of participants meeting the Group's Management.

Moreover, Valeo has been developing dedicated communications for investors and analysts specialized in socially responsible investment. In 2015, the Group had the opportunity at several meetings and conferences to discuss its strategy in areas including corporate governance and social and environmental responsibility. Dedicated information is available on the Group's website in the "SRI investors" section, which mainly features SRI publications, ratings, and indices in which Valeo is included.

6.2.2 Individual shareholders

Valeo also consistently interacts with individual shareholders, who control approximately 5% of Valeo's share capital. As part of this interaction, an "Individual shareholders" section is available on the Group's website and features information related to the stock market and dividends, as well as a shareholders' guide. The Group's Investor Relations Department regularly sends information, such as the e-newsletter, the "flash" e-newsletter and shareholders' letters, to individual shareholders about the Group's latest news and financial results.

The share registrar service has been provided by Société Générale since the end of 2000 and offers a share information line (+33 (0)2 51 85 67 89) for questions concerning dividends, tax issues and order placing. For any other information about the Group, individual shareholders can call the number below.

Contact

Valeo

43, rue Bayen
75848 Paris Cedex 17 – France

Institutional investors and financial analysts:

Thierry Lacorre
Investor Relations Director
Tel.: +33 (0)1 40 55 37 93
Email: thierry.lacorre@valeo.com

Individual shareholders:

Tel.: +33 (0)1 40 55 20 39
Email: valeo@relations-actionnaires.com

Provisional financial communication calendar

- First-quarter 2016 sales: April 26, 2016
- First-half 2016 results: July 26, 2016

- Third-quarter 2016 sales: October 20, 2016
- Full-year 2016 results: second half of February 2017

6.3 Dividends

Dividends per share over the past three years were as follows:

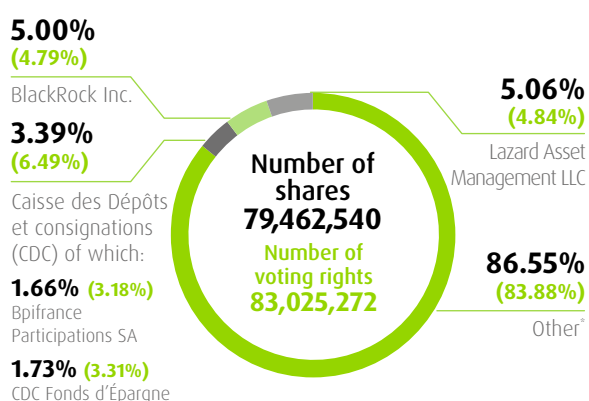
Year	Dividend per share (in euros)	Tax allowance	Total (in millions of euros)
2012	1.50	Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code	115
2013	1.70	Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code	132
2014	2.20	Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code	172

At the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2015, Valeo's Board of Directors will recommend the payment of a dividend amounting to 3 euros for each share eligible for dividends, 36% higher than for the year ended December 31, 2014, representing a payout rate of 32%.

6.4 Share ownership

6.4.1 Ownership structure

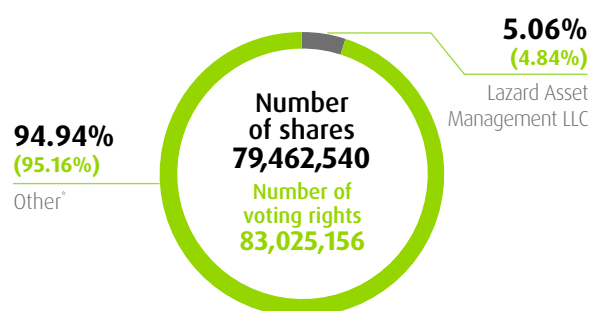
Ownership structure at December 31, 2015



% of share capital (% of voting rights)

* Including 1,008,355 treasury shares (1.27% of the share capital).

Ownership structure at February 16, 2016



% of share capital (% of voting rights)

* Including 1,097,105 treasury shares (1.38% 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 (2013, 2014 and 2015), and at February 16, 2016.

The Company's share capital at December 31, 2015 was divided into 79,462,540 shares, representing 83,025,272 voting rights, including 1,008,355 shares held as treasury shares.

	December 31, 2013				December 31, 2014			
	Number of shares	% of share capital	Number of theoretical voting rights ⁽¹⁾	% of theoretical voting rights ⁽¹⁾	Number of shares	% of share capital	Number of theoretical voting rights ⁽¹⁾	% of theoretical 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 LLC	4,035,616	5.08	4,035,616	4.89	na ^(*)	na ^(*)	na ^(*)	na ^(*)
BlackRock Inc.	na ^(*)	na ^(*)	na ^(*)	na ^(*)	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 ⁽⁴⁾	66,448,715	83.62	69,226,832 ⁽⁴⁾	83.84	73,468,216	92.46	76,128,544 ⁽⁴⁾	89.97
TOTAL	79,462,540	100	82,574,086	100	79,462,540	100	84,612,325	100

	December 31, 2015				February 16, 2016			
	Number of shares	% of share capital	Number of theoretical voting rights ⁽¹⁾	% of theoretical voting rights ⁽¹⁾	Number of shares	% of share capital	Number of theoretical voting rights ⁽¹⁾	% of theoretical voting rights ⁽¹⁾
Caisse des dépôts et consignations, of which:	2,695,442	3.39	5,390,884	6.49	na ^(*)	na ^(*)	na ^(*)	na ^(*)
<i>Bpifrance Participations SA</i>	1,322,141	1.66	2,644,282	3.18	na ^(*)	na ^(*)	na ^(*)	na ^(*)
<i>CDC Savings Funds</i>	1,373,301	1.73	2,746,602	3.31	na ^(*)	na ^(*)	na ^(*)	na ^(*)
Lazard Asset Management LLC	4,021,188	5.06	4,021,188	4.84	4,021,188	5.06	4,021,188	4.84
BlackRock Inc.	3,976,385	5.00	3,976,385	4.79	na ^(*)	na ^(*)	na ^(*)	na ^(*)
Employee share ownership ⁽²⁾	270,186	0.34	356,036	0.43	270,186	0.34	356,036	0.43
Treasury shares ⁽³⁾	1,008,355	1.27	-	-	1,097,105	1.38	-	-
Other	67,490,984	84.94	69,280,779 ⁽⁴⁾	83.45	74,074,061	93.22	78,647,932 ⁽⁴⁾	94.73
TOTAL	79,462,540	100	83,025,272	100	79,462,540	100	83,025,156	100

(*) Interest representing less than 5% of the share capital or voting rights.

(1) Registered shares held by the same shareholder for four or more years carry double voting rights (see Chapter 7, section 7.1.11, "Double voting rights", page 392). The total number of voting rights is calculated on the basis of all shares with voting rights as well as shares without voting rights (Article 223-11 of the AMF's General Regulations).

(2) For more information on employee share ownership see section 6.4.5, "Employee share ownership", page 376.

(3) For more information on treasury shares see section 6.5.2, "Treasury shares", pages 377 to 378.

(4) The number of theoretical voting rights includes theoretical voting rights that were not recognized in treasury shares.

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, 2015**, other than Caisse des dépôts et consignations (CDC), Lazard Asset Management LLC and BlackRock Inc.

To the best of the Company's knowledge, at December 31, 2015:

- **Caisse des dépôts et consignations (CDC)** held directly 1,373,301 shares in the Company representing 2,746,602 voting rights, i.e., 1.73% of the share capital and 3.31% of the total voting rights, and it held indirectly via Bpifrance Participations SA, 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 SA, 1,322,141 shares, representing 2,644,282 voting rights, i.e., 1.66% of the share capital and 3.18% of the voting rights. Caisse des dépôts et consignations' direct and indirect holdings through Bpifrance Participations SA now represent 3.39% of the Company's share capital and 6.49% of the voting rights. **EPIC-BPI Groupe** held indirectly via Bpifrance Participations SA, 1,322,141 shares, representing 2,644,283 voting rights, i.e., 1.66% of the share capital and 3.18% of the voting rights;
- **Lazard Asset Management LLC**, acting on behalf of funds and clients it manages, held, directly or indirectly, 4,021,188 shares in the Company, i.e., 5.06% of the share capital and 4.84% of the voting rights;
- **BlackRock Inc.**, acting on behalf of funds and clients it manages, held, directly or indirectly, 3,976,385 shares in the Company, i.e., 5.00% of the share capital and 4.79% of the 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 **February 16, 2016**, other than Lazard Asset Management LLC.

To the best of the Company's knowledge, at February 16, 2016:

- **Lazard Asset Management LLC**, acting on behalf of funds and clients it manages, held, directly or indirectly, 4,021,188 shares in the Company, i.e., 5.06% of the share capital and 4.84% of the voting rights.

Crossing of disclosure thresholds

Between January 1, 2015 and February 16, 2016, Valeo was notified of the following disclosure threshold crossings:

Shareholder	Date of notification ⁽¹⁾	Effective date ⁽¹⁾	Number of Valeo shares held ⁽¹⁾	Percentage capital reported ⁽¹⁾	Number of voting rights held ⁽¹⁾
Caisse des dépôts et consignations ⁽²⁾	04/02/2015	03/31/2015	2,695,442 (including 1,322,141 via Bpifrance Participations SA ⁽³⁾)	3.39% (including 1.66% via Bpifrance Participations SA ⁽³⁾)	5,390,885 (including 2,644,283 via Bpifrance Participations SA ⁽³⁾)
EPIC BPI-Groupe ⁽⁴⁾	04/07/2015	03/31/2015	1,322,141 (via Bpifrance Participations SA ⁽³⁾)	1.66% (via Bpifrance Participations SA ⁽³⁾)	2,644,283 (via Bpifrance Participations SA ⁽³⁾)
Lazard Asset Management LLC ⁽⁵⁾	09/30/2015	09/21/2015	4,021,188	5.06%	4,021,188
BlackRock Inc. ⁽⁵⁾	12/09/2015	12/04/2015	4,009,004	5.05%	4,009,004
BlackRock Inc. ⁽⁵⁾	12/14/2015	12/08/2015	3,962,115	4.99%	3,962,115
BlackRock Inc. ⁽⁵⁾	12/14/2015	12/09/2015	4,064,863	5.12%	4,064,863
BlackRock Inc. ⁽⁵⁾	12/16/2015	12/10/2015	3,908,424	4.92%	3,908,424
BlackRock Inc. ⁽⁵⁾	12/31/2015	12/29/2015	4,017,495	5.06%	4,017,495
BlackRock Inc. ⁽⁵⁾	01/04/2016	12/30/2015	3,935,324	4.95%	3,935,324
BlackRock Inc. ⁽⁵⁾	01/05/2016	12/31/2015	3,976,385	5.00%	3,976,385
BlackRock Inc. ⁽⁵⁾	01/14/2016	01/08/2016	3,875,447	4.88%	3,875,447
BlackRock Inc. ⁽⁵⁾	01/15/2016	01/11/2016	4,074,585	5.13%	4,074,585
BlackRock Inc. ⁽⁵⁾	01/19/2016	01/13/2016	3,912,885	4.92%	3,912,885
BlackRock Inc. ⁽⁵⁾	01/20/2016	01/14/2016	4,097,640	5.16%	4,097,640
BlackRock Inc. ⁽⁵⁾	01/27/2016	01/21/2016	4,235,361	5.33%	4,235,361
BlackRock Inc. ⁽⁵⁾	01/28/2016	01/22/2016	4,137,851	5.21%	4,137,851
BlackRock Inc. ⁽⁵⁾	02/09/2016	02/05/2016	4,193,393	5.28%	4,193,393
Caisse des dépôts et consignations	02/10/2016	02/08/2016	1,652,173	2.08%	2,965,474
BlackRock Inc. ⁽⁵⁾	02/12/2016	02/09/2016	4,049,126	5.10%	4,049,126
BlackRock Inc. ⁽⁵⁾	02/16/2016	02/11/2016	3,877,431	4.88%	3,877,431

(1) Information sourced from disclosure threshold crossing notifications published by the AMF.

(2) To the best of the Company's knowledge, as at the date of notification, Caisse des dépôts et consignations held 2,695,442 registered shares, representing 5,390,884 voting rights.

(3) Bpifrance Participations SA is a wholly-owned subsidiary of BPI Groupe SA, a 50%-50% joint venture between Caisse des dépôts et consignations and EPIC BPI-Groupe.

(4) To the best of the Company's knowledge, as at the date of notification, EPIC BPI-Groupe held 1,322,141 registered shares, representing 2,644,282 voting rights.

(5) Acting on behalf of funds and clients it manages.

(6) Based on a share capital of 79,462,540 shares, representing 83,026,156 voting rights at January 31, 2016 (and not 81,704,015 voting rights), the percentage of voting rights is 3.57%.

Percentage of theoretical voting rights reported ⁽¹⁾	Threshold crossed/Increase or decrease ⁽¹⁾	Reason for threshold crossing ⁽¹⁾
6.48% (including 3.18% <i>via</i> Bpifrance Participations SA ⁽³⁾)	5% of share capital (directly or indirectly crossed threshold)/ Decrease	Sale of shares under an accelerated book building procedure
3.18% (<i>via</i> Bpifrance Participations SA ⁽³⁾)	5% of share capital (directly or indirectly crossed threshold)/ Decrease	Sale of shares under an accelerated book building procedure
4.84%	5% of share capital/Increase	Purchase of shares on the market
4.83%	5% of share capital/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
4.77%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
4.90%	5% of share capital/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
4.71%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
4.84%	5% of share capital/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
4.74%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
4.79%	5% of share capital/Increase	Increase in the number of shares held as collateral
4.67%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
4.91%	5% of share capital/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
4.71%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
4.94%	5% of share capital/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
5.10%	5% of voting rights/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
4.98%	5% of voting rights/Decrease	Decrease in the number of shares held as collateral
5.05%	5% of voting rights/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
3.63% ⁽⁶⁾	5% of voting rights/Decrease	Sale of shares under an equity swap implemented with a financial institution
4.88%	5% of voting rights/Decrease	Sale of shares outside of and on the market and decrease in the number of shares held as collateral
4.67%	5% of share capital/Decrease	Sale of shares outside of and on the market and decrease in the number of shares held as collateral

6.4.3 Directors' interests in Valeo's share capital

At December 31, 2015, 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, "Presentation of directors", pages 84 to 96.

6.4.4 Transactions carried out by executive managers and corporate officers in the Company's shares

C. Maury Devine, a director, acquired 500 American depositary receipts (ADRs), representing 250 shares at a unit price of USD 68.90 on January 22, 2015, and 250 shares at a unit price of 150.50 euros on June 11, 2015. Jacques Aschenbroich acquired 100,000 shares by exercising stock purchase options at a unit price of 24.07 euros on May 15, 2015.

No other directors reported transactions involving the Company's shares.

6.4.5 Employee share ownership

At December 31, 2015, Valeo employees held a total of 270,186 shares under Group employee share ownership plans, directly or through two mutual funds, representing 0.34% of the Company's share capital. At December 31, 2014, they held 200,073 shares, or 0.25% of the share capital.

6.5 Share buyback program AFR

6.5.1 Current share buyback program adopted by the Shareholders' Meeting of May 26, 2015

In accordance with Articles L.225-209 *et seq.* of the French Commercial Code, the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2015, in its twelfth 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
- in general, to comply with its obligations in respect of stock option plans or other allotments 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 delivery of shares (as exchange consideration, as payment or other) in connection with acquisitions, 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
- 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 any time, this percentage being applicable to share capital that has been adjusted due to transactions carried out after the Shareholders' Meeting, it being specified that (i) when shares are acquired to increase liquidity, the number of shares used to determine the 10% limit corresponds to the number of shares purchased, after deduction of the number of shares sold during the authorized period, and that (ii) 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 200 euros per share and 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.

This authorization was given for an 18-month period as of the Shareholders' Meeting of May 26, 2015 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 2015 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 2015, 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, "Treasury shares", pages 377 and 378).

6.5.2 Treasury shares

At December 31, 2015 the Company held, directly or indirectly, 1,008,355 treasury shares (1.27% of the share capital) with a unit value based on the purchase price of 66.57 euros and a par value of 3 euros. At December 31, 2014, Valeo held 1,695,322 treasury shares (2.13% of the share capital).

The shares purchased in 2015 were used exclusively in respect of the liquidity agreement.

The share purchases were made in accordance with authorizations granted by the Shareholders' Meetings of May 21, 2014 and May 26, 2015 to the Board of Directors to buy back Company shares, it being specified that the twelfth resolution of the Shareholders' Meeting of May 26, 2015 terminated and superseded the authorization granted by the Shareholders' Meeting of May 21, 2014.

The eleventh 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 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 allotments 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 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; or
- the implementation of any market practice permitted, or that may subsequently be permitted, by the AMF.

More generally, this plan is also intended to allow the Company to carry out any transaction in compliance with the applicable laws and regulations.

The twelfth resolution of the Shareholders' Meeting of May 26, 2015 authorized the Board of Directors (with the power to subdelegate) to purchase and order the purchase of the Company's shares in accordance with the conditions specified in section 6.5.1. "Current share buyback program adopted by the Shareholders' Meeting of May 26, 2015", pages 376 to 377.

Shares to be allocated to stock purchase option and performance share plans

Under the new share buyback program as authorized by the Shareholders' Meeting of May 21, 2014, Valeo acquired 750,000 shares at an average price of 97.1201 euros on August 14, 2014. No shares were purchased in 2015.

At December 31, 2015 the number of treasury shares to be allocated to stock purchase option and performance share plans stood at 981,855 compared with 1,686,322 at December 31, 2014.

Shares for use under a liquidity agreement

At December 31, 2015, under the liquidity agreement signed with an investment services provider on April 22, 2004, Valeo had acquired 1,330,142 shares at an average price of 130.70 euros and sold 1,312,642 shares at an average First-In-First-Out price of 130.31 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 French Association of Investment Firms (*Association française des entreprises d'investissement* – AFEI) totaled 140,000 euros. These shares were not reallocated to other purposes provided for under the share buyback program.

At December 31, 2015, 26,500 shares and 18,958,005.72 euros in cash had been allocated to the liquidity agreement, compared with 9,000 shares and 19,302,904.34 euros in cash at December 31, 2014. On the date the liquidity agreement was signed, 220,000 Valeo shares and 6,600,000 euros in cash were allocated for its implementation.

6.5.3 Share buyback program submitted to the Annual Shareholders' Meeting of May 26, 2016

The Ordinary and Extraordinary Shareholders' Meeting that will be held on May 26, 2016 will be asked to repeal the twelfth resolution approved by the Annual Shareholders' Meeting of May 26, 2015 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, 2016, Valeo directly or indirectly held 1,097,105 shares, representing 1.38% of the Company's share capital.

Breakdown of shares owned by Valeo by purpose

At January 31, 2016:

- 973,105 shares were allocated to stock purchase option plans;
- 124,000 shares were 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, 2016, 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
- in general, to comply with its obligations in respect of stock option plans or other allotments 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 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 acquisitions, 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 interest in the Company's share capital, maximum number and characteristics of shares that may be purchased under the new share buyback program

The maximum interest 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, 2016).

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., 1,097,105 shares at January 31, 2016 (1.38% 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, 2016, a total of 6,849,149 shares (8.62% of the Company's share capital at January 31, 2016) 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 210 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 1,668,713,340 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, 2016, the new share buyback program would be authorized for an 18-month period as of the meeting, i.e., until November 26, 2017.

6.5.4 Cancellation of treasury shares

In the nineteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2015, the Company's shareholders gave the Board of Directors a 26-month authorization to reduce the Company's share capital by

canceled 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, 2015, 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. The share capital has not changed since end-2012.

At December 31, 2015, 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.

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	Maximum amount of debt securities	Comments on/ 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 May 26, 2015 – 13 th resolution Expiring on July 26, 2017 (26 months)	70 million euros (A) + (B) + (C) + (D) + (E) + (F) + (G) + (H) combined share capital ceiling = 131 million euros	1.5 billion euros (A) + (C) + (D) + (E) + (F) + (G) combined debt ceiling = 1.5 billion euros	Resolution may not be used in the event of a public tender offer Not used during the year
Capital increase by capitalization of reserves, profits or additional paid-in capital (B) Shareholders' Meeting of May 26, 2015 – 16 th resolution Expiring on July 26, 2017 (26 months)	30 million euros Included in combined share capital ceiling	N/A	Resolution may not be used in the event of a public tender offer Not used during the year
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 under a public tender offer (resolution that can also be used as consideration for securities deposited pursuant to a public tender offer initiated by the Company) (C) Shareholders' Meeting of May 26, 2015 – 14 th resolution Expiring on July 26, 2017 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in combined share capital ceiling	1.5 billion euros Included in combined debt ceiling	Resolution may not be used in the event of a public tender offer Not used during the year
Issuance of shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allocation of debt securities under a private placement (D) Shareholders' Meeting of May 26, 2015 – 15 th resolution Expiring on July 26, 2017 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in combined share capital ceiling	1.5 billion euros Included in combined debt ceiling	Resolution may not be used in the event of a public tender offer Not used during the year
Issuance of shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allocation of debt securities to be used as remuneration for contributions in kind granted to the Company (E) Shareholders' Meeting of May 26, 2015 – 18 th resolution Expiring on July 26, 2017 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in combined share capital ceiling	1.5 billion euros Included in combined debt ceiling	Resolution may not be used in the event of a public tender offer Not used during the year
Issuance of shares and/or securities giving access to the share capital reserved for members of the employee share ownership plan (F) Shareholders' Meeting of May 26, 2015 – 20 th resolution Expiring on July 26, 2017 (26 months)	5 million euros Included in combined share capital ceiling	1.5 billion euros Included in combined debt ceiling	Resolution may not be used in the event of a public tender offer Not used during the year

Authorizations granted Date of Shareholders' Meeting (duration of authorization and expiration date)	Maximum amount of issue	Maximum amount of debt securities	Comments on/ Utilization of authorizations during the year
3. Authorization to increase capital <u>with or without</u> pre-emptive rights			
Overalllocation option as part of capital increase <u>with or without</u> pre-emptive rights (G) Shareholders' Meeting of May 26, 2015 – 17 th resolution Expiring on July 26, 2017 (26 months)	The ceiling is specified in the applicable regulation (currently 15% of the initial issuance), not to exceed the ceiling applicable to the initial issuance, determined pursuant to resolution (A), resolution (C) or resolution (D)	The ceiling is determined pursuant to resolution (A), resolution (C) or resolution (D).	Resolution may not be used in the event of a public tender offer Not used during the year
4. Authorization to allot free shares			
Allotment of free shares, existing shares or shares to be issued to Group employees and corporate officers (H) Shareholders' Meeting of May 21, 2014 – 12 th resolution Expiring on July 21, 2016 (26 months)	<u>Maximum number of shares (existing or to be issued) allocated:</u> 1,500,000 (with a sub-ceiling of 75,000 shares for executive corporate officers), these shares cannot exceed more than 10% of the share capital at the date of the Board's decision Included in combined share capital ceiling	N/A	Used by the Board of Directors at its meeting on March 26, 2015 (319,009 shares allotted)

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, 2015

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, pages 111 and 112.

(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 = cancelation 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 = cancelation 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 = cancelation 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 = cancelation 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, 2014	Exercised in 2015 (year)	Exercised at Dec. 31, 2015 (cumulative)	Canceled in 2015 (year)	Canceled at Dec. 31, 2015 (cumulative)	Options outstanding at Dec. 31, 2015	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	0	0	821,500	0	487,750	0	0	0
50% - 2 years; 100% - 3 years	03/06/2015	0	0	250,000	0	0	0	0	0
100% - 3 years	11/14/2015	242,406	183,656	1,075,919	58,750	601,081	0	0	0
100% - 3 years	03/19/2016	84,925	26,010	266,335	500	102,000	58,415	58,415	102
100% - 2 years	06/23/2018	366,594	209,808	694,852	1,550	149,912	155,236	155,236	187
100% - 3 years	06/07/2019	143,595	59,165	82,220	0	126,190	84,430	84,430	110
100% - 3 years	03/26/2020	331,810	73,453	74,653	3,000	37,150	255,357	255,357	184
		1,169,330	552,092	3,830,049	63,800	1,776,513	553,438	553,438	

Free share plans in force at December 31, 2015

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 options
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 ^(v)	30 ^(v)	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)
06/04/2012	920,000	-	03/27/2013	-	301	303,814	0	25,634 ^(vii)	74,400 ^(vii)	65,000 ^(vii)	223,314 ^(vii)
			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
			03/26/2015	-	-	131,009	0	10,232 ^(ix)	28,793 ^(ix)	26,809 ^(ix)	86,935 ^(ix)
05/21/2014	1,500,000	-	03/26/2015	-	62,667	188,000	0	0	42	36	0
TOTAL FREE SHARE GRANTS						1,656,303	0	73,371	202,138	182,285	659,686

(1) Date of Board of Directors' meeting.

(2) Including directors who are not corporate officers.

(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.

(ix) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 – a pre-tax return on assets (ROA) ratio equal to or greater than 12.5% in 2015, such that the average over the three years of the reference period (2015, 2016 and 2017) 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; 2 – an operating margin ratio equal to or greater than 7.4% in 2015, such that the average over the three years of the reference period (2015, 2016 and 2017) 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, 2014	Transferred in 2015 (year)	Remitted at Dec. 31, 2015 (cumulative)	Canceled in 2015 (year)	Canceled at Dec. 31, 2015 (cumulative)	Remaining to be transferred at Dec. 31, 2015	Number of shares remaining to be transferred	Residual grantees
France: 3 years Other countries: 5 years	-	25,670	0	83,580	555	78,165	25,115	25,115	65
France – Spain – Italy: 3 years Other countries: 5 years	-	66,057	3	42,990	3,021	33,977	63,033	63,033	21,011
France: 3 years Other countries: 5 years	-	155,332	117,476	118,148	1,824	18,960	36,032	36,032	76
France: 3 years	-	35,749	34,893	34,893	856	5,107	0	0	0
France: 3 years Other countries: 5 years	-	290,214	0	0	4,140	17,740	286,074	286,074	273
France – Spain – Italy: 3 years Other countries: 5 years	-	142,617	6	6	7,881	35,264	134,730	134,730	44,910
France: 3 years Other countries: 5 years	-	148,148	0	0	1,332	2,664	146,816	146,816	298
France – Spain – Italy: 3 years Other countries: 5 years	-	159,474	6	6	11,202	25,728	148,266	148,266	49,422
France: 3 years Other countries: 5 years	-	0	0	0	1,186	1,186	129,823	129,823	539
France – Spain – Italy: 3 years Other countries: 5 years	-	0	0	0	19,601	19,601	168,399	168,399	56,133
-	-	1,023,261	152,384	279,623	51,598	238,392	1,138,288	1,138,288	

6.6.4 Securities not representing capital

The Company has participated in a Euro Medium Term Note program since October 2002, last renewed on May 7, 2015, for a maximum amount of 3 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%;
- 70 million euros' worth of 18-month bonds on June 1, 2015, paying a variable coupon of 3-month Euribor +0.30%;
- 30 million euros' worth of 13-month bonds on June 1, 2015, paying a variable coupon of 1-month Euribor +0.22% up to June 30, 2015 and 3-month Euribor +0.22% thereafter;
- 600 million euros' worth of ten-year bonds on March 11, 2016, paying a fixed coupon of 1.625% (see Chapter 5, section 5.2 "Subsequent events", page 263).

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 of any member of the Group

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 the Valeo 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", pages 69 to 70, the 30 million euros of the Euro Medium Term Note (EMTN) program expiring on July 1, 2016, the 70 million euros of EMTNs expiring on December 1, 2016, the balance of 146 million euros of the 500 million euros in the EMTN program

expiring on January 19, 2017, the balance of 273 million euros of the 500 million euros in the EMTN program expiring on May 11, 2018, and the 700 million euros in bonds 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, “Termination benefits”, pages 124 to 125, Jacques Aschenbroich, the Chief Executive Officer, is eligible for termination benefits equal to two times his 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 in the event of a non-voluntary departure linked to a change of 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. At the Board of Directors meeting on February 18, 2016, Jacques Aschenbroich announced his decision to waive his termination benefits.

The Board reserved the right to subject Jacques Aschenbroich to a non-competition clause that would prohibit him from working in any way or for any reason for 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, with the understanding that,

since Jacques Aschenbroich waived his termination benefits as of February 18, 2016, the provisions relating to the termination benefits and the non-competition payment would no longer be applicable. For more details, see Chapter 3, section 3.3.1, “Non-competition payment” on pages 125 to 126.

Agreements that could restrict the transfer of shares and the exercise of voting rights

Relations with Bpifrance Participations SA

Due to Bpifrance Participations SA’s two-step sale, carried out on March 12, 2014 and March 31, 2015, of the majority of its equity interest in Valeo, the commitment it made in 2009, when it acquired a stake in Valeo, to support the resolutions approved by the Board of Directors is now null and void. Michel de Fabiani, whose was reappointed as a director at the Shareholders’ Meeting on May 26, 2015, no longer represents Bpifrance Participations SA. Having reviewed his status in light of the criteria set out in the internal procedures and the AFEP-MEDEF Code, the Board of Directors determined his eligibility as an independent director on November 11, 2015.

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
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7.1 Principal provisions of the law and the articles of association

7.1.1 Company name and headquarters

The Company's corporate name 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 80 to 116 and section 3.4, pages 134 to 138).

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 second 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 1.2.2 “Description and structure”, pages 26 to 28.

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 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. The Group 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 intragroup partnership

(*groupement d'intérêt économique*), Valeo Management Services. The purpose of this entity 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 with plants, research and/or development centers and distribution platforms. These subsidiaries representing 80% of consolidated sales are listed in the table on the following page.

The entities with distribution platforms are active only on the independent aftermarket, in the countries where they operate. Sales to automakers are handled directly by the Business Groups and Product Lines involved in the production process. The commercial activities of the Business Groups and Product Lines with a given customer are coordinated by the networks of the Sales and Business Development Department, described in Chapter 1, section 1.2.3 “Sales and business development”, pages 31 to 32.

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 332 to 336. 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 12, page 358.

Main companies

(representing 80% of consolidated sales)

Direct and indirect interests by country (% interest at December 31, 2015)

European Union	France	DAV	100%	▲ ▲
		Valeo Equipements Electriques Moteur	100%	▲ ▲
		Valeo Service	100%	▲ ▲
		Valeo Systèmes de Contrôle Moteur	100%	▲ ▲
		Valeo Systèmes d'Essuyage	100%	▲ ▲
		Valeo Systèmes Thermiques	100%	▲ ▲
		Valeo Vision	100%	▲ ▲
	Germany, Belgium, United Kingdom, Ireland, Netherlands	Connaught Electronics Limited	100%	▲ ▲
		Valeo Klimasysteme GmbH	100%	▲ ▲
		Valeo Schalter und Sensoren GmbH	100%	▲ ▲
		Valeo Wischersysteme GmbH	100%	▲ ▲
	Italy, Spain	Valeo Iluminación, SA	100%	▲ ▲
		Valeo, S.p.A	100%	▲ ▲
	Hungary, Poland, Czech Republic, Romania	Valeo Auto-Electric Hungary LLC	100%	▲ ▲
		Valeo Autoklimatizace k.s.	100%	▲ ▲
		Valeo Autosystemy Sp.ZO.O	100%	▲ ▲
		Valeo Compressor Europe S.r.o	100%	▲ ▲
		Valeo Electric and Electronic Systems Sp.ZO.O	100%	▲ ▲
Europe outside the EU	Norway, Turkey, Russia	Valeo Otomotiv Sanayi ve Ticaret A.S.	100%	▲ ▲ ▲
North America	United States, Canada	Valeo Climate Control Corp.	100%	▲ ▲
		Valeo North America, Inc.	100%	▲ ▲ ▲
		Valeo Radar Systems, Inc.	100%	▲ ▲
	Mexico	Delmex de Juarez S de RL de CV	100%	▲ ▲
		Valeo Sistemas Automotrices de México, SA de CV	100%	▲ ▲ ▲
		Valeo Sistemas Electricos, SA de CV	100%	▲ ▲ ▲
		Valeo Sistemas Electronicos, S de RL de CV	100%	▲ ▲
South America	Brazil, Argentina	Valeo Sistemas Automotivos Ltda	100%	▲ ▲ ▲
Asia	China	Valeo Automotive Air Conditioning Hubei Co. Ltd	100%	▲ ▲
		Valeo Ichikoh (China) Auto Lighting Co. Ltd	90%	▲ ▲
		Valeo Interior Controls (Shenzhen) Co. Ltd	100%	▲ ▲
	South Korea, Japan, Thailand, Indonesia, Taiwan	Valeo Electrical Systems Korea, Ltd	100%	▲ ▲
		Valeo Japan Co. Ltd	100%	▲ ▲
		Valeo Pyeong HWA Co. Ltd	50%	▲ ▲

▲ Plant

▲ Research and Development center

▲ Distribution platform

7.3 Material contracts

With the exception of the contracts mentioned below, 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 2015

On March 11, 2015, Valeo and **Mobileye NV**, the global leader in front-facing camera-based driving assistance systems decided to join forces to combine Mobileye's EyeQ® family of microprocessors and computer vision algorithms with Valeo's driving assistance sensor portfolio to develop a joint product position for the automated driving market, combining vision and laser scan.

On June 18, 2015, Valeo acquired a 10.5% interest in technology start-up **Aledia**, which develops 3D LED technology for lighting based on WireLED technology. Valeo's aim in the medium term is to accelerate and extend its offering of innovative interior and exterior automotive lighting solutions, which combine performance, style and driver safety. Aledia's innovative LED 3D technology set would significantly reduce the cost of LED production as well as emitting three times more light for the same surface area and using three times less energy for the same intensity.

On August 28, 2015, Valeo signed a partnership agreement with **Cathay Capital** and acquired a 22 million euro interest in Cathay Capital's Sino-French Innovation Fund, inaugurated the same day. This investment will enable Valeo to increase its cooperation with innovative start-ups in the digital sector in France, China and the United States, the three regions where the fund is based and which are also strategically important regions for the Group, to integrate promising technologies from academic and professional networks in the automotive sector.

On November 5, 2015, Valeo and **Capgemini** signed a collaboration agreement to develop a solution for the secure management of virtual keys, such as the Valeo InBlue™ smart

key, real-time car data collection and the introduction of digital services for company fleets and vehicle rental companies. Capgemini, which will handle the IT integration of this solution, will develop a personalized range of services adapted to the needs of the end user.

Following on from its February 20, 2015 technological cooperation agreement with **peiker**, a leading supplier of on-board telematics and connectivity solutions, Valeo acquired the German company. The acquisition, which was announced on December 21, 2015, will enable Valeo to broaden its range of automotive geolocation and mobile connectivity solutions to improve its driving assistance systems.

On November 27, 2015, Valeo finalized an agreement to sell its Engine Control business in which it is not among the world-leading players.

The last two transactions received clearance from the anti-trust authorities after the end of the reporting period (see Chapter 5, section 5.2 "Subsequent events", page 263).

On December 23, 2015, Valeo announced it had signed an agreement with Deutsche Beteiligungs AG (DBAG) to acquire **Spheros**, the worldwide leader in air conditioning systems for buses, whose client base includes leading bus manufacturers and major fleet operators. This highly buoyant market is expected to grow, led by the development of public transportation across the world, against the backdrop of rapid urbanization. The transaction is subject to the approval of the relevant anti-trust authorities.

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 United States, 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 euros. These shares were allocated to cover stock purchase option plans, the allotment of shares to employees under profit-sharing plans, and the implementation of 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.

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 Principal Statutory Auditors and alternate Statutory Auditors

Principal 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 ended 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 ended 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 ended 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 ended December 31, 2015.

With the Statutory Auditors' term expiring at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015, the Ordinary Shareholders' Meeting of May 26, 2016, will be asked to appoint for a term of six years, expiring at the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2021, Ernst & Young et Autres and Mazars as Principal Statutory Auditors and Auditex and Jean-Maurice El Nouchi (61, rue Henri Régnault – 92400 Courbevoie), Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des Commissaires aux comptes de Versailles*), as Alternate Statutory Auditors.

7.5.2 Fees paid to the Statutory Auditors AFR

(in millions of euros)	Ernst & Young				Mazars			
	Amount (excl. taxes)		%		Amount (excl. taxes)		%	
	2015	2014	2015	2014	2015	2014	2015	2014
AUDIT								
Issuer	0.0	0.0			0.0	0.0		
Consolidated subsidiaries	4.3	4.0			2.7	2.6		
Statutory audit, certification and review of the individual and consolidated financial statements	4.3	4.0	93%	89%	2.7	2.6	96%	93%
Issuer	0.0	0.0			0.0	0.0		
Consolidated subsidiaries	0.3	0.5			0.1	0.2		
Audit-related services	0.3	0.5	7%	11%	0.1	0.2	4%	7%
SUB-TOTAL – AUDIT	4.6	4.5	98%	100%	2.8	2.8	100%	100%
OTHER SERVICES PROVIDED BY MEMBERS OF THE AUDITORS' NETWORKS TO CONSOLIDATED SUBSIDIARIES								
Legal, tax and labor-related advisory services	0.1	0.0			0.0	0.0		
Other	0.0	0.0			0.0	0.0		
SUB-TOTAL – OTHER SERVICES	0.1	0.0	2%	0%	0.0	0.0	0%	0%
TOTAL	4.7	4.5	100%	100%	2.8	2.8	100%	100%

7.6 Person responsible for the Registration Document

7.6.1 Name of the person responsible for the Registration Document containing the Annual Financial Report _____

Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo.

7.6.2 Declaration by the person responsible for the Registration Document containing the Annual Financial Report **AFR** _____

"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 parent company financial statements for the year ended December 31, 2015, presented in this Registration Document, can be found in Chapter 5, section 5.6.5 of this document and contains one emphasis of matter concerning changes in accounting policy.

The Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2014 can be found in Chapter 5, section 5.4.7 of the Registration Document filed with the AMF on March 27, 2015 under number D.15-0220 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 24, 2016

Jacques Aschenbroich
Chairman and Chief Executive Officer

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8.1.3	Cross-reference table for the management report as provided for by Articles L.225-100 <i>et seq.</i> of the French Commercial Code	405			

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, 2014, registered with the French

financial markets authority (*Autorité des marchés financiers* – AMF) on March 27, 2015, under number D.15-0220 ("2014 RD") and, where necessary, to the Registration Document sections and chapters for the fiscal year ended December 31, 2013, registered with the AMF on March 28, 2014 under number D.14-0234 ("2013 RD").

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
1.	Persons responsible		
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2.	Statutory Auditors		
2.1	Name and address of the Statutory Auditors	7.5.1	397
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3.	Selected financial information		
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5.	Information relating to the issuer		
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5.1.1	Legal and commercial name of the issuer	7.1.1	390
5.1.2	Place of registration of the issuer and its registration number	7.1.6	390
5.1.3	Date of incorporation and length of life of the issuer	7.1.4	390
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6.2	Markets served	1.1.1, 1.1.3 and 1.3	6; 10-12; 36-58
6.3	Exceptional factors	N/A	
6.4	Dependence on patents, licenses, contracts and manufacturing processes	1.2.3 and 2.1.3	32-33; 66-67
6.5	The basis for any statements made by the issuer regarding its competitive position	1.3.1, 1.3.2, 1.3.3 and 1.3.4	41; 45; 50; 54
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8.	Property, plant and equipment		
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8.2	Environmental issues that may affect the issuer's utilization of property, plant and equipment	1.2.4, 2.1.2 and 4.3	36; 65-66; 165-188

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
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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 2014 RD and 2013 RD	252-258
9.2.1	Significant factors materially affecting the issuer's income from operations	5.1, 2.1.1 and 2.1.4	252-262; 62-64; 71
9.2.2	Explanation of material changes in net sales or revenues	5.1	252-262
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	252-262; 62-64
10.	Capital resources		
10.1	Issuer's capital resources	5.1.4, 5.4.5, 5.4.6 (Notes 8.1 and 10.1) and 5.6.4 (Note 10), 6.6	259; 268; 308-318; 327-328; 355-356; 379-388
10.2	Source and amounts of cash flows	5.1.4, 5.4.4, 5.4.6 (Note 11) and 5.6.3	260-262; 267; 329-331; 341
10.3	Information on the borrowing requirements and funding structure	2.1.4, 5.1.4 and 5.4.6 (Notes 8.1, 8.3)	69-73; 260-262; 308-318; 319-323
10.4	Restrictions on the use of capital resources	2.1.4, 5.4.6 (Note 8.3.2) and 5.6.4 (Note 6.2.4)	69-73; 322-323; 351
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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	263
12.2	Known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects	1.1.4 and 5.3	14-15; 263
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		
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16.2	Service contracts with members of the administrative bodies	3.2.3	109
16.3	Information about the Audit Committee and Compensation Committee	3.2.1 and 3.2.2	80-83; 97-108
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17.2	Shareholdings and stock options	3.2.5, 3.3 and 6.4.5	111-112; 117-134; 376
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20.	Financial information concerning the issuer's assets and liabilities, financial position and profits and losses		
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20.2	Pro forma financial information	N/A	
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20.4	Auditing of historical annual financial information		
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20.4.2	Other information audited by the auditors	5.7 and 3.5 5.7 and 3.5 of the 2014 RD 5.7 and 3.5 of the 2013 RD	361-363; 139
20.4.3	Source of financial data not extracted from the issuer's audited financial statements	N/A	
20.5	Age of latest financial information	Dec. 31, 2015	
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	
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21.1.4	Convertible securities, exchangeable securities and securities with warrants	6.6.3	382-385

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
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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	6.6.5	386
21.1.7	Share capital history	6.6.1	379
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21.2.3	Description of the rights, preferences and restrictions attached to each class of shares	7.1.8, 7.1.9 and 7.1.11	391; 392
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21.2.6	Description of any provision that would have an effect of delaying, deferring, or preventing a change in control of the Company	6.6.6	387
21.2.7	Indication of any provision governing the ownership threshold above which shareholder ownership must be disclosed	6.6.5	386
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	392
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23.	Third party information and statement by experts and declarations of interest		
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23.2	Information from a third party	N/A	
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8.1.2 Cross-reference table for the Annual Financial Report

Annual Financial Report	Chapters/Sections	Pages
1. Parent company financial statements	5.6	338-360
2. Consolidated financial statements	5.4	264-336
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	252-258
■ Analysis of results	5.1.2, 5.1.3 and 5.5	255-258
■ Analysis of financial position	5.1.4	259
■ Principal risks and uncertainties	2.1	61-73
■ Summary table of powers currently delegated by the Annual Shareholders' Meeting to the Board of Directors with respect to capital increases	6.6.2	380-381
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	387
Article L.225-211 of the French Commercial Code		
■ Buyback by the Company of its own shares	6.5	376-379
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5. Statutory Auditors' report on the financial statements	5.6.5	359-360
6. Statutory Auditors' report on the consolidated financial statements	5.4.7	337
7. Statutory Auditors' special report on related party agreements and commitments	5.7	361-363
8. Fees paid to the Statutory Auditors	7.5.2	397
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	80-116; 134-138
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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			
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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 239 million euros and 321 million euros, respectively, in 2014 and 2015), 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 – excluding other financial assets and liabilities included in net debt), as well as subsidies (portions due beyond one year and within one year); ■ investments in equity-accounted companies excluding goodwill (in an amount of 111 million euros and 131 million euros, respectively, in 2014 and 2015). “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).
EBITDA	Corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin), and (ii) net dividends received from 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 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.
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.
Net debt	Comprises all long-term debt, liabilities associated with put options granted to holders of non-controlling interests, short-term debt and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents and the fair value of derivative instruments hedging the foreign currency and interest rate risks associated with these items.
Operating margin including share in net earnings of equity-accounted companies	Operating income before other income and expenses.
Order intake	Corresponds to business awarded by automakers during the period (including joint ventures at least 50%-owned by the Group) less any cancellations, based on Valeo's best reasonable estimates in terms of volumes, sale prices and project lifespans. Unaudited indicator.
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.
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.
FTSE4Good	Extra-financial (ESG) rating agency. http://www.ftse.com/products/indices/ftse4good
GHG	Greenhouse gas: gases which absorb infrared rays emitted by the Earth's surface, 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 workplace 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, Authorisation and Restriction of Chemicals).
RobecoSAM	Sustainable Asset Management: an international investment company focused on sustainable investments. The company jointly manages with Standard & 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.
VOC	Volatile organic compound: VOCs are composed of carbon, oxygen and hydrogen and are readily found as atmospheric gases.
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”. These statements include projections and estimates and their underlying assumptions, statements regarding projects, objectives, intentions and expectations with respect to future financial results, events, operations, services, product development and potential, and statements regarding future performance. Even though Valeo's management feels that the Forward-Looking Statements are reasonable as at the date of this Registration Document, investors are put on notice that the Forward-Looking Statements are subject to numerous factors, risks and uncertainties that are difficult to predict and generally beyond Valeo's control, which could cause actual results and events to differ materially from those expressed or projected in the Forward-Looking Statements. 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 subsequent to the date of this Registration Document.

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