

# 2016 REGISTRATION DOCUMENT

including  
the Integrated  
Report

the Annual Financial  
Report

the Corporate  
Governance and  
Sustainable  
Development Report



48 V hybrid technology

SMART TECHNOLOGY FOR SMARTER CARS



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INTERVIEW WITH JACQUES ASCHENBROICH  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
OF VALEO **IR**

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SAFE HARBOR STATEMENT

**IR** The Integrated Report is 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

Corporate Governance and Sustainable Development Report



# REGISTRATION DOCUMENT

INCLUDING

- THE INTEGRATED REPORT
- THE ANNUAL FINANCIAL REPORT
- THE CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT REPORT

# 2016



The French version of this Registration Document was filed with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 24, 2017, 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, 2015, and the Statutory Auditors' special report on related-party agreements in respect of 2015 included in the Registration Document filed with the AMF on March 25, 2016, under number D.16-0211.
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, 2014, and the Statutory Auditors' special report on related-party agreements in respect of 2014 included in the Registration Document filed with the AMF on March 27, 2015, under number D.15-0220.

**91,800**

employees

**155**

plants

**38**

development  
centers

**20**

research  
centers

**32**

countries

---

**A new Valeo:  
more technologically  
focused, innovative,  
dynamic and  
profitable**



▷ Jacques Aschenbroich



# INTERVIEW

## JACQUES ASCHENBROICH

Chairman and Chief Executive Officer

### What were the highlights for Valeo in 2016?

J.A. First of all, I would like to thank the Valeo teams for their commitment and professionalism. Our excellent results in 2016 reflect the work accomplished by our teams over the past few years to build a new Valeo: more technologically focused, innovative, dynamic and profitable.

During the year, our sales grew by 14%. Original equipment sales jumped 12% like for like, outpacing global automotive production by 8 percentage points. This growth was accompanied by increases of 17% in our gross margin, 20% in our operating margin<sup>(1)</sup>, 27% in our net income<sup>(2)</sup>, and 17% in our free cash flow generation<sup>(3)</sup>, to 661 million euros.

Driven by unprecedented Research and Development spend, which represented more than 11% of original equipment sales in 2016, our order intake hit another record at 23.6 billion euros.

Based on these results, at the next Shareholders' Meeting, shareholders will be asked to vote on the payment of a dividend of 1.25 euros per share, corresponding to a payout ratio of 32% and an increase of 25% compared with the dividend paid in respect of 2015.

Also in 2016 we were delighted to welcome into the Valeo family teams from peiker, Spheros, and the Valeo Siemens eAutomotive GmbH joint venture and, in January this year, Ichikoh.

Thanks to these acquisitions and in line with our growth strategy, we are stepping up the development of our four Business Groups, with the primary aims of:

- diversifying our customer portfolio;
- enhancing our products' technological positioning;
- strengthening the geographic alignment of our sales.

### What are your expectations for 2017 and what is your medium-term outlook for the Group?

J.A. Based on the assumption that global automotive production grows by between 1.5% and 2% and raw material prices and exchange rates remain at current levels, we expect another year of sales growth, outperforming the market by more than 5 percentage points. This growth should allow us to slightly increase our operating margin<sup>(1)</sup> (as a % of sales and before acquisitions).

On the back of this strong momentum, Valeo held an Investor Day in London on February 28, 2017, during which we presented our medium-term strategic plan. Building on the growth in our order intake<sup>(3)</sup> due to the success of our innovations<sup>(4)</sup> (half of the order intake<sup>(3)</sup> in 2016), over the next five years we are aiming to accelerate our organic growth through higher content per vehicle and a better product mix, to improve our profitability and to increase our free cash flow generation<sup>(3)</sup>.

All four of our Business Groups will leverage this potential stemming from the new opportunities within the automotive industry, and will undergo several waves of growth as these new technologies enter production.

In line with the medium-term plan presented at our Investor Day, we have set the following financial objectives through 2021<sup>(5)</sup>:

- sales of over 27 billion euros, reflecting an average outperformance over the period of more than 7 percentage points compared to global automotive production, and average annual sales growth in excess of 10%;
- operating margin<sup>(1)</sup> (as a percentage of sales) of around 9%;
- free cash flow generation<sup>(3)</sup> of 3.7 billion euros over the 2017-2021 period, twice the level recorded over the 2012-2016 period of 2 billion euros.

March 22, 2017

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 449.

(2) Attributable to the Group.

(3) See Financial Glossary, page 449.

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

(5) Including Ichikoh, Valeo-Kaptec and FTE and assuming that (i) global automotive production increases by an annual average of 2.3% between end-2016 and end-2021, and (ii) raw material prices remain at early-2017 levels.



# 1

## PRESENTATION OF VALEO AND ITS BUSINESSES

|                                                                                                                  |           |           |                                                                |           |
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### THE VALEO INTEGRATED REPORT

For the second year running, Valeo has elected to use 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. The report is based on the International Integrated Reporting Framework published by the IIRC (International Integrated Reporting Council). It addresses all of the Group's stakeholders, namely employees, the financial community, customers, suppliers, institutional and non-governmental organizations, and other local partners. The report covers the Group's financial, sales and non-financial performance over the 2016 financial year, as well as its medium-term projections.

As in 2015, the Integrated Report is included in the Registration Document and is available on the Valeo website.

GROSS RESEARCH AND  
DEVELOPMENT EXPENDITURE

 **11.1%**

as a % of original equipment sales

ORDER INTAKE

 **23.6**  
billion euros

SALES GROWTH

 **14%**

OPERATING MARGIN

 **8.1%**

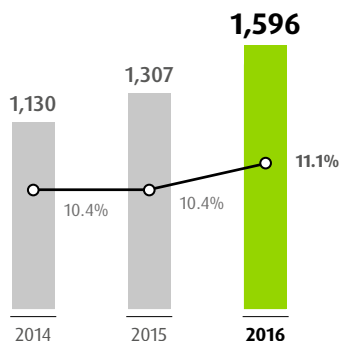
## 1.1 The Valeo Integrated Report IR

### 1.1.1. Key figures in 2016

A new Valeo: more technologically focused, innovative, dynamic and profitable.

#### ► GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

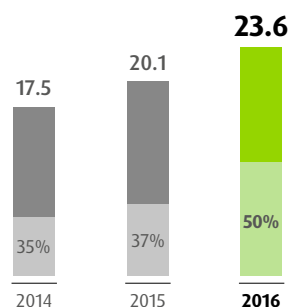
In millions of euros and as a % of original equipment sales



In 2016, net Research and Development expenditure totaled 956 million euros, or 5.8% of total sales.

#### ► ORDER INTAKE<sup>(1)</sup>

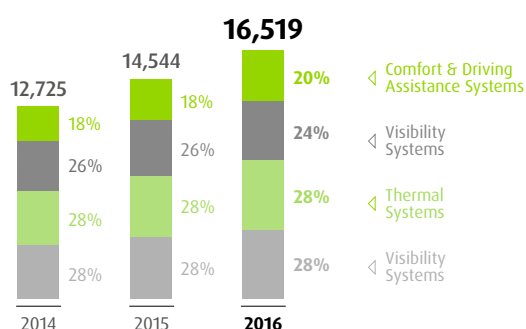
In billions of euros and innovative products and systems as a % thereof<sup>(2)</sup>



#### ► SALES

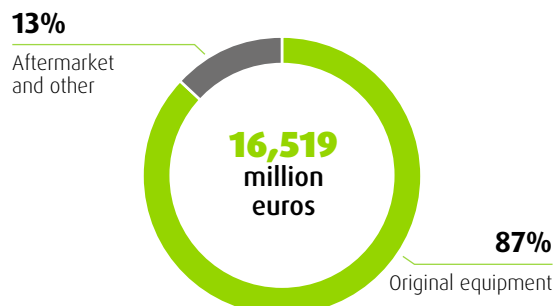
Total sales and sales by Business Group

In millions of euros and as a % of sales



#### ► SALES BY DISTRIBUTION NETWORK

As a % of sales

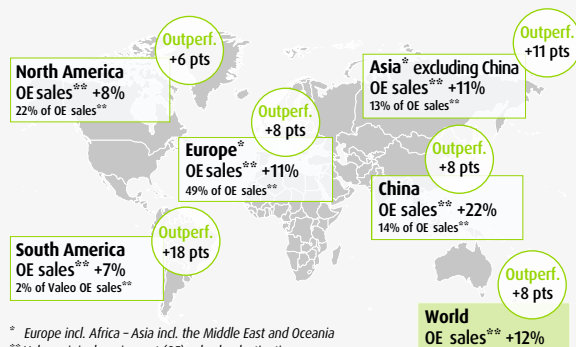


#### ► PERFORMANCE COMPARED TO AUTOMOTIVE PRODUCTION

Original equipment sales growth by geographic area

As a % of original equipment sales

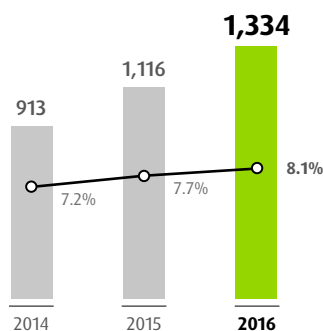
Like for like (constant Group structure and exchange rates)



\* Europe incl. Africa - Asia incl. the Middle East and Oceania  
\*\* Valeo original equipment (OE) sales by destination

#### ► OPERATING MARGIN

Including share in net earnings of equity-accounted companies<sup>(1)</sup>  
In millions of euros and as a % of sales



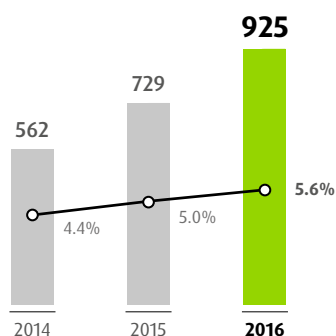
(1) See Financial Glossary, page 449.

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



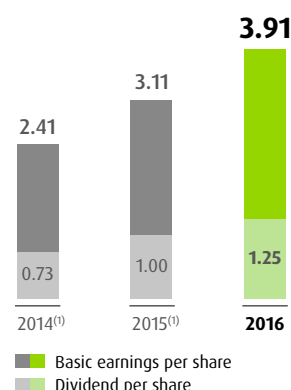
## ► NET ATTRIBUTABLE INCOME

In millions of euros and as a % of sales



## ► BASIC EARNINGS PER SHARE AND DIVIDEND PER SHARE

In euros

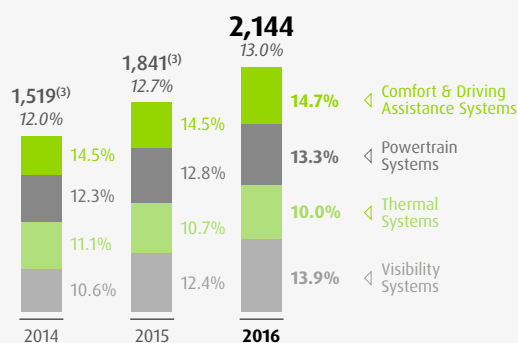


A 2016 dividend of 1.25 euros, up 25% compared with 2015, will be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2016. It represents a payout ratio of 32%.

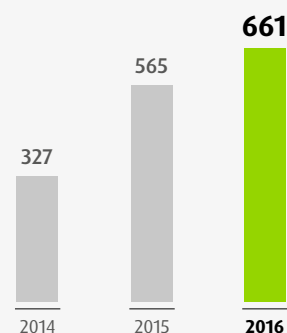
## ► CASH FLOW AND FINANCIAL STRUCTURE

Total EBITDA<sup>(2)</sup> and EBITDA by Business Group

In millions of euros and as a % of sales

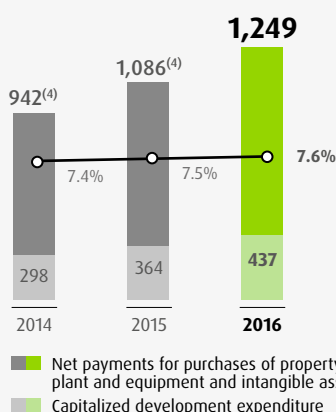
Free cash flow<sup>(2)</sup>

In millions of euros



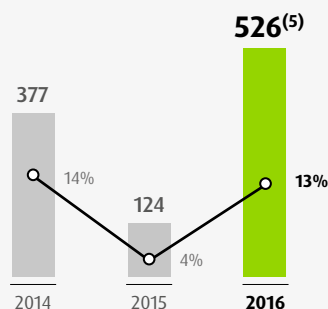
## Investment flows

In millions of euros and as a % of sales



## Net debt

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



(1) The data shown above differs from that presented in the 2015 Registration Document published in March 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

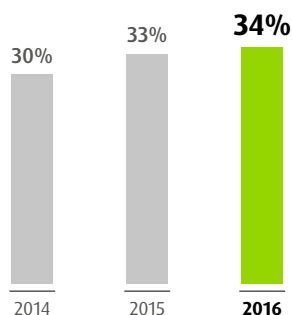
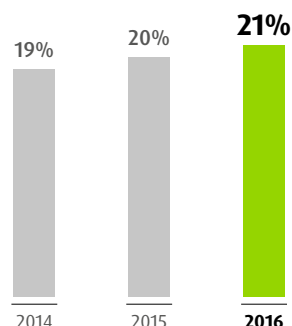
(2) See Financial Glossary, page 449.

(3) The amount shown under this item for 2014 and 2015 differs from that presented in the 2014 and 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA<sup>(1)</sup>.

(4) The amount of investments in property, plant and equipment and intangible assets shown for 2014 and 2015 differs from that presented in the 2014 and 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

(5) Note that Valeo acquired Spheros and peiker during the year.

## ► OTHER PROFITABILITY INDICATORS

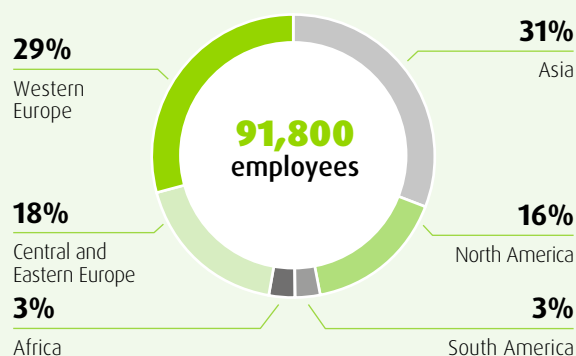
ROCE (Return on Capital Employed)<sup>(1)</sup>ROA (Return on Assets)<sup>(1)</sup>

## ► NON-FINANCIAL INDICATORS

## Corporate governance

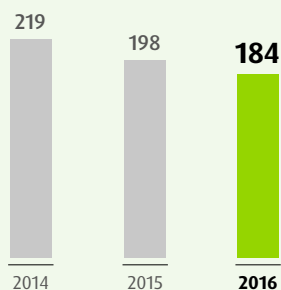
- The Board of Directors met on eight occasions in 2016, i.e., twice as many meetings as the minimum stipulated in the internal procedures, with a 96% average effective attendance rate.
- The directors held their annual **strategy seminar** in San Francisco.
- 93% of the Board's 14 directors are independent.
- 42% of members of the Board of Directors are women.

## Breakdown of total headcount by geographic area



## Water consumption

As a proportion of sales (MWh/€m)



Products that directly or indirectly contribute to **reducing CO<sub>2</sub> emissions** accounted for **more than 50%** of Valeo's original equipment sales in 2016.

(1) See Financial Glossary, page 449.

A PARADIGM  
SHIFT  
TOWARDS  
**ELECTRIC,  
AUTONOMOUS,  
SHARED  
CARS**



Integrated Report – In a changing world, electrification, automation and digitalization are disrupting the automotive industry

## 1.1.2 In a changing world, electrification, automation and digitalization are disrupting the automotive industry



New demographic, social, environmental and technological dynamics are drastically transforming the way we live, work, consume and travel, resulting in a new set of challenges that the automotive industry must work to address<sup>(1)</sup>.

### A world of transformations

#### An evolving demographic characterized by a growing and aging population

By 2050, the world's population is expected to reach 9.7 billion<sup>(2)</sup>.

Over the next few decades, much of this growth will take place in emerging countries such as India and nations in continental Africa where the mainly young population is seeking jobs and infrastructure as well as public and private services.

Developed countries are likely to see limited economic growth coupled with an aging population. With, for the most part, their strong purchasing power, senior citizens are demanding personalized and adapted products and services.

#### Emergence of new middle classes

With fewer barriers to trade and market growth, especially in Asia, a new middle class is emerging – particularly in India and China – and is set to drive global economic growth.



#### Climate change and scarcity of resources (energy, food and water)

Global warming and its environmental impacts are a clear and present issue for the whole planet:

- due to their growing populations, emerging and high-growth countries will face an overwhelming need for water as well as energy and food resources;
- the more energy intensive developed countries have committed to reduce their energy consumption.

#### Accelerating urbanization

As the world's population grows, the proportion of people living in urban areas should also increase – particularly in Asia and Africa – from 54% in 2014 to 66% by 2050<sup>(2)</sup>.

Ever increasing urbanization represents a major disruption for towns and cities which, in order to maintain quality of life and protect economic vitality, must take steps to reduce traffic congestion and preserve air quality.

(1) See Chapter 4, section 4.2.1 "From analysis of megatrends to the vehicle concept of tomorrow" pages 170 to 171.

(2) Source: United Nations.

## Technological revolution and the digital society

Technological innovation is accelerating – nowhere is this more evident than in robotics, artificial intelligence, information systems and communications – while product development cycles are getting shorter.

As the Internet and smartphones have become able to connect objects, so the take-up of mobility technology has

increased. This is making it easier to provide near-unlimited, real-time access to information, thereby transforming the way people communicate, work and travel.

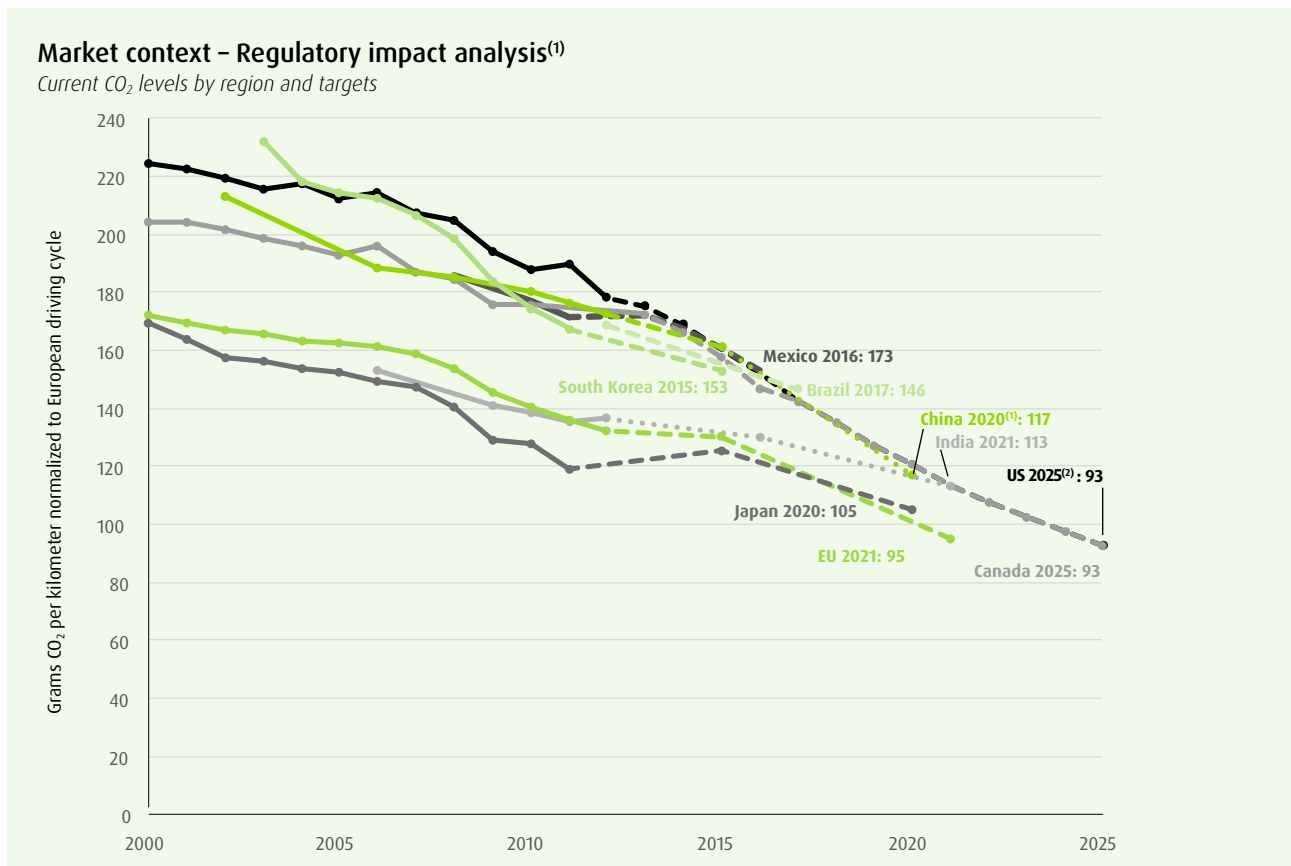
More and more consumers are choosing usership and sharing as an alternative to ownership.

This digital revolution is giving rise to new economic models, which are shaking up numerous sectors such as hospitality, private passenger transport, transportation of goods, healthcare, insurance and finance, through the sharing economy.

## The transformation of the automotive market is coming into focus

Information relating to automotive production is based on data provided by LMC

### Increasingly stringent regulations aimed at reducing air pollution



The introduction of ever more stringent national and regional automotive regulations has resulted in a need to bring greener vehicles to market.

Towns and cities across the world are also taking action at unprecedented levels. In particular, they are adapting urban infrastructure and encouraging new mobility behaviors through coercive

regulations and “nudges” intended to curb the number of road accidents as well as air (CO<sub>2</sub>, nitrogen oxide [NO<sub>x</sub>] and fine particle emissions) and noise pollution.

<sup>(1)</sup> Source: ICCT.

<sup>(2)</sup> US 2025: 103 g/km including light trucks.

## Integrated Report – In a changing world, electrification, automation and digitalization are disrupting the automotive industry

In order to keep traffic congestion and air and noise pollution in check, major cities are increasingly developing new transport regulations. For example:

- in North America, high-occupancy vehicles lanes have been created to encourage car-pooling;
- in London (United Kingdom), a congestion charge has been introduced to encourage people to use public transportation;
- in Berlin (Germany), a sticker system is used to authorize only greener vehicles from using the city's roads;
- in Paris (France), a sticker system is used to place restrictions on vehicles with high pollution scores during periods of heavy pollution.

### The three technological revolutions taking place in the automotive market: electrification, automation and digitalization

Regulatory pressure and market appetite for new technologies are promoting the development of innovations, particularly in the areas of reducing CO<sub>2</sub> emissions and improving road safety, and their take-up by users. The automotive industry is working to develop greener vehicles that offer greater comfort and safety for passengers, pedestrians and other road users.

#### Electrification of powertrains

The decline in diesel vehicle sales and the obligation for manufacturers to comply with increasingly stringent national and regional regulations on CO<sub>2</sub> emissions are leading to the development of new solutions, notably in terms of powertrain electrification, such as:

- optimization of internal combustion engines through transmission automation, particularly using dual clutch transmissions;
- 48 V medium-power hybrid solutions enabling powertrain electrification at a competitive cost;



- high-power (over 60 V) electrification with electric vehicles and plug-in hybrids offering a significant reduction in CO<sub>2</sub> emissions as well as the option of travelling in zero-emissions mode, especially in urban areas.

#### Autonomous, connected and intuitive driving

In addition to powertrain electrification, automated vehicles will become increasingly widespread.

Partial autonomy already exists in the form of automated parking systems and advanced driver assistance features such as adaptive speed control, driving assistance for traffic jams, automatic emergency braking and lane departure warning systems. Automation must also evolve to address increasingly complex urban driving situations.

To inform and reassure drivers, particularly when switching between automated and manual mode, the automotive industry needs to develop a seamless user experience with simple human-vehicle interfaces to make automation features easy to use.

Automated driving requires vehicles to become increasingly connected to their environment (other vehicles, urban infrastructure, the cloud, etc.). As was the case with the rise of mobile telephony, connectivity will lead to the emergence of new services, such as remote, secure maintenance and updates of onboard software.

#### New mobility-based services

Mobility requirements are growing, especially in urban areas.

As well as using their own vehicle, consumers are increasingly turning to new mobility services. Car-pooling is becoming more common and is now considered a mode of transportation in its own right. Car-sharing – an alternative to individual ownership – and ride-hailing services are seeing exponential growth. These new services are being rolled out on digital peer-to-peer platforms such as Uber and BlaBlaCar. Such technology offers the most efficient mobility possible by optimizing travel time, price and accessibility.



Integrated Report – In a changing world, electrification, automation and digitalization are disrupting the automotive industry

### Asia continues to grow and is cementing its position as the leading global market

Global automotive production<sup>(1)</sup> is shifting from the West to Asia, which has represented over 50%<sup>(2)</sup> of vehicle production since 2012. With 27 million<sup>(2)</sup> vehicles produced in 2016, representing 29% of global automotive production, China is unquestionably 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.

### Strengthened global platform strategy

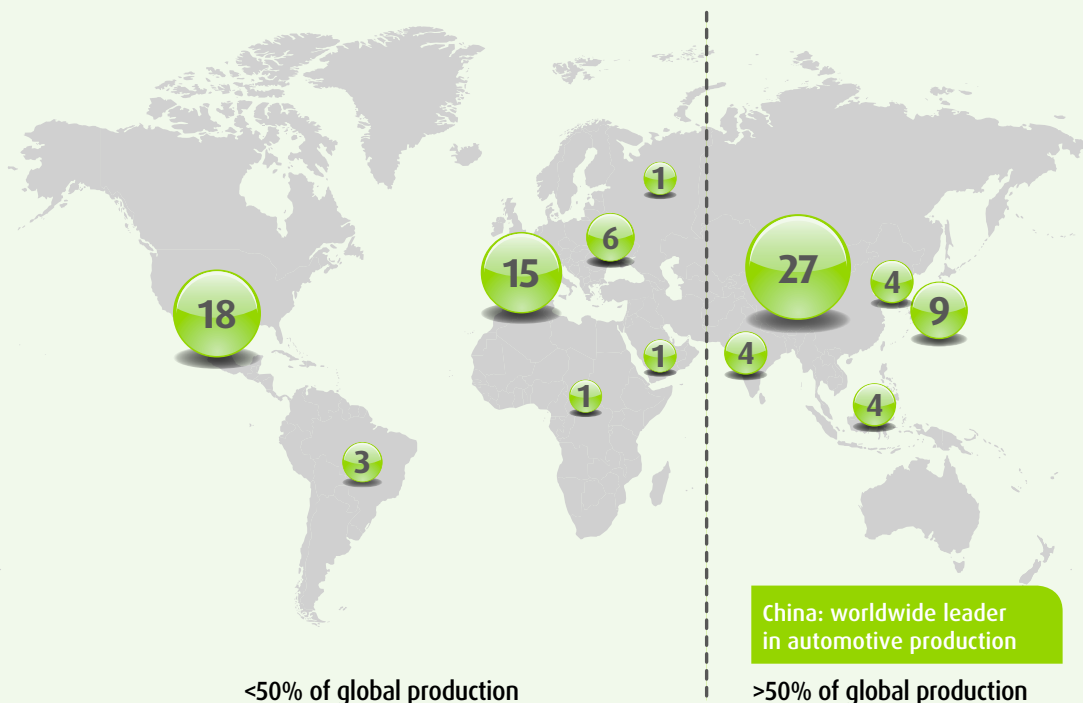
For a number of years, the expansion of global automotive production platforms – where vehicles from different segments that share parts and systems are assembled – has put greater onus on automotive suppliers to:

- drive new ideas in the area of Research and Development<sup>(3)</sup>;
- strengthen Research and Development resources across all continents in order to help automakers develop technical solutions that meet the specific needs of local consumers;

- build a worldwide industrial footprint that enables the same products to be delivered to identical standards of quality and reliability across the world;
- provide total quality for products and services in order to support automakers in the development of new technologies and applications.

### GLOBAL AUTOMOTIVE PRODUCTION<sup>(1)</sup> IS SHIFTING FROM THE WEST TO ASIA

#### ► REGIONAL BREAKDOWN OF AUTOMOTIVE PRODUCTION IN 2016 World automotive production, in millions of vehicles<sup>(2)</sup>



(1) See Chapter 5, section 5.1.1 "Global automotive production growth" page 271.

(2) Source: LMC.

(3) 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.

### 1.1.3 A new Valeo: more technologically focused, innovative, dynamic and profitable

The major technological and geographic changes described previously confirm the validity of Valeo's growth strategy, built on the following drivers:

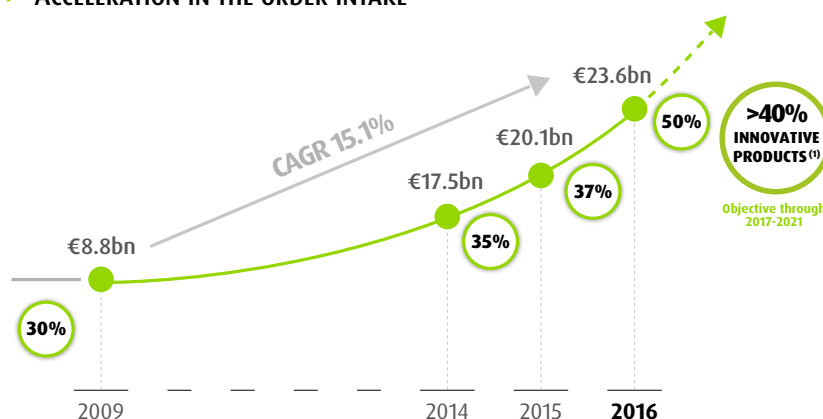
- its market-leading position and sustained Research and Development efforts focused on CO<sub>2</sub> emissions reduction and intuitive driving; and
- strengthening its presence in high-growth potential regions, especially in Asia and emerging countries.

**Valeo is positioned at the center of the revolutions taking place in the automotive industry and is strengthening its growth dynamic**

Driven by its technological and geographic positioning and the quality of its products, over the past few years Valeo has seen a sharp rise in its order intake, a key forward indicator of the Group's sales. This confirms Valeo's high growth potential and its structural capacity to outperform automotive production.

The faster growth in the order intake over the past few years is mainly attributable to Valeo's ability to anticipate

#### ► ACCELERATION IN THE ORDER INTAKE

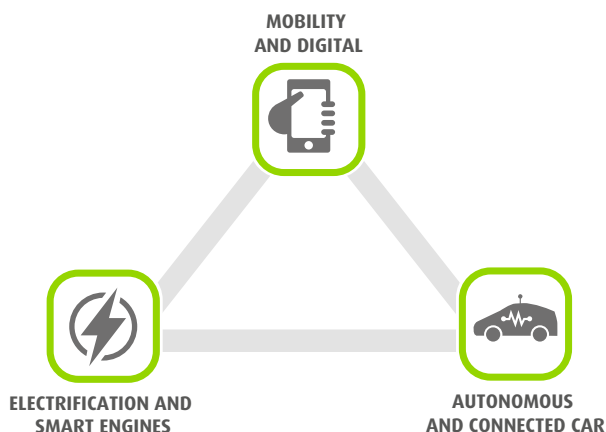


the automotive market's new demands. The market trends described previously are being confirmed while change is accelerating. Today's automotive

market is at the center of three major revolutions: powertrain electrification, autonomous and connected vehicles, as well as new mobility services driven by digital technology, all of which offer new opportunities for value-added growth.

These major revolutions represent growth opportunities for Valeo:

#### ► VALEO, A TECH GROUP WITH A STRONG POSITIONING IN THE AUTOMOTIVE INDUSTRY'S THREE MAJOR REVOLUTIONS



- the need to reduce CO<sub>2</sub> emissions combined with the decline in diesel vehicle sales is **accelerating vehicle electrification**: Valeo is positioned as a provider of technologies for powertrain electrification. As the first supplier to offer its customers the Stop-Start system, Valeo has long specialized in the development and manufacture of low-voltage electric systems. In 2016, the Group recorded a strong order intake for 48 V mild-hybrid systems, establishing itself as the world leader in this area. In 2016,

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

Valeo also created a joint venture with Siemens, the world leader in high-voltage electric machines. The new partnership enables the Group to expand its product offering with respect to plug-in hybrid and electric vehicles. Powertrain electrification also creates a need for automated transmission systems and thermal management solutions for batteries. In addition, vehicle energy management features, such as lighting systems, are being optimized, in particular through the increasing take-up of 100% LED headlamps, which are five times more efficient than halogen (based on the ratio of illumination quality to energy consumption);

- the growing need for vehicle automation and connectivity brings with it an **increase in the number of sensors per vehicle and the related**

**software.** Valeo boasts the widest portfolio of sensors on the market, from ultrasonic sensors, radars and cameras to laser scanners. As the world leader in driving assistance, with technologies that enable vehicles to park themselves or drive on the highway in automated mode, Valeo is addressing the needs of its customers and now offers a diverse range of technologies from vehicle automation to connected products and services such as Valeo InBlue™ (car-sharing) and Remote Clean4U™ (windshield cleaning system) to embrace the opportunities of this future-facing market. Vehicle complexity has also spurred a need to provide end consumers with more intuitive human-machine interfaces;

- the needs of new mobility in a digital society will lead to the creation of **new**

**services**, the arrival of **new customers** and the need to build **new technological partnerships**. With this in mind, Valeo has opened a technical center in Silicon Valley to maintain constant ties with companies in the new economy in order to understand and meet their specific needs. Valeo has formed a number of technological partnerships, mainly with new mobility players such as Navya, a company specialized in the design of fully autonomous electric shuttles.

Valeo's strategy is therefore perfectly aligned with the major revolutions currently taking place. These growth drivers will support the future development of each Business Group and respond to mobility's paradigm shift towards electric, autonomous, shared cars.

## Innovation, Valeo's DNA

### Valeo, a tech company

#### An efficient, tailor-made technological development process

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 the different global markets. Valeo regularly analyzes its innovations portfolio and medium- and long-term market developments to ensure that it is offering and 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 (see Chapter 4, section 4.2.1 "Valeo's innovation policy", pages 170 to 174).



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

**INNOVATIVE  
PRODUCTS<sup>(1)</sup>  
ACCOUNTED FOR  
50% OF ORDER  
INTAKE IN 2016**



Valeo reinvests over 11% of its original equipment sales in Research and Development. In 2016, gross Research and Development expenditure amounted to 1.6 billion euros, up 22% compared with 2015. Valeo protects its innovations with an active patent filing policy – 1,840 patents were filed in 2016, a 31% increase on 2015. This makes it the biggest patent filer in France and the top French company in terms of patents filed with the European Patent Office.

The Group's R&D teams work to quickly bring mobility solutions to end customers worldwide. Aside from its 20 research centers – most of which are located in France, Germany, Ireland and Japan – and 38 development centers located across the world, Valeo has developed a network of 15 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 2016, this was recognized with a place in the Thomson Reuters list of Top 100 Global Innovators.

Valeo's growth is driven above all by innovative, high-growth products<sup>(2)</sup> (growth of approximately 26% per year between 2015 and 2021). Innovative products<sup>(1)</sup> accounted for 50% of order intake in 2016.

**From open innovation<sup>(3)</sup>  
to thinking like a start-up**

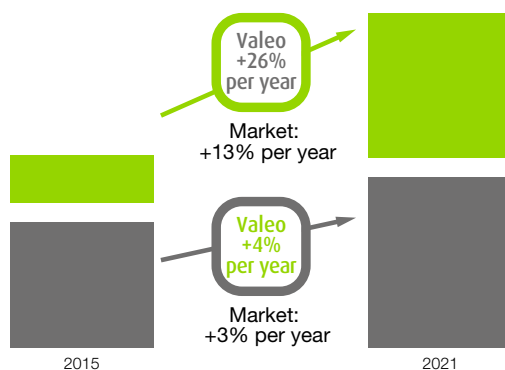
The connected, automated, eco-friendly car of tomorrow will have little in common with previous generations. To design and produce this vehicle, the automotive industry incorporates a wide range of skill sets. Valeo works with players of varying sizes and natures, including universities and start-ups as well as major groups. This ecosystem enables Valeo to speed up the product development cycle and thereby reduce the time-to-market for its products.

The Group actively diversifies its sources of inspiration and its ties with major innovators, in particular by (i) financing the IoT (Internet of Things) Chair with the ESCP Europe business school, (ii) partnering with Safran, (iii) acquiring a stake in Navya (see Chapter 4, section 4.2.4 "A partnership approach to Research and Development", pages 181 to 184), and (iv) acquiring a direct stake in Cathay Innovation – an investment fund dedicated to venture capital financing for start-ups.

► **GROWTH ENGINES<sup>(2)</sup>**

Growth engines<sup>(2)</sup>

Traditional products



Source: Valeo.

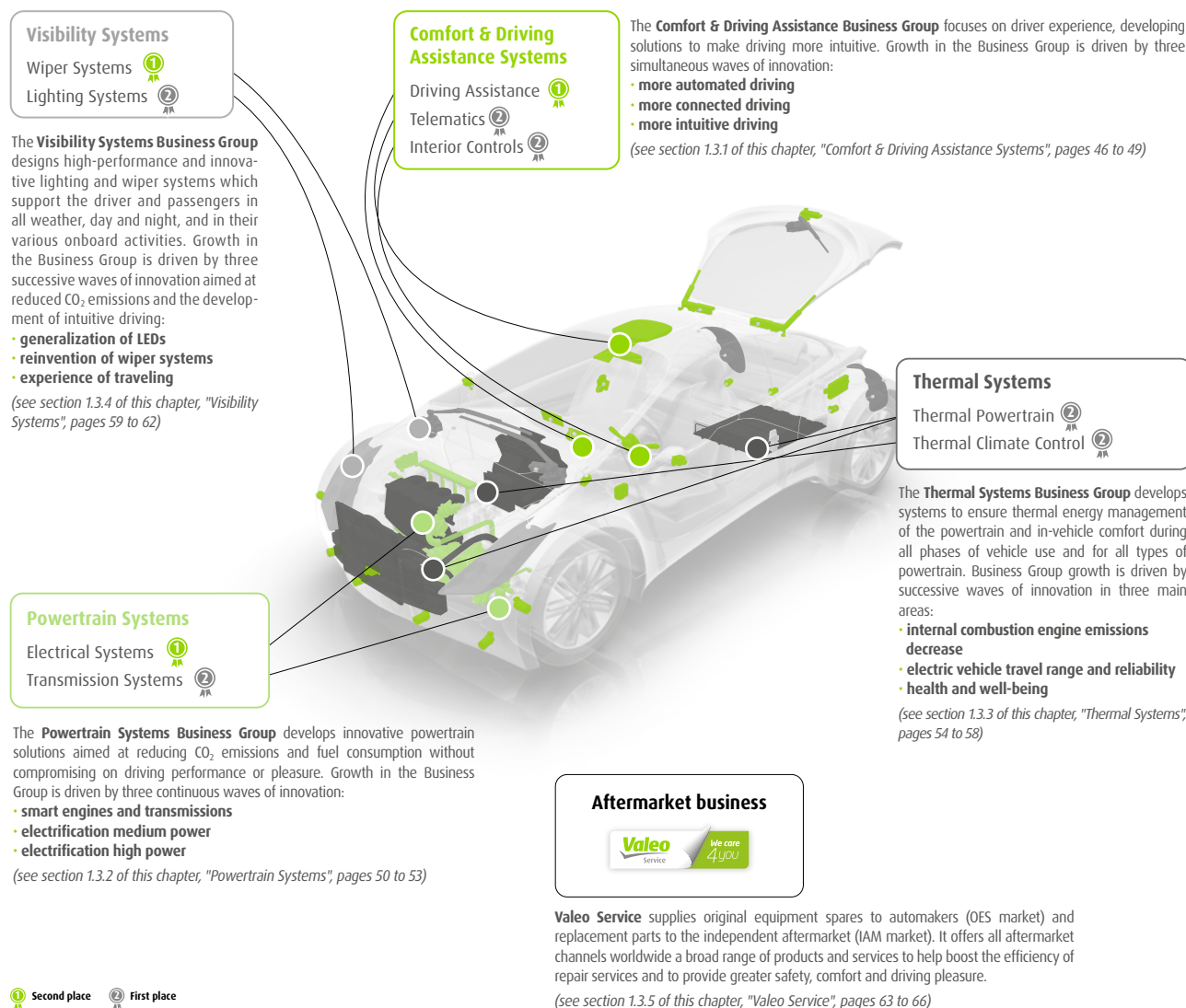
(1) Products and technologies in series production for less than three years.

(2) Growth engines are strategic products and services that are positioned on growth markets or generate a significant increase in the Group's sales.

(3) See Sustainable Development Glossary, page 450.

## An organizational structure built on four market-leading, high-growth potential Business Groups

Valeo is structured around four well-balanced, coherent Business Groups that offer innovative solutions to meet the major changes taking place in its markets aimed at reducing CO<sub>2</sub> emissions and developing intuitive driving. Valeo enjoys leading positions and growth potential in its main markets:



Besides the promotion of innovative technologies, the Group's marketing and manufacturing efforts are primarily focused on accompanying longstanding customers as well as 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<sup>(1)</sup>.

In 2016, Europe accounted for 49% of original equipment sales<sup>(2)</sup>, with Asia accounting for 27% and China accounting for 14%. By 2021, Asia should account for 37% of Valeo's original equipment sales, with China alone accounting for 20% and Europe accounting for 42%.

(1) Including partnerships for which headcount is prorated based on the Group's percentage interest.  
(2) Original equipment sales by destination region.



▼  
**IN 2016,**  
**ORDER INTAKE<sup>(1)</sup>**  
**REACHED**  
**ANOTHER RECORD AT**  
**23.6 BILLION EUROS**

**Ahead of the schedule set out in March 2015, Valeo presented a new strategic plan in February 2017**

**2016 results, ahead of schedule on the medium-term plan unveiled on March 16, 2015**

In 2016, Valeo demonstrated that it is capable of growing faster than the market, and that its profitability and free cash flow<sup>(1)</sup> performance 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 2016 consolidated results”, pages 270 to 282).

### Growth

Valeo's like-for-like original equipment sales growth was 6 and 8 percentage points higher than automotive production in 2015 and 2016, respectively, beating the average medium-term outperformance objective of 5 percentage points set for the 2015-2020 period.

In 2016, order intake<sup>(1)</sup> reached another record at 23.6 billion euros, up 17% on 2015. This performance confirms the Group's potential to achieve the medium-term average organic growth target of 8% over the 2015-2020 period.



### Profitability

In 2016, Valeo recorded operating margin<sup>(2)</sup> of 8.1%, ahead of its objective for operating margin<sup>(2)</sup> of between 8% and 9% by 2020.

### Return on capital employed

Valeo achieved a return on capital employed (ROCE)<sup>(1)</sup> of 33% and 34% in 2015 and 2016, respectively, in line with its medium-term objective of ROCE<sup>(1)</sup> above 35% by 2020.

### Free cash flow<sup>(1)</sup> generation

Valeo's free cash flow<sup>(1)</sup> to EBITDA<sup>(1)</sup> ratio came in at 31% in 2016, ahead of its medium-term objective of more than 30% by 2020.

Valeo's investments and financial position are discussed in Chapter 5, section 5.1.4 “Cash flow and financial position”, pages 277 to 282. The Group's objectives for 2017 are set out in Chapter 5, section 5.3 “Trends and outlook”, page 283.

(1) See Financial Glossary, page 449.

(2) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 449.



## An ambitious new strategic plan, presented on February 28, 2017

On the back of its results over the past two years, which put the Group ahead of schedule on its 2015-2020 strategic plan, Valeo organized another Investor Day in February 2017 during which it presented a new strategic plan and new financial objectives through 2021.

As the world leader in CO<sub>2</sub> emissions reduction and intuitive driving (particularly autonomous vehicles), Valeo is intent on continuing its R&D efforts in order to meet its customers' needs and leverage new growth opportunities for electrification, autonomous and connected vehicles, as well as new forms of mobility driven by digital technology.

Valeo has solid fundamentals thanks to its diversified customer and geographic positioning with an increasing footprint in high-growth potential regions, notably in Asia. Accentuating this trend over the 2016-2021 period will help Valeo pursue its geographic repositioning, with around 37% of original equipment sales projected to be generated in Asia by 2021, versus 27% in 2016.

## Focus on accelerating growth, improving profitability and increasing free cash flow generation in each of the Business Groups

Building on the growth in the order intake<sup>(1)</sup> due to the success of its innovations<sup>(2)</sup> (half of the order intake<sup>(1)</sup> in 2016), over the 2016 to 2021 period, the Group is aiming to accelerate organic growth through higher content per vehicle and a better product mix, to improve profitability and to increase free cash flow<sup>(1)</sup> generation.

All four Business Groups will leverage this potential stemming from the new opportunities within the automotive industry, and will undergo several waves of growth as these new technologies enter production.

## Accelerating growth<sup>(3)</sup> and boosting operational excellence

Leveraging the record level of its order intake<sup>(1)</sup> over the past few years, Valeo is aiming to achieve an average outperformance of more than 7 percentage points compared to global automotive production on the back of its innovation-fueled product mix. Assuming that global automotive production increases by an annual average of 2.3% over the

2016-2021 period, sales would therefore rise to more than 22.5 billion euros in 2019 and would exceed 27 billion euros by 2021 (versus 16.5 billion euros in 2016), representing average annual sales growth of over 10%.

## Improving operating margin<sup>(3)(4)</sup>

Valeo is aiming to leverage this sales growth to improve profitability, and has set a target for operating margin<sup>(4)</sup> (as a percentage of sales) of around 8.5% and 9% for 2019 and 2021, respectively, versus 8.1% in 2016.

## Doubling free cash flow<sup>(1)(3)</sup> generation

Valeo is aiming to double its free cash flow<sup>(1)</sup> generation to 3.7 billion euros over the 2017-2021 period, versus 2 billion euros over the 2012-2016 period.

## Profitability indicators

Within the scope of its medium-term plan characterized by strong growth in production capacity, particularly in Asia, Valeo is aiming to achieve a return on capital employed (ROCE<sup>(1)</sup>) of around 30% and a return on assets (ROA<sup>(1)</sup>) of more than 20%.



▼

**VALEO IS AIMING TO ACHIEVE AN AVERAGE OUTPERFORMANCE OF MORE THAN 7 PERCENTAGE POINTS COMPARED TO GLOBAL AUTOMOTIVE PRODUCTION**

—

(1) See Financial Glossary, page 449.

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

(3) Including Ichikoh, Valeo-Kaptec and FTE and assuming that (i) global automotive production increases by an annual average of 2.3% between end-2016 and end-2021, and (ii) raw material prices remain at early-2017 levels.

(4) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 449.

## 1.1.4 Valeo model

### Value creation model

#### Our strengths



##### Customers

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



##### Employees

- 91,800 people in 32 countries<sup>(1)</sup>
- 1,859,854 training hours



##### Product development

- 13,700 engineers<sup>(1)</sup>
- 11.1% of OE sales dedicated to gross R&D expenditure<sup>(2)</sup>
- Eco-design approach



##### Quality performance

- Customer return rate below 4 parts per million products delivered
- Total Quality mindset



##### Global production system

- 155 plants<sup>(1)</sup> in 29 countries
- Standardized industrial and logistics methodology and tools



##### Supplier base

- 95% of Valeo's direct purchases are handled by 1,225 suppliers<sup>(1)</sup>
- Supplier integration process
- Valeo Business Partners Code of Conduct<sup>(3)</sup>



##### Environment

- 94% of sites certified ISO 14001<sup>(1)</sup>



##### Investment policy

- Adapted to a rapidly expanding business
- CAPEX<sup>(4)</sup> representing 5.6% of sales<sup>(2)</sup>



##### Solid financial position

- Rated "Investment Grade" by Moody's and Standard & Poor's
- Gearing at 13%<sup>(1)</sup>



#### Automotive market trends

- Stringent regulations aimed at reducing air pollution
- Three technological revolutions: electrification, automation and digitalization
- A growing Asian market
- Organization of automotive production into global platforms

#### 2016 sustainable value creation

##### CUSTOMERS



##### Automakers

- Order intake up 17% to 23.6 billion euros<sup>(2)</sup>
- 2,700 customer projects managed

##### SUSTAINABLE DEVELOPMENT STAKEHOLDERS



##### Employees

- Aim of adding 10,000 employees each year up to 2021
- Well-Being at Work program
- Top employer in 23 countries



##### Innovation

- Innovative products<sup>(3)</sup> accounted for 50% of all order intake
- Products contributing to CO<sub>2</sub> emissions reduction accounted for over 50% of Valeo's OE sales
- 1,840 patents filed
- "Top 100 Global Innovator"



##### Commitment to corporate citizenship

- Plants' initiatives program



##### Environmental eco-efficiency

- 50% reduction in water consumption/Sales (cu.m/€m) over 8 years<sup>(4)</sup>
- 31% reduction in energy consumption/Sales (MWh/€m) over 8 years<sup>(4)</sup>

##### FINANCIAL COMMUNITY



##### Financial performance

- Operating margin of 8.1%<sup>(2)</sup>
- Net debt at 0.25x EBITDA<sup>(1)</sup>
- Free cash flow/EBITDA ratio of 31%<sup>(2)</sup>



##### Shareholders

- ROCE of 34%<sup>(1)</sup>
- Dividend payout ratio of 32%<sup>(7)</sup>
- Total shareholder return<sup>(8)</sup> of 17%

(1) At December 31, 2016.

(2) In 2016.

(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) 2008-2016.

(7) At the 2017 Annual Shareholders' Meeting, Valeo will recommend paying a dividend of 1.25 euros per share, up 25% on 2015, representing a payout ratio of 32%.

(8) Total shareholder return (TSR) measures share profitability from December 31, 2015 to December 31, 2016 and includes dividends received and gains realized during that period.

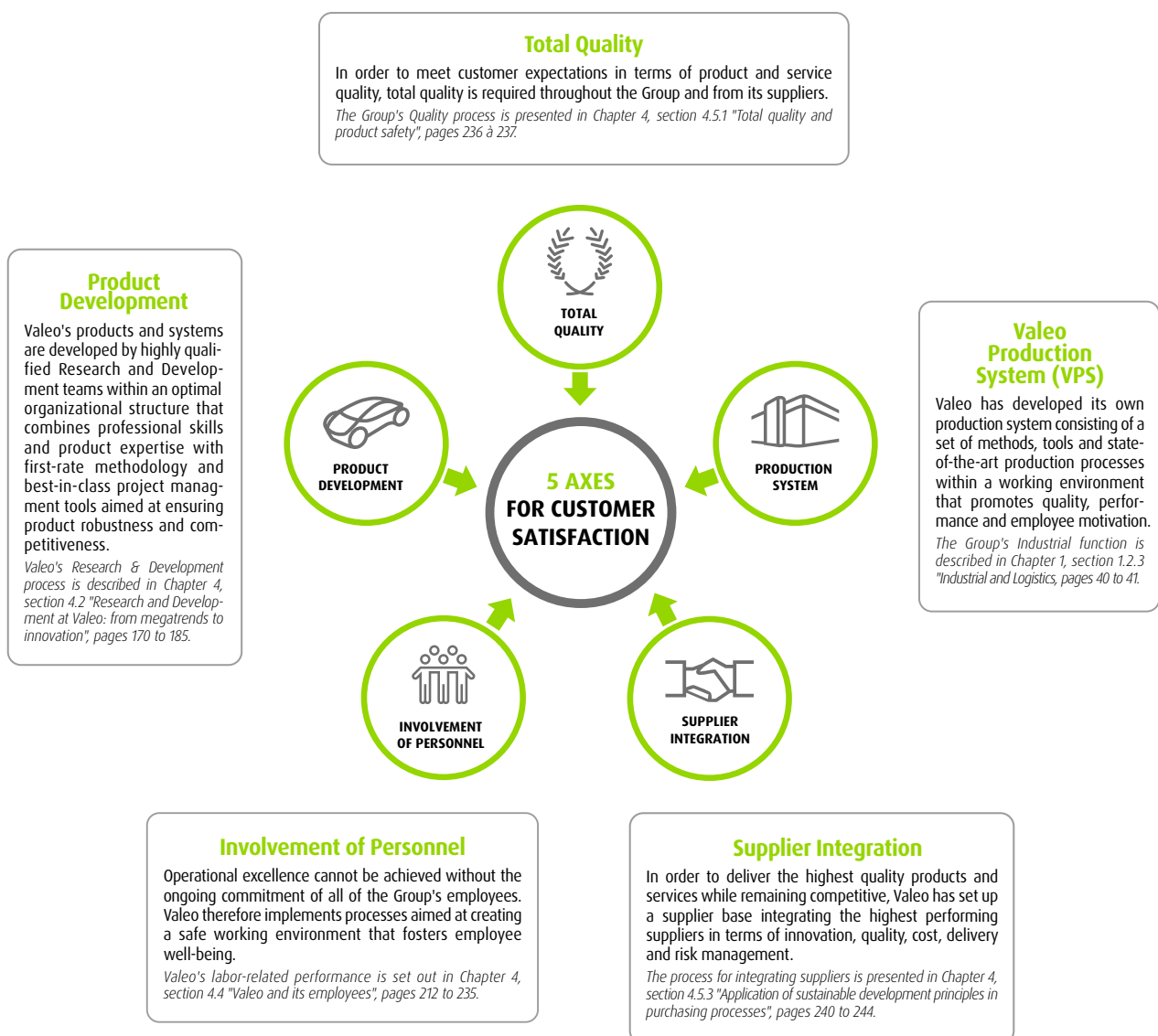
## Operational excellence in support of strategy

Valeo's corporate culture is built on excellence in operations, best-in-class production quality standards, the values shared by all of the Group's employees, and its strong commitment to corporate social responsibility (labor issues, corporate citizenship and the environment).

To maintain its competitive edge over other automotive suppliers, Valeo, automakers' preferred partner, 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: a culture of operational excellence and continuous improvement

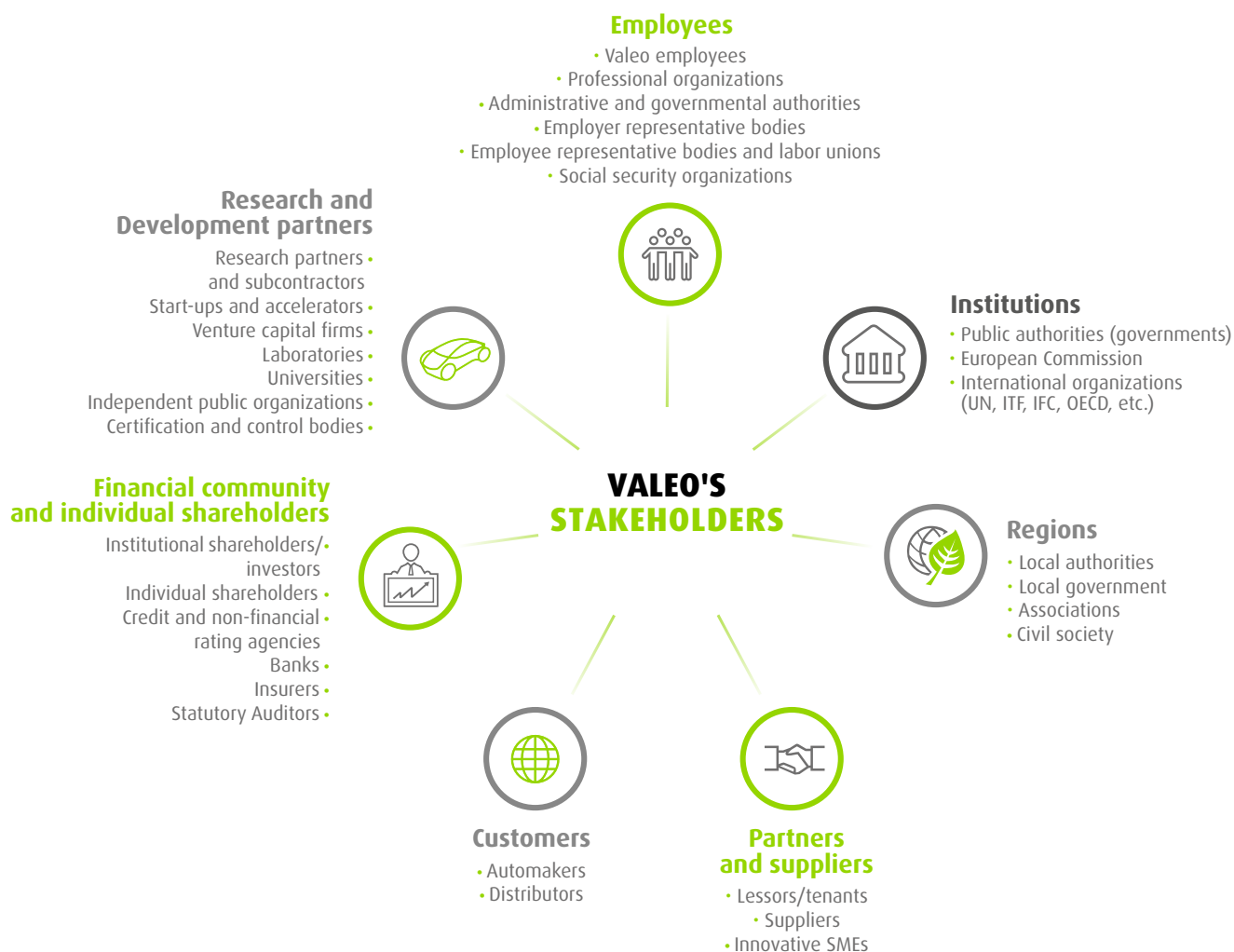


## Creating value shared with our stakeholders

### Valeo stakeholders

As a global industrial and technology group, Valeo has relationships with the different stakeholder groups throughout the product process, from design, to production and product sales (see Chapter 4, section 4.1.4 “A sustainable development policy based on strong relationships with stakeholders”, pages 168 to 169).

#### ► VALEO STAKEHOLDERS



## Breakdown of value creation

The following flow chart breaks down the value created by the Group with and for its stakeholders in 2016.



(1) Net income for the year excluding share in net earnings of equity-accounted companies, personnel expenses and employee benefits, depreciation of property, plant and equipment and amortization of other intangible assets, income taxes and levies included in operating items, and cost of net debt.

(2) Personnel expenses and employee benefits (of which pension costs and restructuring costs).

(3) 2016 retained earnings plus depreciation of property, plant and equipment and amortization of other intangible assets.

(4) Dividends, based on a payout ratio of 32%, to be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2016.

(5) Income taxes and levies included in operating items.

(6) Cost of net debt.



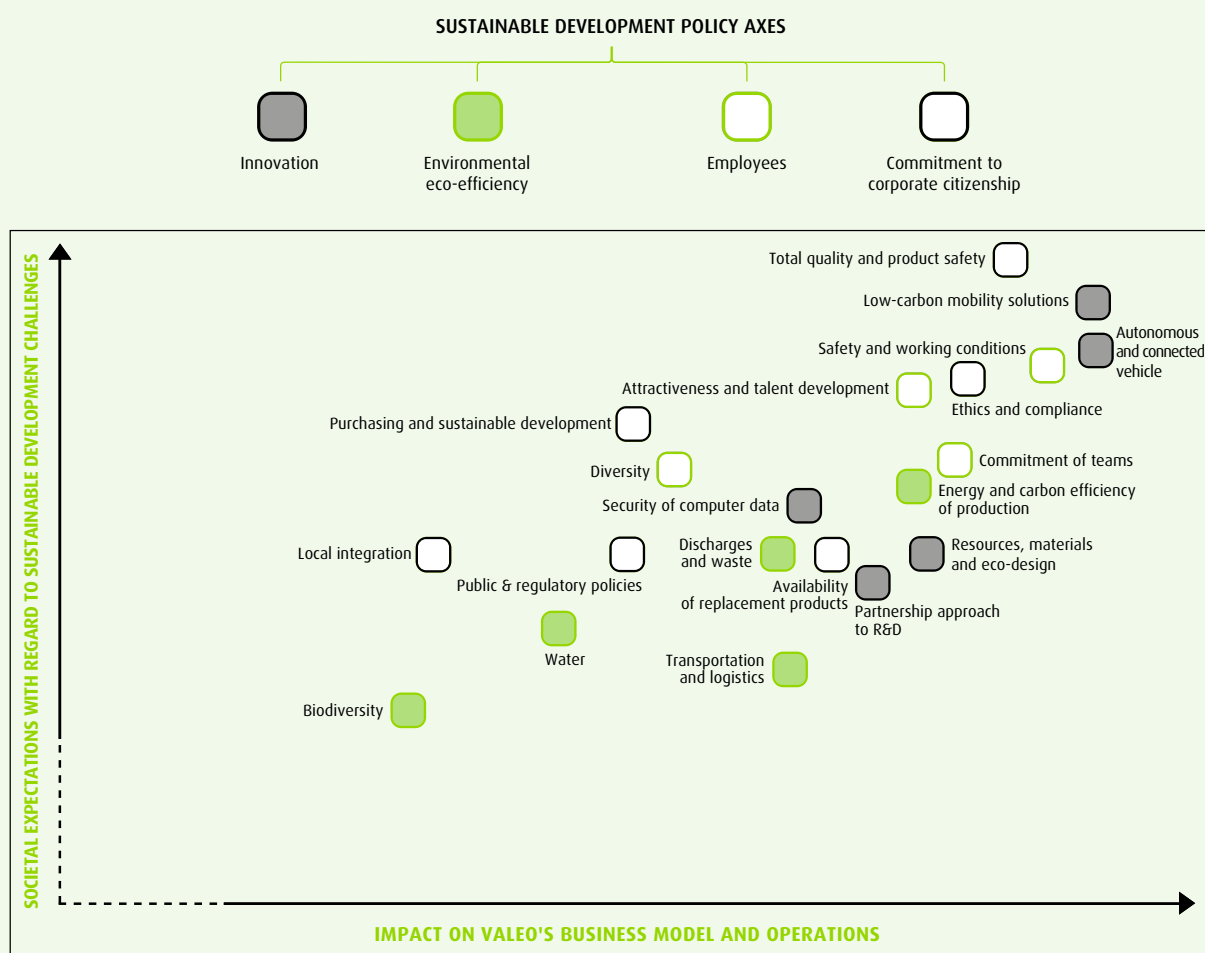


## Valeo's top sustainable development challenges

Valeo has 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.). Feedback from stakeholders enabled Valeo to validate the materiality matrix in 2016. The Group closely monitors each challenge on a permanent basis using action plans and key indicators, which are set out throughout Chapter 4 on Sustainable Development, pages 159 to 268.

### ► VALEO MATERIALITY MATRIX





## 1.1.5 Solid governance in support of strategy



The Group's growth model is based on a strong corporate governance structure, led by the Board of Directors, the Lead Director, the Board's Committees, the Chief Executive Officer (who became the Chairman and Chief Executive Officer on February 18, 2016), as well as the Operations Committee, comprising the Chairman and Chief Executive Officer and the 14 Functional and Operational Directors.

Valeo's governance structure (described in Chapter 3, "Corporate Governance", pages 93 to 158) allows the Group to define and 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 had set up three committees – the Audit & Risks Committee, the Appointments, 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. On January 26, 2017, the Appointments, Compensation & Governance Committee was split into two separate committees – the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee – in line with the Group's aim of continuously improving its governance. The Board of Directors also organizes an annual strategy seminar for its members.



*Valeo's Board of Directors at the strategy seminar in Silicon Valley (California), November 2016.*

The Board of Directors' 14 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, 42% of the Board's members are women. Seventy-nine percent of the Board's members are under 70 and, except for the Chairman and Chief Executive Officer, all of them are considered independent according to the criteria set out in both the internal procedures and the AFEP-MEDEF Code to which Valeo refers.

At end-2015, Pascal Colombani, then Chairman of the Board of Directors, indicated to the Board of Directors that, having reached the age limit set out in Valeo's articles of association, 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 combine the positions of Chairman of the Board of Directors and Chief Executive Officer and to appoint the Chief Executive Officer, Jacques Aschenbroich, as Chairman of the Board of Directors. Jacques Aschenbroich thus became Chairman of the Board of Directors and Chief Executive Officer. At the same meeting, Pascal Colombani was appointed as Honorary Chairman. The Board of Directors also unanimously decided to appoint Georges Pauget as Lead Director. Pursuant to the Board of Directors' internal procedures, he has the broadest powers to carry out his duties. Georges Pauget is an independent director, the Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee, and a member of the Strategy Committee.

An assessment of the Board of Directors' operation was conducted in late 2016 and early 2017 with the assistance of a specialist consulting firm. A summary of the assessment highlighted the directors' very positive view of the Company's governance. The directors noted the success of combining the position of

Chairman of the Board of Directors with that of Chief Executive Officer. They were also satisfied with the newly created position of Lead Director and the role he plays, and praised the Board's high quality, constantly improving operation along with the excellent trust-based working relationship between the

Board of Directors and the Chairman and Chief Executive Officer. The strategy seminar held in Silicon Valley, California in November 2016 was considered a key moment for the Board of Directors, in view of the quality of its organization, the issues covered and the people in attendance.

### Composition of the Board of Directors at December 31, 2016

|                                                              | Age | Gender | Nationality | Independent | Number of directorships held in listed companies other than Valeo | Audit & Risks Committee | Appointments, Compensation & Governance Committee | Strategy Committee | Start of first term of office | End of current term of office | Number of years on the Board | Attendance <sup>(1)</sup> |
|--------------------------------------------------------------|-----|--------|-------------|-------------|-------------------------------------------------------------------|-------------------------|---------------------------------------------------|--------------------|-------------------------------|-------------------------------|------------------------------|---------------------------|
| Jacques Aschenbroich<br>Chairman and Chief Executive Officer | 62  | M      | F           | No          | 1                                                                 |                         |                                                   |                    | 2009                          | 2019                          | 8                            | 100%                      |
| Gérard Blanc                                                 | 74  | M      | F           | Yes         | 1                                                                 |                         | ●                                                 |                    | 2007                          | 2017                          | 10                           | 100%                      |
| Daniel Camus                                                 | 64  | M      | FC          | Yes         | 2                                                                 | ● (Chair)               |                                                   |                    | 2006                          | 2018                          | 11                           | 100%                      |
| Pascal Colombani <sup>(2)</sup>                              | 71  | M      | F           | Yes         | 2                                                                 |                         | ●                                                 | ●                  | 2007                          | 2019                          | 10                           | 100%                      |
| Jérôme Contamine                                             | 59  | M      | F           | Yes         | 0                                                                 |                         | ●                                                 |                    | 2006                          | 2018                          | 11                           | 63%                       |
| Caroline Maury Devine                                        | 65  | F      | Am          | Yes         | 3                                                                 |                         | ●                                                 |                    | 2015                          | 2017                          | 2                            | 88%                       |
| Sophie Dutordoir                                             | 54  | F      | B           | Yes         | 1                                                                 |                         | ●                                                 |                    | 2013                          | 2017                          | 4                            | 100%                      |
| Michel de Fabiani                                            | 71  | M      | F           | Yes         | 0                                                                 | ●                       | ●                                                 |                    | 2009                          | 2019                          | 8                            | 100%                      |
| Mari-Noëlle Jégo-Laveissière <sup>(3)</sup>                  | 48  | F      | F           | Yes         | 1                                                                 | ●                       |                                                   |                    | 2016                          | 2020                          | 1                            | 100%                      |
| Noëlle Lenoir                                                | 68  | F      | F           | Yes         | 1                                                                 | ●                       |                                                   |                    | 2010                          | 2018                          | 7                            | 100%                      |
| Thierry Moulouquet                                           | 65  | M      | F           | Yes         | 1                                                                 | ●                       |                                                   | ●                  | 2011                          | 2020                          | 6                            | 100%                      |
| Georges Pauget                                               | 69  | M      | F           | Yes         | 2                                                                 |                         | ● (Chair)                                         | ●                  | 2007                          | 2020                          | 10                           | 100%                      |
| Ulrike Steinhorst                                            | 65  | F      | G           | Yes         | 1                                                                 |                         | ●                                                 | ● (Chair)          | 2011                          | 2020                          | 6                            | 100%                      |
| Véronique Weill <sup>(3)</sup>                               | 57  | F      | F           | Yes         | 2                                                                 |                         |                                                   | ●                  | 2016                          | 2020                          | 1                            | 100%                      |
| Number of meetings                                           |     |        |             |             | 5                                                                 | 7                       | 4                                                 |                    |                               |                               | 8                            |                           |
| Attendance rate                                              |     |        |             |             | 90%                                                               | 92%                     | 91%                                               |                    |                               |                               | 96%                          |                           |

(1) Rate of attendance at Board meetings (director present).

(2) At the Board of Directors' meeting of January 26, 2017, Pascal Colombani was considered independent.

(3) Since she was appointed on May 26, 2016.

#### NATIONALITIES

F: French – FC: French-Canadian – Am: American – B: Belgian – G: German

For further information on the Board's operation and composition, see Chapter 3, section 3.2 "Composition of the Board of Directors, and preparation and organization of its work", pages 116 to 129.

## The three Committees created by the Board

At December 31, 2016:

| Audit & Risks Committee                                                                                                                                                                                                          | Appointments, Compensation & Governance Committee                                                                                                                                                                                                                                                                                                     | Strategy Committee                                                                                                                                                                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5 independent members out of 5                                                                                                                                                                                                   | 6 independent members out of 6                                                                                                                                                                                                                                                                                                                        | 7 independent members out of 7                                                                                                                                                                                                                                                                            |
| 5 meetings                                                                                                                                                                                                                       | 7 meetings                                                                                                                                                                                                                                                                                                                                            | 4 meetings                                                                                                                                                                                                                                                                                                |
| 90% attendance rate                                                                                                                                                                                                              | 92% attendance rate                                                                                                                                                                                                                                                                                                                                   | 91% attendance rate                                                                                                                                                                                                                                                                                       |
| <ul style="list-style-type: none"> <li>Review the parent company and consolidated financial statements, quarterly and half-yearly information, and half-year reports</li> </ul>                                                  | <ul style="list-style-type: none"> <li>Study and make recommendations concerning the compensation paid to executive corporate officers, the aggregate amount of attendance fees and their allotment as well as the allotment of stock options, free shares and performance shares</li> </ul>                                                          | <ul style="list-style-type: none"> <li>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</li> </ul>                                            |
| <ul style="list-style-type: none"> <li>Regularly review the Group's risk map</li> <li>Monitor the Group's risk management and compliance system along with its internal control system to ensure their effectiveness</li> </ul>  | <ul style="list-style-type: none"> <li>Prepare the composition of the governing bodies, by making recommendations regarding the appointment of executive corporate officers, directors and committee members</li> <li>Draw up a succession plan for corporate officers in order to propose solutions in the event of an unforeseen vacancy</li> </ul> | <ul style="list-style-type: none"> <li>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</li> </ul> |
| <ul style="list-style-type: none"> <li>Guarantee the independence of the Statutory Auditors</li> <li>Supervise the procedure for selecting or renewing statutory audit engagements</li> </ul>                                    | <ul style="list-style-type: none"> <li>Examine the independence of each director</li> <li>Select new directors for appointment</li> </ul>                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                           |
| <ul style="list-style-type: none"> <li>Remain informed of the Group's financial position and of the main thrusts of the Group's financial strategy</li> <li>Review external communications prior to their publication</li> </ul> | <ul style="list-style-type: none"> <li>Assess and update corporate governance rules</li> <li>Review the CSR and safety policies</li> </ul>                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                           |
| Pages 124 to 128                                                                                                                                                                                                                 | Pages 122 to 124                                                                                                                                                                                                                                                                                                                                      | Pages 128 to 129                                                                                                                                                                                                                                                                                          |

On January 26, 2017, the Appointments, Compensation & Governance Committee was split into two separate committees – the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee.

The split is aimed at achieving continuous improvement in governance. Valeo is committed to a sustainable development strategy through a corporate social responsibility policy, aimed at aligning its economic, environmental and social

objectives, and its governance and values are rooted in socially responsible principles. It therefore seemed appropriate for this competency to be placed within the remit of the Committee in charge of governance.

## The Operations Committee implements the Group's strategy

### The Operations Committee coordinates the Group's management and operations

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", page 95) reflects the Group's organizational structure:

- based on the four Business Groups and Valeo Service (see Chapter 1, section 1.3 "Businesses", pages 45 to 66);
- supported by the functional networks (see Chapter 1, section 1.2.3 "Presentation of the functional networks", pages 37 to 44).



360Vue® multi-camera system.

### Composition of the Operations Committee at March 22, 2017

| 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 Delhayé      | Chief Ethics and Compliance Officer                                 | 2012                |
| 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                |
| Francisco Moreno       | President, Thermal Systems Business Group                           | 2017 <sup>(1)</sup> |
| 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 94 to 95         |                                                                     |                     |

(1) January 16, 2017.

## Balanced compensation to support short-, medium- and long-term value creation

The compensation policy for Valeo's executive managers is tied to the Group's performance as well as its short- and long-term value creation. The criteria used to calculate executive managers'

compensation are aligned with the Group's financial objectives and take into account non-financial performance, relating in particular – in the case of the Chairman and Chief Executive Officer –

to strategy, risk management and financial communication (see Chapter 3, section 3.3 "Compensation of corporate officers, directors and other Group executive managers", pages 138 to 158).

### ► COMPONENTS OF COMPENSATION OF EXECUTIVE MANAGERS AND CORPORATE OFFICERS

|                    | Fixed portion                                                                                                                                                                                                                        | Variable portion                                                                                                                                                                                                                                                                                                                           | Performance shares                                                                | Supplementary pension                                                                                                          | Attendance fees                                                                         |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| Beneficiaries      | Chairman and CEO/members of the Operations Committee                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                            |                                                                                   |                                                                                                                                | Corporate officers other than the Chairman and CEO                                      |
| Form of payment    | Cash                                                                                                                                                                                                                                 | Cash                                                                                                                                                                                                                                                                                                                                       | Shares                                                                            | Cash                                                                                                                           | Cash                                                                                    |
| Performance type   | Short-term                                                                                                                                                                                                                           | Short-term                                                                                                                                                                                                                                                                                                                                 | Long-term                                                                         | Long-term                                                                                                                      | Short-term                                                                              |
| Performance period | Continuous                                                                                                                                                                                                                           | 1 year                                                                                                                                                                                                                                                                                                                                     | 3 years                                                                           | Continuous                                                                                                                     | Continuous                                                                              |
| Decision-maker     | <b>Chairman and CEO:</b> Board of Directors on recommendation of the Compensation Committee <sup>(1)</sup><br><b>Members of the Operations Committee:</b> Chairman and CEO in liaison with the Compensation Committee <sup>(1)</sup> | <b>Chairman and CEO:</b> Board of Directors on recommendation of the Compensation Committee <sup>(1)</sup><br><b>Members of the Operations Committee:</b> Chairman and CEO in liaison with the Compensation Committee <sup>(1)</sup>                                                                                                       | Board of Directors on recommendation of the Compensation Committee <sup>(1)</sup> | Board of Directors on recommendation of the Compensation Committee <sup>(1)</sup> , which sets the eligibility criteria        | Board of Directors, based on the aggregate amount approved by the Shareholders' Meeting |
| Performance metric | <i>Not applicable</i>                                                                                                                                                                                                                | <b>Chairman and CEO<sup>(2)</sup>:</b><br>► 5 financial criteria (operating margin, ROCE, free cash flow, net income, order intake <sup>(3)</sup> )<br>► Qualitative criteria (quality of financial communications, strategic vision, risk management)<br><b>Members of the Operations Committee:</b> financial and non-financial criteria | ► 3 financial criteria (ROA, operating margin, ROCE <sup>(3)</sup> )              | <b>Chairman and CEO:</b> indexed to variable compensation<br><b>Members of the Operations Committee:</b> <i>Not applicable</i> | Attendance                                                                              |

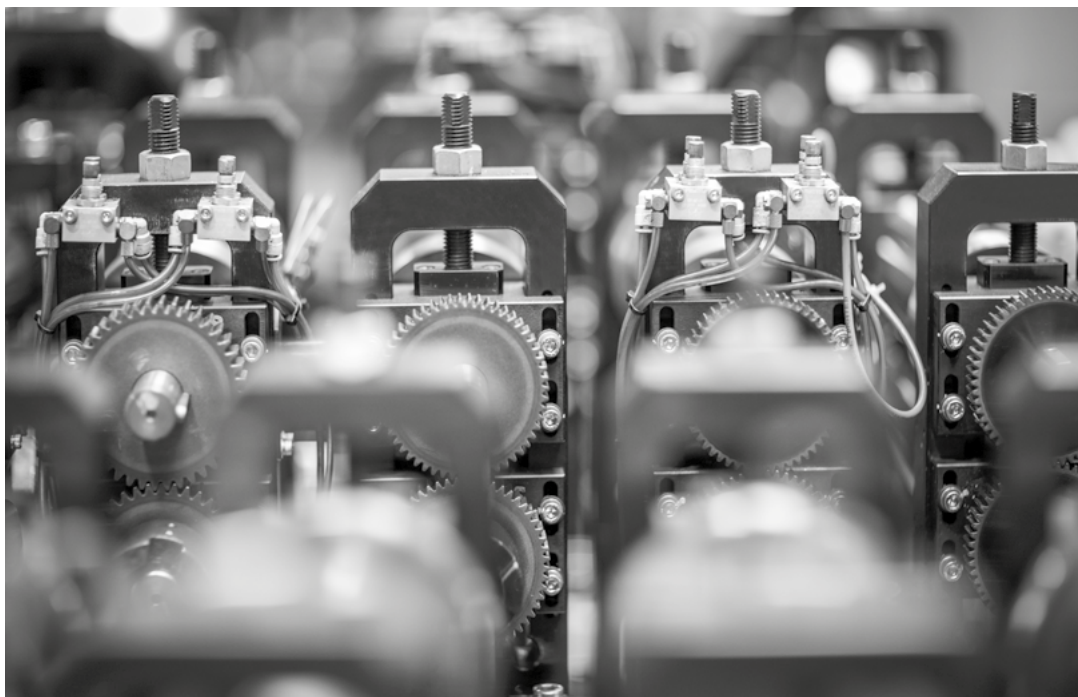
(1) Committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017.

(2) Criteria applicable for 2016 compensation.

(3) See Financial Glossary, page 449.

► **COMPENSATION AWARDED DURING THE YEAR TO JACQUES ASCHENBROICH, CHIEF EXECUTIVE OFFICER UNTIL FEBRUARY 18, 2016 THEN CHAIRMAN AND CHIEF EXECUTIVE OFFICER AS OF FEBRUARY 18, 2016<sup>(1)</sup>**

|           |                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-----------|----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Long term | <b>Performance shares</b><br><b>70,974 shares</b><br><b>(€2,699,850)<sup>(2)</sup></b> | <b>Performance criteria over 3 years:</b> <ul style="list-style-type: none"> <li>• ROA, operating margin and ROCE<sup>(3)</sup>: the average ratio over three years (2016 to 2018) 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</li> </ul> <b>3-year vesting period:</b> <ul style="list-style-type: none"> <li>• 3 criteria met (100%), 2 criteria met (60%), 1 criterion met (30%) and no criteria met (0%)</li> </ul> <b>3-year vesting period followed by a mandatory 2-year holding period</b><br><b>At the end of the holding period, at least 50% of the vested performance shares allotted must be held until the term of office expires</b> |
|           | <b>Variable portion</b><br><b>€1,627,738</b><br>(165% of fixed compensation)           | <b>Quantitative criteria</b> (115% of fixed compensation) <ul style="list-style-type: none"> <li>• Operating margin (23% of fixed compensation)</li> <li>• Operating free cash flow (23% of fixed compensation)</li> <li>• Net income (23% of fixed compensation)</li> <li>• ROCE (23% of fixed compensation)</li> <li>• Consolidated order intake (23% of fixed compensation)</li> </ul> <b>Qualitative criteria</b> (50% of fixed compensation) <ul style="list-style-type: none"> <li>• Quality of financial communications (11% of fixed compensation)</li> <li>• Strategic vision (22% of fixed compensation)</li> <li>• Risk management (17% of fixed compensation)</li> </ul>                                                                                                                                                                 |
|           | <b>Fixed portion</b><br><b>€986,508</b>                                                | Excluding benefits in kind and supplementary pension                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |



(1) Subject to a say-on-pay vote at the Shareholders' Meeting to be held on May 23, 2017.

(2) Performance shares measured in accordance with IFRS (unit value of 38.04 euros at the allotment date).

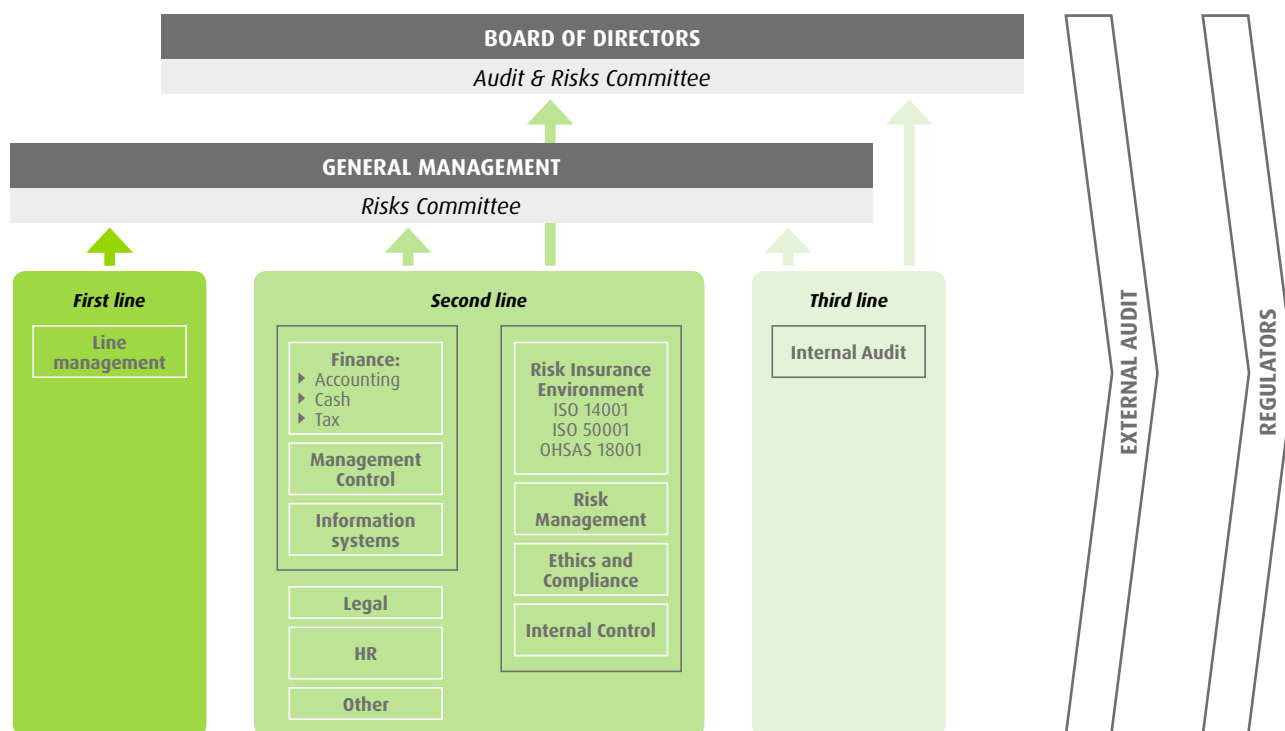
(3) See Financial Glossary, page 449.



## Risk management, a key priority for Valeo

### Organizational structure geared towards effective risk management

The Group's risk control system can be illustrated with the three lines of defense model, as follows:



For further information on risk management, see Chapter 2, section 2.3. "Internal control and risk management", pages 85 to 91.

### Main risks identified

The main risks identified are rated using a matrix that takes into account their potential impact, likelihood of occurrence and associated level of control.

|                | Operational risks                                                                                                                                                                                                                                                                                                                                                 | Environmental or accident risks                                                                                                                                                                                                                  | Legal risks                                                                                                                                                                                                                                                 | Financial risks                                                                                                                                      |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| CRITICAL RISKS | <ul style="list-style-type: none"> <li>Risks related to the development and launch of new products</li> <li>Risks related to attracting and retaining talent</li> <li>Industrial risks related to growth</li> <li>Cybersecurity and IT systems failure risk</li> <li>Supplier failure risk</li> <li>Risks related to the automotive equipment industry</li> </ul> |                                                                                                                                                                                                                                                  | <ul style="list-style-type: none"> <li>Risks related to products and services sold</li> </ul>                                                                                                                                                               | <ul style="list-style-type: none"> <li>Commodity risk</li> <li>Foreign currency risk</li> </ul>                                                      |
| OTHER RISKS    | <ul style="list-style-type: none"> <li>Customer credit risk</li> <li>Geopolitical risks</li> </ul>                                                                                                                                                                                                                                                                | <ul style="list-style-type: none"> <li>Risks related to environmental regulations</li> <li>Risks related to the impacts of climate change and natural events</li> <li>Risks related to accidents that could affect plant availability</li> </ul> | <ul style="list-style-type: none"> <li>Intellectual property risks (patents and trademarks)</li> <li>Risks of non-compliance with the Code of Ethics or the law</li> <li>Claims, litigation, and governmental, legal and arbitration proceedings</li> </ul> | <ul style="list-style-type: none"> <li>Liquidity risk</li> <li>Interest rate risk</li> <li>Banking counterparty risk</li> <li>Equity risk</li> </ul> |
|                | Pages 70 to 74                                                                                                                                                                                                                                                                                                                                                    | Pages 75 to 76                                                                                                                                                                                                                                   | Pages 77 to 80                                                                                                                                                                                                                                              | Pages 81 to 84                                                                                                                                       |

For further information on the Group's main risks, see Chapter 2, section 2.1 "Risk factors", pages 70 to 84.

## Strict adherence to ethics and compliance principles

Due to its global presence and its growing number of employees, Valeo has set up a specific and comprehensive Compliance Program to fight corruption and anti-competitive practices. The program is run by the Ethics and Compliance Department and is based on a comprehensive mechanism that comprises awareness-raising tools and a whistleblowing system aimed at prevention and continuous improvement.

### ► APPLICATION OF ETHICS AND COMPLIANCE PRINCIPLES AT ALL LEVELS OF THE GROUP



The **Audit & Risks Committee** 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.

The Ethics and Compliance Department, set up by **General Management**, 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.

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 **Ethics and Compliance Department** is tasked with proposing, managing, and coordinating the global and local implementation of the Compliance Program, as decided by the Operations Committee, of which it is a member.

Within the scope of their responsibilities, each **Compliance Champion** shares their experience with their colleagues and peers, helps them to understand the compliance policies and any tools that may be applicable, and/or directs 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.

For further information on the Group's ethics and compliance principles, see Chapter 4, section 4.5.2 "Ethics and compliance", pages 238 to 239.

## 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 period that followed was a time of industrial expansion and diversification, into thermal systems and electrical equipment, and of international development in Europe (Spain, Italy, Germany, United Kingdom, Turkey), South America (Brazil), North America (United States, Mexico), Asia (South Korea) and North Africa (Tunisia).

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.

#### 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, India, Japan) and Eastern Europe (Czech Republic, Poland, Hungary, Romania, Russia).

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 was supported through the following technology partnerships: International Rectifier (power electronics), Ricardo (mild-hybrid vehicle prototype), Raytheon (radar-based detection systems), Iteris (lane departure warning system); and through acquisitions, such as Connaught Electronics Ltd. (onboard cameras).

#### Since 2009: An innovative, fast-growing tech company

In 2009, a new strategy was implemented around two main drivers: innovation, with technologies focused on reducing CO<sub>2</sub> emissions and developing intuitive driving; and geographic expansion in Asia and emerging countries. It involved putting

in place a new organizational structure, to improve profitability and efficiency, 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 accelerated, and order intake attained record levels, driven by innovation that established Valeo's positioning as a leading technology company. In 2014, Valeo returned to the CAC 40, Euronext Paris' benchmark index.

Valeo's 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),
  - Gemalto – security for the Valeo InBlue™ virtual key system (2016),
  - Capgemini – launch of Mov'InBlue™, an innovative intelligent mobility solution addressing company fleets and car hire companies (2016);
- acquisitions and joint ventures:
  - Niles – interior controls (2011),
  - the VTES (Variable Torque Enhancement Systems) activity of CPT – electric superchargers (2012),
  - Eltek Electric Vehicles – onboard chargers for hybrid and electric vehicles (2013),
  - Valeo Sylvania – lighting systems: acquisition of the interest of Osram GmbH (2014),
  - peiker – onboard telematics and connectivity (2016),
  - Spheros – air conditioning systems for buses (2016),
  - Valeo Siemens eAutomotive GmbH – high-voltage powertrain systems: joint venture (2016),
  - Ichikoh – lighting systems: takeover (2017);
- investments in technology start-ups:
  - Aledia – development of 3D LED technology (2015),
  - CloudMade – development of intelligent and innovative solutions for massive data processing (2016),
  - Navya – development of innovative and intelligent mobility solutions (2016);
- investments in venture capital funds:
  - Cathay Capital – investments in innovative start-ups (2015),
  - Trucks Venture Fund 1, LP – investments in emerging transportation-sector companies (2016).

## 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 CO<sub>2</sub> emissions and to the development of intuitive driving.

In 2016, the Group generated sales of 16.5 billion euros and invested over 11% of its original equipment sales in Research and Development. Valeo has 155 plants, 20 research centers, 38 development centers and 15 distribution platforms, and employs 91,800 people in 32 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**, which holds shares in non-French companies;
- **VIHBV**, registered in the Netherlands, which performed this function of investing in non-French companies previously, and which retains certain investments.

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 company 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 in a given region.

**Valeo Service** operates under the responsibility of the Group's Operations Department. Alongside the Business Groups and Product Groups, it supplies original equipment spares to automakers and the independent aftermarket.

See section 1.3 "Businesses", pages 45 to 66, 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 (see Chapter 2, section 2.3 "Internal control and risk management", pages 85 to 91);
- 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, journalists, civil society and the general public) and internally, in order to promote the Group's image, highlight its performance and unite employees;
- the **Ethics and Compliance Department** is tasked with putting in place, managing, and coordinating the Compliance program, as decided by the Operations Committee, of which it is a member, on global, national, local, and plant levels (see Chapter 4, section 4.5.2 "Ethics and compliance", pages 238 to 239);
- 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 strives to defend the Group's interests;
- the **Group Operations Department** is responsible for the four operational Business Groups and Valeo Service, and also oversees the Industrial, Purchasing and Quality functions;
- the **Research & Development and Product Marketing Department** directs the Group's innovation policy as well as product development methods and tools;
- The **Human Resources Department** tackles the many challenges Valeo encounters worldwide in developing and managing human resources, from engaging in the fight for talent to building and sharpening advanced skills and sustaining employability. The Group aims to add 10,000 employees to its global workforce each year over the next five years.
- 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 External 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

### Research & Development and Product Marketing

Valeo's Research and Development function covers Innovation, Research, Development, Product Marketing and Intellectual Property. Its main purpose is to position Valeo among the most innovative automotive suppliers, making the largest contributions to progress in autonomous vehicles, intuitive vehicle usage, new mobility practices and reductions in pollutant emissions.

The practice of partnerships with universities, laboratories and start-ups has intensified and become more international in scope. Collaborative projects with leaders in other industries have been stepped up to share experience, best practices and research efforts in a spirit of collaborative innovation.

Gross Research and Development spend totaled 1.6 billion euros in 2016, representing more than 11% of its original equipment sales and up by 22% in absolute terms on 2015. 13,700 employees work at 20 research centers and 38 development centers worldwide. Innovation is central to the organization, and the Group's innovative products<sup>(1)</sup> accounted for 50% of order intake in 2016. Many Valeo innovations are protected by patents, with 1,840 patents filed in 2016, a 31% increase on 2015.

To ensure the most efficient use of resources, the Research and Development function optimizes development team location on the basis of customers, costs, the competencies market, and opportunities for synergies within the Group. Processes, methods and development tools are continually adapted to improve team performance, keeping them at the cutting edge of new technologies such as artificial intelligence and cybersecurity.

The Product Marketing teams carry out surveys to develop a fuller understanding of advances in new mobility practices, powertrain trends and vehicle user expectations, especially as regards autonomous vehicles. These surveys are usually shared with Valeo's major customers, who also provide input.

Valeo's Research and Development process is detailed in Chapter 4, section 4.2 "Research and Development at Valeo: from megatrends to innovation", pages 170 to 185.

### Sales and Business Development

Valeo partners practically all of the world's automakers and 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 2016, German automakers remained the Group's leading customers, representing 30% of original equipment sales. Asian customers (including Nissan) represented 27%, reflecting Valeo's growth strategy in Asia, particularly China where business continues to progress with local automakers.

US customers (including Chrysler) accounted for 22% of original equipment sales. French customers (excluding Nissan) remained stable at 15% of original equipment sales.

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

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

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

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

## Strategy and organization

Total order intake for 2016 was 23.6 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 CO<sub>2</sub> 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.

## Human Resources Department

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 (see Chapter 4, section 4.4 "Valeo and its employees", pages 212 to 235).

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

Enabling employees at its plants, research centers and offices to work 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 diversity topic (disability, age, gender, culture) placed under the responsibility of a director or member of the Human Resources Department, which coordinates a global working group to define priority actions as well as initiatives to raise employee awareness and share 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 areas relating to CO<sub>2</sub> emissions reduction and the development of intuitive driving, is key to 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 2016, and has been scheduled for 2017. The event helps to reinforce the employer brand and position Valeo as an automotive supplier that designs, manufactures and markets innovative and high tech systems and products.
- Internal mobility and individual development: the Group's employees benefit from a program which monitors their progress and development and is conducted during interviews with their managers. To encourage internal mobility, further procedures are implemented in addition to these interviews to identify any opportunities for medium-term employee professional development.
- Compensation and benefits: the Group constantly monitors the employment market and maintains a competitive edge so that it can motivate and retain talent. It also adapts its 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 meet 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", pages 212 to 235 and section 4.7.3 "Summary of labor-related indicators", page 264.

## Operations

### Purchasing

The main responsibilities of the Purchasing function are to reduce costs by sourcing from the most competitive suppliers, to implement extremely rigorous selection processes for new suppliers, to ensure suppliers comply with its total quality and innovation approach, and to establish close partnerships with the most innovative and efficient suppliers. Valeo sees its purchasing strategy as a means for achieving a truly competitive edge.

The Group's Purchasing Department 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 2016, Valeo stepped up its efforts to raise supplier awareness on compliance and ethics, by continuing to rollout the Valeo Business Partners Code of Conduct. This document sets out Valeo's expectations of its business partners, offers advice on conduct in all operating areas and transmits its CSR (corporate social responsibility) requirements extensively through self-assessments and inspections.

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 awarding new contracts to the Group's most high-performing suppliers, in terms of quality, technology and productivity, Valeo confirms 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 Risks 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 2016.

## Industrial

**The purpose of the Industrial Department is to define the Group's industrial strategy and ensure that its implementation generates the industrial performance improvements needed to meet Valeo's objectives. Improvements in product and customer service are sought along with reductions in production cost and fixed assets by optimizing industrial plant and rolling out Valeo standards on industrial processes, production systems and logistics.**

To support the success of its operations, Valeo has set three priorities for its industrial strategy:

- controlling strong growth;
- improving industrial performance;
- deploying the plant of the future (see "Automation and digitalization" inset, page 41).

Controlling strong growth in Group operations 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 individual development programs provided by expert teams, in which 12,000 people took part in 2016. 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, especially as regards safety, quality and performance.

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 40 million euros in savings in 2016, while the ongoing efforts to optimize and centralize storage and transportation 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 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.

**AUTOMATION AND DIGITALIZATION**

Valeo is setting up innovative automation and digitalization processes.

New automation technologies such as cobots (collaborative robots) and AGVs (automated guided vehicles) enable plants and logistics sites to improve workstation ergonomics and heighten competitive performance.

At the same time, in the field of digitalization, Valeo has launched its “Plant of the Future” initiative taking into account the current possibilities offered by process digitalization 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.

The main feature of a digitized plant is continuity in the transmission of information and data, or in the flow of products.

The purpose of the “Plant of the Future” program is to define new material and information flow management tools from the supplier to the customer. It aims to simplify and automate the supply chain.

Another supplier data interchange (SDI) program aims to streamline and automate information flows between Valeo and its suppliers, from the order stage to the payment process, through the generalization of electronic data interchange (EDI).

These programs will make Valeo more competitive in terms of its development and production costs and help to promote growth.

**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 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.

The Quality network is organized 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;

- partner suppliers are selected in close cooperation with the Group Purchasing Department. At site level, supplier quality assurance teams handle incidents and capitalize on the lessons learned,
- within a given region, the Quality Department fully integrates local requirements while ensuring consistent Group performance worldwide and recruiting the best local talent;
- at Product-Line level, the Quality Department is responsible for the robustness of product and process development.

In 2016, Valeo received a record number of nearly 79 awards from customers, i.e., 32% more than in 2015. The quality standard was upheld, with a customer returns rate of 3.8 parts per million products delivered, an improvement of 10% on 2015. Given the current context of strong growth and innovation, this performance reflects the Group’s ability to control its expansion.

For details of the Group’s quality policy, see Chapter 4, section 4.5.1 “Total quality and product safety”, pages 236 to 237.



## Finance

The Finance Department comprises the following functions: Management Control, Reporting, Accounting, Financing, Cash Management, Tax, Investor Relations (see Chapter 6, section 6.2 “Investor relations”, pages 404 to 405), 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 supervise and monitor the performance of 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

**The management controller acts as a co-pilot of the Finance Department, assisting the operational managers 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 key financial and 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 all the Group’s accounting activities.**

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

- the **Technical Standards Department** is responsible for the implementation and application of International Financial Reporting Standards (IFRS), and is currently working on bringing in IFRS 15 (Revenue from Contracts with Customers), IFRS 16 (Leases) and IFRS 9 (Financial Instruments), effective from January 1, 2018 in some cases or January 1, 2019 in others. The team also organizes and prepares training sessions for the Group’s finance teams with a view to improving reporting quality and promoting better knowledge of the standards;

- the **Consolidation Department** prepares the Group’s consolidated financial statements; each member of the team, under its director’s supervision, reviews the financial statements of subsidiaries within a specific region (Europe, America, Asia, etc.) and follows up on broader issues that also concern their region;
- the **Holding Companies and Valeo Internal Bank Accounting Department** prepares the financial statements of the Group’s main holding companies and oversees the operations of the Group’s Internal Bank (back office and middle office).

The accounts function for Group subsidiaries is usually handled by the Shared Services Centers. The Group currently has 18 Shared Services Centers worldwide.

The Group Accounting Department guarantees the quality of the consolidated financial statements and their consistency 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. This work has continued, resulting in improved transparency, relevance and readability for the financial information reported by the Group. Valeo was awarded the 2016 CAC Large 60 (including all CAC 40 companies) Grand Prix at the 2016 Financial Transparency Awards (*Grands Prix de la Transparence*), in recognition of the quality of the regulatory information presented and performance as regards transparency and best practices.

## 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. It manages relations with banks and rating agencies.**

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

- the **Cash Management Department**, which is responsible for means of payment and 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 teams located within the Shared Service Centers, which are organized by country, to produce standardized reporting. Secure applications are in place to control payment and collection flows. Electronic payment methods are used to the greatest extent possible;
- the **front office of the Valeo Internal Bank**, which oversees financing, banking relations and banking 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.



## Tax

The Tax 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 Tax 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, comprising 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 six Functional Departments and five Continental Departments.

The six 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 the Group's communication and collaboration services and makes them available to all computer-equipped Group employees. It works to continuously boost both individual and collective efficiency to improve administrative productivity;
- the **Infrastructure Department** is responsible for the performance of all information systems. It produces resilient standards for information and telecommunications networks, hardware and software for workstations and servers. It monitors IT security policy through a network of experts in each country;

- the **Information Systems Security Department** sets IT security policy, audits internal and external production systems and participates in the definition of new solutions;
- 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

The two main responsibilities of the Risk Insurance Environment Department are: to draw up the risk management policy and oversee its application, and to take out insurance covering the risks involved in the exercise of Valeo businesses.

The Risk Insurance Environment Department is divided into three functions:

- a Group-level team defines the risk management policy by drawing up directives and setting up methods and instruments for overseeing the application of these directives, and by implementing Group insurance programs;
- teams at each Business Group and at Valeo Service oversee application of site risk management;
- teams at each site perform risk control and set up action plans on risk improvement.

Risks that could impact Valeo's business are set out in Chapter 2, section 2.1.2 "Environmental or accident risks", pages 75 to 76. Details on insurance and risk coverage are given in Chapter 2, section 2.2 "Insurance and risk coverage", page 85.

More details on the organization and responsibilities of the Risk Insurance Environment Department can be found in Chapter 4, section 4.3.1 "Environmental policy", pages 185 to 195.

## Communications

The Communications Department is tasked with defining and implementing the Group's communication strategy and with strengthening Valeo's image and reputation across the world and with all stakeholders (employees, customers, journalists, suppliers, partners and the 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 events organized by the Group's various departments.

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

## 1.2.4 Industrial resources and real estate portfolio

### ► GEOGRAPHIC FOOTPRINT AT DECEMBER 31, 2016

|                                                                                               | Plants     | Research centers | Development centers | Distribution platforms | Number of employees |
|-----------------------------------------------------------------------------------------------|------------|------------------|---------------------|------------------------|---------------------|
| <b>WESTERN EUROPE</b>                                                                         |            |                  |                     |                        |                     |
| Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, United Kingdom | 46         | 15               | 11                  | 5                      | 26,942              |
| <b>CENTRAL AND EASTERN EUROPE</b>                                                             |            |                  |                     |                        |                     |
| Czech Republic, Hungary, Poland, Romania, Russia, Turkey                                      | 16         | -                | 6                   | 3                      | 16,163              |
| <b>AFRICA</b>                                                                                 |            |                  |                     |                        |                     |
| Egypt, Morocco, South Africa, Tunisia                                                         | 7          | -                | 1                   | -                      | 3,310               |
| <b>NORTH AMERICA</b>                                                                          |            |                  |                     |                        |                     |
| Canada, Mexico, United States                                                                 | 21         | 1                | 5                   | 2                      | 14,493              |
| <b>SOUTH AMERICA</b>                                                                          |            |                  |                     |                        |                     |
| Argentina, Brazil                                                                             | 6          | -                | 3                   | 2                      | 2,634               |
| <b>ASIA &amp; MIDDLE EAST / OCEANIA</b>                                                       |            |                  |                     |                        |                     |
| China, India, Indonesia, Japan, Malaysia, South Korea, Thailand                               | 59         | 4                | 12                  | 3                      | 28,258              |
| <b>TOTAL</b>                                                                                  | <b>155</b> | <b>20</b>        | <b>38</b>           | <b>15</b>              | <b>91,800</b>       |

At December 31, 2016, the net carrying amount of the Group's real estate portfolio (land and buildings) was 698 million euros (see Chapter 5, section 5.4.6, Note 6.3 to the consolidated financial statements, page 327). 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, machinery and tools was 1,728 million euros at December 31, 2016, 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 327).

Environmental constraints liable to have an impact on the use of fixed assets and real estate result from the regulations applicable in this area to all Group establishments (see section 1.2.3 of this chapter, "Risk Insurance Environment", page 43, Chapter 2, section 2.1.2 "Environmental or accident risks", pages 75 to 76 and Chapter 4, section 4.3 "Environmental management and performance of Valeo's sites", pages 185 to 195).

## 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, page 6, presents sales data by Business Group.

### 1.3.1 Comfort & Driving Assistance Systems

- Sales: **3.4 billion euros**, or **20%** of Group sales  
Original equipment sales up by **14%** like for like
- EBITDA<sup>(1)</sup>: **496 million euros**, or **14.7%** of sales
- Net Research and Development expenditure: **334 million euros**



#### 2016 HIGHLIGHTS

- Particularly high order intake in China and North America.
- Acquisition of peiker, specialist and leader in onboard telematics, strengthening Valeo's leadership in the field of autonomous, connected vehicles.
- Stake acquired in CloudMade, a pioneering start-up in machine learning and artificial intelligence, with a focus on designing applications for the car industry.
- Stake in Navya, a company specializing in the design of fully autonomous electric shuttles.
- Launch of Mov'InBlue™ by Valeo and Capgemini, the first industrial car-share offering, primarily designed for fleet managers and short-term car rental companies.
- Ongoing strengthening of Business Group teams in North America (especially with the opening of the Valeo Mobility Tech Center in San Francisco) and Asia (China, Japan, South Korea).
- Launch of CarLab at the Bobigny site (France), an innovation laboratory specializing, along start-up lines, in the development of user-experience concepts.
- Opening of a new driving assistance research center in Kronach/Neuses (Germany).

#### TRENDS AND OUTLOOK

Growth in the Business Group is driven by three simultaneous waves of innovation aimed at making mobility safer, more intuitive and more connected.

- **more automated driving:** developments focus on two main areas:
  - higher-performance driving assistance systems enabling vehicles to handle increasingly complex driving situations and thereby afford greater safety and comfort;
  - autonomous vehicles for new mobility practices that include driverless taxis and shuttles.
 The developments will call for legislative change.

- **more connected driving:** this market is characterized by the rollout of eCall standards, the definition of vehicle-to-vehicle and vehicle-to-infrastructure communication standards, and the emergence of digital platforms offering added-value services for drivers, fleet managers, automakers and automotive suppliers. Telematics are a central feature of this transformation;
- **more intuitive driving:** human-machine interfaces simplify the task of driving and offer new features consistent with the shift toward mobility that is more intuitive, intelligent, connected and efficient for passengers and driver.

(1) See Financial Glossary, page 449.

## 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 driver experience, developing solutions to make mobility safer, more intuitive and more connected.

Comfort & Driving Assistance Systems has three Product Groups:

- Driving Assistance;
- Connected vehicles;
- Interior Controls.

### Driving Assistance

Three technologies for detection around the vehicle are currently in production for driving and parking assistance applications: ultrasonic sensors, radars and cameras. Valeo's infrared laser scanner technology is also approaching the production stage.

Valeo boasts the largest portfolio of sensors in the automotive industry:

- ultrasonic sensors;
- rear and surround view cameras;
- infrared sensors;
- radar sensors;
- front cameras;
- lidar (light detection and ranging) sensors.

Coupled with Valeo's expertise in electronic control units for combining inputs from different sensors, in environment perception and in artificial intelligence, this unique technological portfolio enables the Group to offer scalable architectures for functions including driving assistance, active safety and automated driving.

This makes Valeo a partner of choice for automakers seeking to develop new features such as:

- parking assistance features (including obstacle detection alert) using ultrasonic sensors;
- automated parking features. The Park4U™ parking assistance system, sales of which top 12 million units to date, now boasts a new remote parking feature, for controlling parking maneuvers from outside the vehicle using a smartphone;
- blind-spot monitoring, lane departure warning and low-speed obstacle detection systems, such as 360 AEB (Autonomous Emergency Braking), which warn the driver of potential hazards and apply the brakes automatically;

- improved visibility features using multiple cameras: 360 Vue® (all-round vision of the vehicle's immediate environment), for maximum visibility in key situations (such as at blind intersections and when pulling out of a parking space) and 360 Vue® 3D, giving a 3D panoramic view around the vehicle;
- rain, light and 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;
- emergency braking features for urban environments, driving in congested traffic and automatic parking using the laser scanner (lidar). 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 CO<sub>2</sub> emissions by easing the flow of traffic.

### Connected vehicles

The Connected Vehicles Product Group covers the full range of connectivity solutions:

- short-range connectivity, including 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.

### Interior Controls

The Interior Controls Product Group is the world leader in human-machine interfaces. Using its extensive experience and in-depth knowledge of vehicle architecture, this Product Group develops high-perceived-quality, innovative, attractively 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;

## Businesses

- 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 cameras: their expected rapid development is driven by the need for driver and passenger monitoring under automated driving conditions, and by user customization expectations related to connected vehicles.

## 2016 highlights

- Acquisition of peiker, strengthening the Business Group's leadership in the field of autonomous and connected vehicles, and enabling it to offer new telematics systems featuring high-speed connectivity and cybersecurity functions.
- Stakes acquired in CloudMade, a company specializing in the development of intelligent and innovative automotive solutions, and in Navya, which specializes in the design of 100% autonomous electric shuttles.
- Development of the active safety business in China, through several contracts signed with Chinese automakers, and in Japan, through strategic development contracts with an automaker, including one for a LiDAR cocoon (featuring several Valeo SCALA™ laser scanners) plus a front camera. These contracts open the way to future collaborative projects on autonomous vehicles.
- Driver monitoring camera and gesture recognition system: initial contracts with a US automaker.
- In-cabin microphones: several orders following consolidation of peiker, in parallel with telematics development.
- Development of the new Valeo Mobility Tech Center in San Francisco, bringing significant business intake from new urban mobility players, for the Valeo SCALA™ laser scanner, cameras, driver monitoring cameras, ultrasound systems, and dome modules fitted with peiker microphones.
- Launch of the smartphone-controlled remote parking system featuring an ultrasound system and cameras (on Mercedes class E), demonstrating Valeo know-how in multiple-sensor systems. Valeo also applied its connectivity competencies to manage the development of the smartphone interface.
- Market release, with Capgemini, of the Mov'InBlue™ secure vehicle reservation and fleet management solution based on Valeo's InBlue™ smart key technology, that allows users to lock and unlock their vehicles and start the engine from their smartphone.

- Presentation of the Business Group's latest innovations in fields such as connected and automated vehicles (with the Valeo SCALA™ laser scanner and the Valeo Mobius™ 2 cockpit) at major international motor and electronics shows: Consumer Electronics Show (CES) in Las Vegas (United States), Consumer Electronics Show Asia in Shanghai (China), Beijing Motor Show (China), Paris Motor Show (France).

## Market trends and outlook

Growth in the Comfort & Driving Assistance Systems Business Group is driven by three simultaneous waves of innovation aimed at making mobility safer, more intuitive and more connected.

## ■ more automated driving:

- automakers and automotive suppliers are taking part in the race to develop automated vehicles. Automaker programs expect market release around 2020 for the first partial automation levels, and this calls for higher-performance driving assistance systems enabling vehicles to handle increasingly complex driving situations and thereby afford greater safety and comfort. Then, for around 2020-2025, new players on the mobility scene plan rollout of the first driverless cars, featuring ready-to-use technical solutions fitted on existing vehicles. The advent of the automated vehicle thus raises fresh challenges on issues such as detection strategies, control algorithms, and vehicle-occupant, vehicle-vehicle and vehicle-infrastructure interaction,
- vehicle automation is a source of opportunity because, depending on the degree of autonomy, it calls for sensor redundancy (ultrasonic, camera, radar, laser scanner), thereby increasing the per-vehicle value (content) for Valeo. As the degree of automation increases (from partial to high or full) Valeo content per vehicle rises ten-fold (based on technology prices known in 2016);

## ■ more connected driving:

- the connected vehicle increasingly interacts with the digital world and with (incoming and outgoing) cloud data in particular, opening prospects for new features and new economic models with the vehicles of the future offering innovative mobility solutions. This market is characterized by the rollout of eCall standards, the definition of vehicle-to-vehicle and vehicle-to-infrastructure communication standards, and the emergence of digital platforms offering added-value services for drivers, fleet managers, automakers and automotive suppliers. Telematics are a central feature of this transformation;



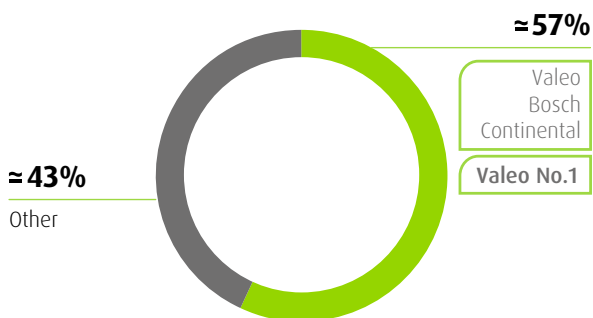
■ **more intuitive driving:**

- human-machine interfaces simplify the task of driving and offer new features consistent with the shift toward mobility that is more intuitive, intelligent, connected and efficient for passengers and driver. Ease-of-use improvements and customization in human-machine interfaces, a field in which the Business Group holds a leading position, require innovation in technologies, design and ergonomics. The real challenge therefore involves finding a balance between the new features offered and how they are used, while keeping the driver, passengers and other road users safe,

- certification institutes and authorities, in all regions, are working on tighter safety measures for new vehicles. Driver monitoring systems can integrate new technologies such as proximity sensors as well as gesture recognition and eye tracking, which may also be extended to the cabin as a whole. Valeo has anticipated this trend, which applies across all ranges of vehicles.

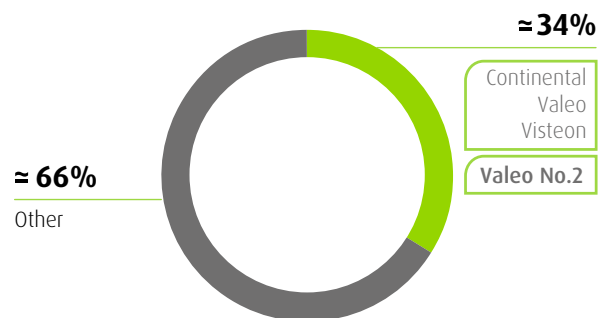
► **MAIN COMPETITORS ON THE DRIVING ASSISTANCE SYSTEMS AND INTERIOR CONTROLS MARKET<sup>(1)</sup>**

**Driving assistance systems**



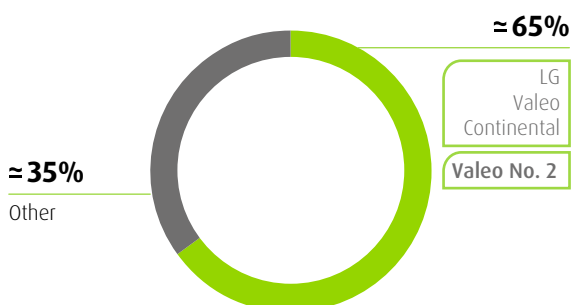
Market share of the three leaders up slightly on 2015.

**Interior Control Systems**



Market share of the three leaders steady compared to 2015.

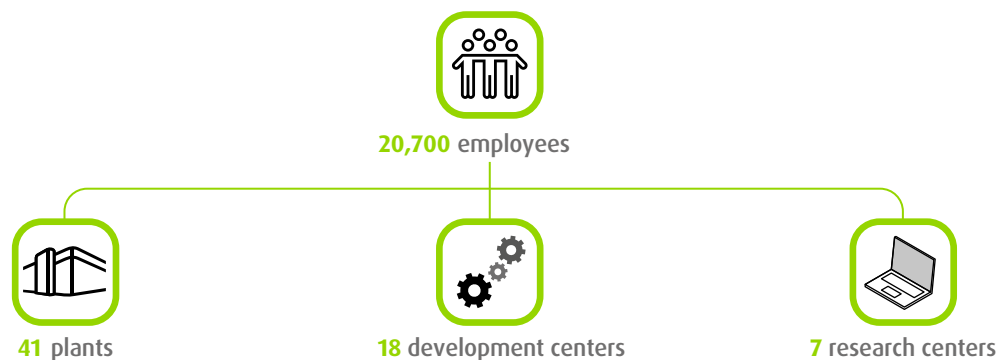
**Telematics**



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

### 1.3.2 Powertrain Systems

- Sales: **4.0** billion euros, or **24%** of Group sales  
Original equipment sales up by **10%** like for like
- EBITDA<sup>(1)</sup>: **534** million euros, or **13.3%** of sales
- Net Research and Development expenditure: **183** million euros



#### 2016 HIGHLIGHTS

- Numerous projects launched in China, across all Product Lines: number-one position in belt-driven electric machines and 48 V DC/DC converters.
- First project in electronic control units for transmissions and electric power steering, and new project in high-power chargers.
- PACE (Premier Automotive Suppliers' Contribution to Excellence) Award for Valeo electric supercharger. World-first series production start-up for a major German automaker.
- Creation of Valeo Siemens eAutomotive GmbH joint venture.
- Opening of a batteries laboratory with Shanghai Jiao Tong University (China), to anticipate new developments and provide appropriate technological solutions.
- Opening of a Powerlab (innovation accelerator) at the Cergy-Pontoise site (France), the Business Group's headquarters.

#### TRENDS AND OUTLOOK

Growth in the Business Group is driven by three continuous waves of innovation, seeking reduced CO<sub>2</sub> emissions, optimized vehicle energy efficiency and unparalleled driving pleasure:

- **smart engines and transmissions:** more and more drivers appreciate the comfort of automated transmissions. Developments in driving assistance systems (another major market trend) call for automated transmissions to improve driving comfort for the driver through either transmissions with torque converter and transmissions with dual-clutch systems;
- **electrification medium power:** under mounting pressure to reduce fuel consumption and thereby vehicle CO<sub>2</sub> emissions, automakers are increasingly turning to powertrain electrification solutions. Medium-power solutions offer a very attractive cost/performance trade-off;
- **electrification high power:** increasingly tough measures are being brought in to counter urban pollution, which has become a major global concern. High-power electric powertrain technology thus holds great promise, by enabling vehicles to run in zero-emissions mode in an urban environment.

(1) See Financial Glossary, page 449.

## Description of the Business Group

**The Powertrain Systems Business Group develops innovative powertrain solutions to reduce CO<sub>2</sub> emissions and fuel consumption without compromising driving performance or pleasure.**

It has four Product Groups – Electrical Systems, Transmission Systems, Combustion Engine Systems and Electronics – and covers three main areas:

- electrification;
- transmission automation;
- clean engines.

### Electrification

Valeo offers medium- and high-power vehicle electrification solutions ranging from mild-hybrid systems (12 V to 48 V) to high-power solutions (>60 V) for plug-in hybrid and fully electric vehicles:

- affordable 12 V hybrid solutions for volume production segments – entry-level hybrid vehicles. Entry-level hybrid solutions are designed for standard urban vehicles with a 12 V battery. Valeo supplies the 12 V electric supercharger (which enables the automaker to downsize the engine), and the belt-driven 12 V starter-alternator that handles the stop-start function. The system also recovers braking energy, affording greater comfort and lower CO<sub>2</sub> emissions. This is a cost-competitive solution suited to limited everyday vehicle use;
- affordable 48 V mild-hybrid solutions for multi-use vehicles with a 48 V battery in addition to the standard 12 V battery. These solutions offer wider technical capabilities and thereby more possible usages. Depending on the vehicle architecture, Valeo supplies a 48 V electric supercharger, a DC/DC converter, and a 48 V electric machine on the engine belt (starter-alternator), in the gearbox and/or on the rear vehicle axle. This combination of products offers highly efficient regenerative braking, which can be completed by a four-wheel-drive hybrid mode for rough road surfaces and a zero-emissions mode for low-speed maneuvers. It makes an affordable solution for family motoring, with advantages on both short and long journeys in terms of better comfort and lower fuel consumption and CO<sub>2</sub> emissions;
- high-power solutions (above 60 V) for premium plug-in hybrid vehicle segments, developed by the Valeo Siemens eAutomotive GmbH joint venture for car-share applications. Valeo contributes to progress in plug-in hybrid systems (that

combine the benefits of an internal combustion engine and an electric drivetrain) by developing high-power components such as the inverter, battery charger, DC/DC converter, and the electric machine on the engine shaft, in the gearbox or on the rear axle, with a transmission system if needed. Objectives here are to achieve higher performance, lower fuel consumption and greater comfort for the driver. This kind of vehicle has an electric-power travel range of up to 50 km (depending on battery capacity) and brings significant reductions in CO<sub>2</sub> emissions, which is one of Valeo's strategic focuses. This solution is suited to multi-use vehicle usage;

- zero-emissions solutions for urban electric vehicles (from entry-level to top-end) and car-share applications. Since electricity is the vehicle's sole power source, a high-capacity battery is essential. Objectives here are to achieve higher performance, longer battery life and greater comfort for the driver. This is the ideal solution for short everyday travel distances.

### Transmission automation

Transmission automation, a growing trend on the world market, involves various technologies: automatic transmissions, semi-automatic transmissions and dual-clutch transmissions.

Valeo offers several product ranges in the field of transmission automation, seeking lower fuel consumption and enhanced driver comfort:

- range of clutches for all types of automatic transmission:
  - the Valeo torque converter reduces CO<sub>2</sub> emissions and improves the performance of automatic transmissions, by virtue of its compact size, good hydraulic performance (absorption capacity optimized for each application, and for lower CO<sub>2</sub> emissions) and its high degree of standardization (same turbine and pump wheels across a broad range of absorption capacity values),
  - Valeo dry dual-clutch technology provides an optimal response to consumer expectations and CO<sub>2</sub> reduction targets. It offers a smooth acceleration response, similar to that of an automatic transmission, with no torque jolt. It brings down fuel consumption and harmful emission levels by reducing friction interference by means of a pressure reduction system around the clutch disks. The transmission, highly efficient as regards rapid response and effective control strategies, contributes to driving pleasure. And the dedicated cooling oil routing ensures perfect control over gearwheel temperature,

## Businesses

- like the dry dual clutch, the wet dual clutch offers a smooth acceleration response, similar to that of an automatic transmission, with no torque jolt, and its rapid response and effective control strategies contribute to driving pleasure. Torque control is performed by pressure release devices around the pistons, and flow design ensures a high cooling capacity;
- range of actuators
  - actuators are devices for moving or controlling a mechanism or system. Valeo offers a range of electro-mechanical and electro-hydraulic actuators. Valeo actuators (e-clutch, clutch master cylinder, clutch slave cylinder) reduce mechanical and thermal losses, while drawing a very low rest-state current;
- range of noise, vibration and jolt damping systems for all types of transmission:
  - the dual-mass flywheel improves driving comfort by offering excellent low-rotation filtering at low engine speeds. This makes it ideal for new turbocharged gasoline and diesel engines,
  - the blade damper is a new solution that reduces vibration by varying stiffness, the advantage being that there is no speed or torque hysteresis.

## Clean engines

Valeo offers several solution levels in EGR (Exhaust Gas Recirculation) valves, which reduce CO<sub>2</sub> and other harmful particle emissions:

- first solution level: for more than fifteen years, Valeo has been innovating to offer the best EGR valves, capable of optimum exhaust gas recycling for a significant reduction in CO<sub>2</sub> and other harmful particle emissions, thus making combustion engines cleaner;
- second solution level: the Valeo air intake module with water charge air cooler (WCAC) and high-pressure EGR valve collects the recycled exhaust gases, mixes them with cold air, cools the mixture using a charge air cooler, then reinjects it into each cylinder. This solution effectively reduces fuel consumption and pollutant emission levels;
- third solution level: a system combining an electric supercharger with an air intake module, water charge air cooler (WCAC) and high-pressure EGR valve improves torque at low revolution along with the efficiency of turbocharged engines, thereby improving the vehicle's acceleration performance. The electric supercharger is driven by an electric motor, which gives a much faster response time than a conventional turbocharger. This brings revolutionary reductions in emissions of CO<sub>2</sub> and pollutant gases without compromising engine performance or driving pleasure. The system also contributes to considerable downsizing in internal combustion engines, as well as reductions in fuel consumption. This solution is suitable for both gasoline and diesel engines.

## 2016 highlights

Valeo received very positive overall feedback from all automakers in 2016 on the Business Group's product roadmaps, at various events organized by the Group.

## Electrification

- Strong growth in 48 V electric architectures.
- Numerous projects launched in China, across all Product Lines: number-one position in belt-driven electric machines and 48 V DC/DC converters.
- First project in electronic control units for transmissions and electric power steering, and new project in high-power chargers.
- Creation of Valeo Siemens eAutomotive GmbH joint venture.
- Major order intake for inverters and high-power motors for hybrid vehicles.
- Strong growth for battery chargers, especially on the Chinese market.
- Opening of batteries laboratory with Shanghai Jiao Tong University (China), to anticipate new developments and provide appropriate technological solutions.

## Transmission automation

- Major order intake for dry dual-clutch system with major Asian automaker.
- Major order intake for wet dual-clutch system with major European automaker.
- Production start-up for clutch facings in China.
- Production start-up for hydraulic controls in China.
- Best supplier award from SAGW (Shanghai Automobile Gear Works) for quality, cost and delivery performance.

## Clean engines

- World-first series production start-up for electric superchargers for a premium German automaker.
- PACE Award (Premier Automotive Suppliers' Contribution to Excellence) for electric supercharger.
- Start of two new projects on throttle valves for gasoline engines in China.
- Boost to Business Group's customer portfolio, for sensor developments with two new premium automakers.

## Market trends and outlook

The Powertrain Systems Business Group's growth is driven by three continuous waves of innovation geared toward reducing CO<sub>2</sub> emissions and optimizing vehicle energy efficiency while ensuring unparalleled driving pleasure:

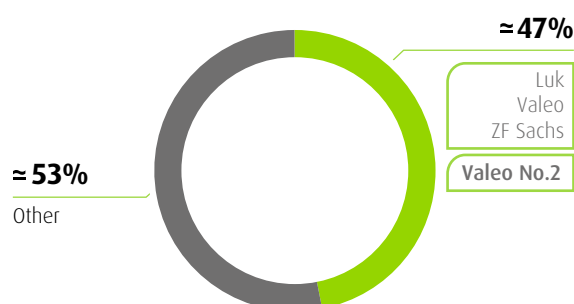
- **smart engines and transmissions:** more and more drivers appreciate the comfort of automated transmissions. Developments in driver assistance systems, another major market trend, call for automated transmissions. These two trends generate sustained growth in the transmissions field. With its strong position on this market (number-two worldwide) and its growing product range (to include actuators for dual-clutch transmissions, for example) the Group is reaping full benefit from this wave of innovation, with a two-fold increase in content per car with respect to manual transmissions (based on 2016 prices and available technologies);
- **electrification medium power:** under mounting pressure to reduce fuel consumption and thereby vehicle CO<sub>2</sub> emissions, automakers are increasingly turning to powertrain

electrification solutions. Because medium-power solutions offer a very attractive cost/performance trade-off, market take-up will continue to grow. Valeo is the world's leading player in this field, and has developed new technological solutions that anticipate automakers' coming needs. It is therefore ideally placed to benefit from this situation, with content per vehicle up to three times higher than with a traditional internal combustion engine (based on 2016 prices and available technologies);

- **electrification high power (>60 V):** increasingly tough measures are being brought in to counter urban pollution, which has become a major global concern. High-power electric powertrain systems thus holds great promise in this respect, by enabling vehicles to run in zero-emissions mode in urban environments. The Valeo Siemens eAutomotive GmbH joint venture will field a full range of products addressing expectations for this wave of innovation, resulting in up to nine times higher content per vehicle than with a traditional internal combustion engine (based on 2016 prices and available technologies).

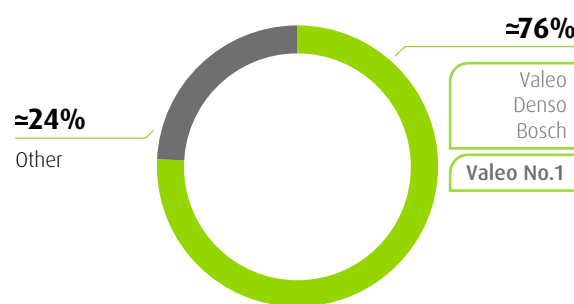
### ► MAIN COMPETITORS ON THE TRANSMISSION SYSTEMS AND ELECTRICAL SYSTEMS MARKETS<sup>(1)</sup>

#### Transmission Systems



Market share of the three leaders up slightly compared to 2015.

#### Electrical Systems

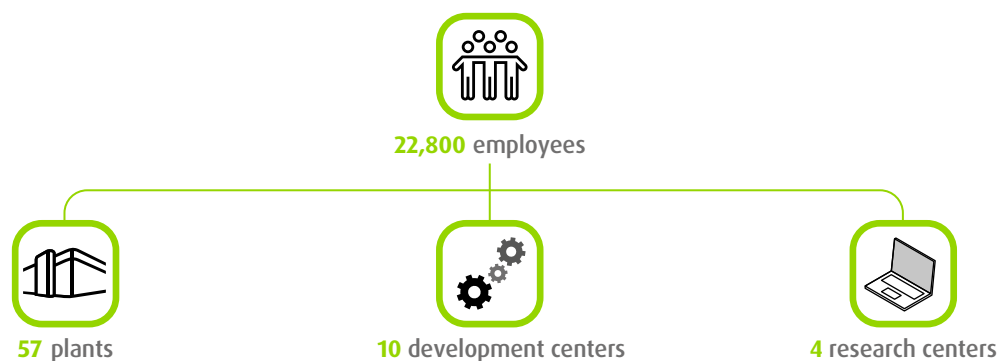


Market share of the three leaders steady compared to 2015.

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

### 1.3.3 Thermal Systems

- Sales: **4.6** billion euros, or **28%** of Group sales  
Original equipment sales up by **10%** like for like
- EBITDA<sup>(1)</sup>: **463** million euros, or **10%** of sales
- Net Research and Development expenditure: **184** million euros



#### 2016 HIGHLIGHTS

- Record order intake.
- Significant contracts on electrified vehicle markets for the Business Group's growth-driving products: heat pumps, electric compressors, and electric vehicle battery cooling systems.
- New Thermal Bus Product Group (following the acquisition of Spheros), entry in the high-growth bus market.

#### TRENDS AND OUTLOOK

Business Group growth is driven by successive waves of innovation in three main areas:

- **internal combustion engine emissions decrease:** growing market for charge air cooler and exhaust gas recirculation systems;
- **electric vehicle range and reliability:** air conditioning electric compressors, battery thermal management and heat pumps;
- **health and well-being:** enhanced offering in heating, air conditioning and air quality systems.

(1) See Financial Glossary, page 449.



## 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, CO<sub>2</sub> emissions and other pollutants and harmful particles generated by 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 five Product Groups:

- Thermal Climate Control;
- Thermal Powertrain;
- Thermal Compressor;
- Thermal Front End;
- Thermal Bus.

### Thermal Climate Control

The Thermal Climate Control Product Group mainly develops the systems and components required to provide all-season thermal comfort on all kinds of vehicle, with internal combustion, hybrid or electric powertrains. These devices contribute to in-vehicle comfort and passenger well-being. They are designed for low weight, compact size and low inherent energy consumption, to bring down the vehicle's CO<sub>2</sub> emissions. This Product Group also offers active solutions addressing growing concerns on air quality (protection against allergens, fine particles, gas, etc.), and for personalizing the cabin with fragrance design.

### Traditional heating and air conditioning (HVAC) units

Traditional HVAC units, ranging from simple manually-controlled heating units through to premium electronically-controlled solutions, are adaptable to all types of vehicle. 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.

Valeo also develops compact, lightweight HVAC architectures addressing needs to optimize space inside the cabin and dashboard design.

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

### Well-being and air quality

To trap fine particles and neutralize harmful gases before they enter the cabin, Valeo offers:

- pollution sensors for detecting outdoor and in-car pollution,
- an extended range of cabin filters including a very-high-performance combined filter able to eliminate more than 98% of very fine particles (under 0.5 µm in diameter), and a filter with anti-allergenic properties,

to actively protect passengers.

To enhance in-car comfort and well-being, it also offers :

- a fragrance diffuser producing a customizable sensory experience for driver and passengers. Valeo is currently developing a full module capable of diffusing the ideal scent, with relaxing notes in traffic jams and energizing aromas to prevent driver fatigue.

### Heating and air conditioning systems for hybrid and electric vehicles

In response to demand regarding the optimization of conventional engines, the emergence of hybrid and electric powertrains, and the maintaining of thermal comfort, Valeo offers:

- a full range of high-performance electric heaters with various degrees of control electronics integration, addressing all heating requirements, including those for additional electric heating capacity in winter;
- a range of energy-storage evaporators for mild-hybrid vehicles or vehicles with a stop-start system for uninterrupted thermal comfort when the engine is switched off;
- 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 in fully electric vehicles.

### Thermal Powertrain

This Product Group develops systems for effectively managing thermal energy, an essential factor in optimizing powertrain performance for reduced fuel consumption and emissions of CO<sub>2</sub>, pollutant gases and toxic particles.

## Businesses

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 for turbo engines;
- 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.

The Thermal Powertrain Product Group covers the following:

- air intake systems fitted directly onto the engine (gasoline or diesel) for optimal exchanger integration. This technology has won a PACE (Premier Automotive Suppliers' Contribution to Excellence) award;
- a water-cooled condenser that delivers more comfortable air conditioning and more flexible integration possibilities. It also helps optimize the performance of heat pumps to boost the travel range of electric vehicles. This innovation has also won a PACE award (Premier Automotive Suppliers' Contribution to Excellence);
- a full range of battery temperature regulation technologies for ensuring the reliability and service life of high-voltage Li-Ion batteries in hybrid and electric powertrains. Solutions range from air-cooled modules through to tube or plate cooling solutions, integrated or not in the battery pack;
- an exhaust gas energy recovery system for hybrid powertrains, which speeds up heating for improved comfort.

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 efficient 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 variable displacement compressors, specially designed for reducing fuel consumption and CO<sub>2</sub> emissions;
- robust universal compressors for trucks, buses and industrial vehicles;
- electric 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 manufactures front-end modules that are an integral part of the vehicle structure.

The modules consist of a front-end technical frame integrated in the vehicle body, which increases the vehicle's structural rigidity and supports all the components located at the front end of the vehicle, including the engine cooling unit, headlamps, energy-absorbing pedestrian protection features, the bumper and pedestrian protection 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 and pedestrian safety regulations. Other front-end components implement intelligent solutions to optimize system performance. They are designed with the customers and their different product groups involved in the module scope.

Valeo offers innovative technologies for achieving significant front-end weight reductions across all vehicle segments, thereby reducing vehicle CO<sub>2</sub> emissions.

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 CO<sub>2</sub> emissions.

## Thermal Bus

The Thermal Bus Product Group, formed in 2016 following Valeo's acquisition of Spheros, develops and manufactures cost-effective, customized solutions for intelligent air management in all types of bus. Building on long experience and a global system approach, it offers heating and air conditioning systems, roof hatches and climate control systems for customers worldwide, adapted to widely differing local weather conditions. Its portfolio ranges from functionally-oriented concepts through to CAN (Controller Area Network) systems, with an emphasis on modularity. It leverages technological leadership to supply all the main bus manufacturers and major fleet operators.

This Product Group develops and manufactures:

- heating and air conditioning systems for minibuses, midibuses, citybuses, coaches, transit buses, school buses and double-decker buses. The product range includes large, powerful aggregates for extreme weather conditions, rooftop and split units, with cooling capacities from 17 kW to 54 kW. Systems are available for all types of powertrain: internal combustion, gasoline, hybrid and all-electric. Heating systems such as improved heat pumps and additional PTC heaters are also available;
- high-efficiency, low-cost, low-maintenance, durable heating systems using alternative energy sources, addressing growing demand as regards well-being and environmental considerations;
- simple, durable, low-maintenance ventilation and roof hatch systems with functions such as simply ejecting stale air by means of integrated fans when the bus is stationary. They enhance passenger well-being, reduce driver fatigue and contribute to travel safety.

The electrification of heating and air conditioning systems over the past few years has seen growing emphasis on intelligent integration, controllability and compact design. With its Valeo Entelligence system, the Product Group is working on a global approach to the higher level control of climate control components, factoring in driving profile and available energy. This approach thus contributes to optimized use of energy resources, bringing a significant increase in the travel range of hybrid and electro buses.

Passenger comfort is a major challenge given the sheer size of these vehicles, with an interior volume of around 50 cu.m, as opposed to 1.5 cu.m to 3 cu.m for passenger cars. There

are many factors at work: limited reusable heat loss from diesel engines, large window surfaces, varying configurations (double-decker and articulated buses, vehicle zones subject to different thermal influences, bus use in widely differing climate zones worldwide, varying perceptions of comfort (up to 180 male/female passengers of all ages, etc.) plus the driver as the interface between man and machine. All these points must be factored in to design solutions capable of ensuring the well-being and safety of all passengers and the driver. Design considerations also include the need to reduce pollutant emissions and to address growing concerns surrounding health, interior air quality and noise levels.

## 2016 highlights

The Thermal Systems Business Group's consolidated sales for 2016 rose by 9.8% compared with 2015 (on a like-for-like basis), outpacing global automotive production by around 6 percentage points. Growth in 2016 was driven primarily by sales in Asia and North America, with performance especially pronounced in the Thermal Climate Control and Thermal Front End Product Groups.

New contracts with major automakers worldwide took the order book to an all-time high, well above the previous record, most significantly in China and North America, with major increases in orders from US and German automakers operating in these regions.

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

- initial order for heat pumps made in China;
- initial order for an electric compressor made in China, demonstrating the Business Group's ability to offer advanced technologies in this field;
- order for the entire thermal management system for an electric vehicle;
- intensive development plans with many customers on future generations of electric vehicles, to optimize the size, performance and cost of future solutions.

The Business Group is built on its unique footprint as well as global platform development by international automakers to win new contracts in Asia, Europe, North America and South America.

## Market trends and outlook

The value of the Thermal Systems Business Group's addressable market is expected to grow by around 4.2%<sup>(1)</sup> per year through to 2026, with value per vehicle also on the rise.

This growth is driven by successive waves of innovation in three main areas:

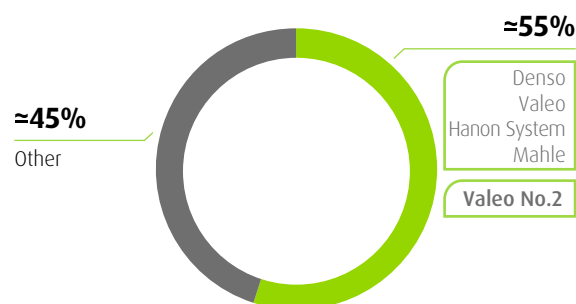
- **internal combustion engine emissions decrease:** tougher CO<sub>2</sub> and NO<sub>x</sub> emission regulations boost the market for charge air coolers (CAC and WCAC) and exhaust gas recirculation coolers (EGRC), which is expected to grow by 5.5%<sup>(1)</sup> per year through to 2026, and accelerate the adoption of front ends with electronically controlled air grille shutters (AGS), the market for which is expected to double over the next ten years;
- **electric vehicle range and reliability:** progress can be seen in announcements for many affordable fully electric vehicles with travel ranges from 300 km to 500 km. Annual growth of 20%<sup>(1)</sup> through to 2026 is expected in the market for electric climate control compressors, along with a twenty-fold increase in the market for thermal management systems for drive batteries. These vehicles also demand electric additional heating systems, and the adoption of heat pumps, for which the Business Group offers exchangers for all types of refrigerant. Across Thermal Systems overall, the average content value per vehicle offered by Valeo for plug-in hybrid and fully electric vehicles is currently around 1.9 times higher than for non-hybrid vehicles (based on 2016 prices and available technologies), meaning that this market holds major growth opportunities;
- **health and well-being:** growing interest in cabin comfort, health and well-being has led the Business Group to extend its offering of climate control and air quality systems such as sensors, filters, active purification modules and fragrance diffusers. Market growth here is estimated at 30%<sup>(1)</sup> per year through to 2026, driven in part 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 (fluids, materials, voltages, etc.) – give rise to the development of innovative solutions that are valued more highly on the market, such as brushless motors, components for R744 refrigerant (carbon dioxide) and more efficient, more compact heat exchangers, such as water-cooled condensers.

By acquiring Spheros, now the Thermal Bus Product Group, the Business Group has gained access to the thermal comfort market, which is estimated to grow by an average 7%<sup>(1)</sup> per year until 2026. As in the light vehicles market, there is a strong trend toward electrification in this segment. The Business Group's offering here includes an air conditioning electric compressor for electro buses.

To sum up, growth for the Thermal Systems Business Group will continue in all regions, through development on strategic focuses, spearheaded by offerings for electric vehicles (thermal management for drive batteries and heat pumps) and for cabin air quality and well-being.

### ► MAIN COMPETITORS ON THE THERMAL SYSTEMS MARKET<sup>(2)</sup>



In 2016, the Halla Visteon group became Hanon System, and Mahle acquired the Thermal Systems division of Delphi. The market is currently dominated by four main players.

<sup>(1)</sup> Valeo estimates.

<sup>(2)</sup> In market share, based on Valeo estimates.

### 1.3.4 Visibility Systems

- Sales: **4.6** billion euros, or **28%** of Group sales  
Original equipment sales up by **15%** like for like
- EBITDA<sup>(1)</sup>: **645** million euros, or **13.9%** of sales
- Net Research and Development expenditure: **235** million euros



#### 2016 HIGHLIGHTS

- Generalization of LED solutions for external and for interior ambient lighting.
- Glare-free high-beam headlamps more widely available on popular European models.
- Steep rise in sales of electronic wiper systems in Europe, North America and China.
- Shift from traditional washer components (hood-mounted nozzles) to embedded wiper systems (with nozzles mounted on arm or blade).
- Launch of a takeover bid to acquire control of Ichikoh (completed in January 2017).

#### TRENDS AND OUTLOOK

Growth in the Visibility Systems Business Groups is driven by three successive waves of innovation, aimed at reduced CO<sub>2</sub> emissions and the development of intuitive driving and autonomous vehicles:

- **generalization of LEDs**, speeding up of the replacement of halogen and xenon by LED lighting across all vehicle segments;
- **reinvention of wiper systems**: trend toward integrated electronics in wiper system motors, for weight and noise reductions; growing aftermarket and digitization of wiper system functions;
- **experience of traveling**: new systems for cleaning cameras and other sensors involved in the development of automated driving; advanced, intuitive interior ambient lighting systems, for enhanced passenger well-being and life onboard the vehicle.

(1) See Financial Glossary, page 449.

## Description of the Business Group

**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 onboard activities.**

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

- by allowing drivers to see the road clearly and be seen;
- by improving safety through the use of lighting to intuitively transmit information to the driver and other road users, and by making sure cameras and optical sensors are kept clean;
- by enhancing driver and passenger comfort through innovative interior lighting, and remote wiper and washing systems.

**The systems are optimized in terms of weight, size and energy consumption and thus contribute to the reduction of the vehicle's CO<sub>2</sub> emissions.**

Visibility Systems has two Product Groups:

- Lighting Systems;
- Wiper Systems.

### Lighting Systems

Valeo develops internal and external lighting solutions tailored to specific automaker model requirements, i.e., high-tech, standout and stylish, or simple and cost-effective:

- **dynamic lighting solutions:** following the market success of BeamAtic® PremiumLED selective headlamps on models such as the Volvo XC90 and the Ford Edge (in Europe and China), in

late 2016 Valeo introduced its MatrixBeam digital anti-glare solution with 15 segments per lamp on the Audi A3. These innovations offer the latest adaptive lighting innovations and ensure driver safety and comfort with ever-higher precision and comfort. Valeo also develops rear lighting systems that improve vehicle-to-vehicle communication by adapting automatically to different driving situations. The Group is working on monochrome and multicolor cabin lighting solutions that are either self-adapting or controlled and adjusted by hand gesture;

- **appealing 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 technology rear lighting solutions with an even stronger style emphasis, and developing OLED (organic light-emitting diode) solutions, for a surface light source giving unparalleled regularity. For the vehicle interior, Valeo offers automakers intuitive illumination and ambient lighting solutions ready for the arrival of autonomous vehicles, offering passengers comfort and well-being consistent with their new-found freedom from driving tasks;
- **economical lighting solutions:** Valeo always strives to make its innovations widely affordable. PeopLED® 2G, the range of second-generation, affordable LED lighting systems, is a perfect example. With performance superior to those of halogen lighting systems, enhanced driving comfort and robustness, as well as lower energy consumption, PeopLED® solutions, on the premium market since 2012, are now available on entry-level vehicles.



## Wiper Systems

An unobstructed view of the road for the driver is essential for road safety. With the development of automated cars and advanced driving assistance systems, it becomes important to clean the various optical sensors such as cameras and lidars (laser detection systems) that equip such 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 CO<sub>2</sub> emissions down. The smart input from the use of electronic solutions helps improve safety and comfort, and reduce weight as well as paving the way for new features, such as:

- 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 the original equipment and aftermarket;
- remote control windshield washing and de-icing systems (using 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;
- AquaBlade® technology camera wipers: thanks to the enhanced precision and positioning of the cleaning nozzles, AquaBlade® technology, already in production for several types of vehicle, reduces fluid consumption and fluid tank size, thus contributing to lightweight vehicle design. Using cleaning cameras located under the windshield, this technology ensures a clear, safe and unobstructed view for automated vehicles.
- digitized functions enabling automakers to optimize their spare parts sales;
- systems for washing optical sensors (cameras, infrared cameras, lidars, etc.) to ensure an uninterrupted video or data flow, for safety and comfort.

## 2016 highlights

### Lighting Systems

Significant events for the Lighting Systems Product Group in 2016 include:

- market release for the MatrixBeam digital anti-glare solution;
- launch of the new-generation PeopLED® 2G entry-level LED lighting solution, featuring LED submount technology that makes it lighter and more compact than the first generation, as well as enhanced performance;
- announcement by Valeo of two important stages in worldwide development of its interior lighting systems: production release for interior lighting for 160,000 SUVs from a premium European automaker, and development of interior lighting systems for 27 vehicle models on three continents, representing supply of interior lighting equipment for two million vehicles per year in 2021;
- following 2015 rollout of a Product Line dedicated to design and manufacture of its electronic modules for lighting systems, Valeo's strategy is validated by major orders for LED drivers;
- launch of a takeover bid to acquire control of Ichikoh (completed in January 2017).

### Wiper Systems

Numerous systems were brought to market in 2016, including:

- the AquaBlade® embedded wiper system and electronically controlled wiper motor for the Ford GT in the United States;
- the electronic direct-drive system for the Buick GL8 in the United States;
- the AquaBlade® embedded wiper system and electronically controlled wiper motor for the Mercedes GLS in Europe;
- the wiper system for the Fiat Tipo in Europe;

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

## Market trends and outlook

Growth in the Visibility Systems Business Groups is driven by three successive waves of innovation, aimed at reduced CO<sub>2</sub> emissions and the development of intuitive driving and autonomous vehicles:

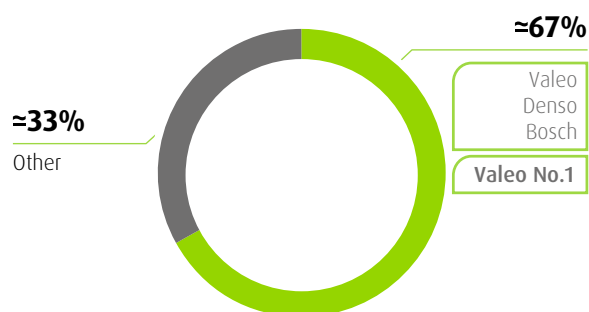
- **generalization of LEDs:** speeding up of the replacement of halogen and xenon by LED lighting across all vehicle segments. Second-generation, higher-performance BiLED® systems have been launched, and selected by eight automaker brands to date. PeopLED® 2G, which efficiently couples LED technology with intelligent thermal management, has been rapidly taken up by 11 customers on all continents. In response to the increasing use of electronics, in 2015 the Lighting Systems Product Group rolled out a Product Line dedicated to the design and manufacture of electronic modules for its lighting systems. Advanced features such as the glare-free high-beam headlamps offered by the Lighting Systems Product Group are becoming more widespread in use, and are now offered as an option on many models in Europe and China. Likely changes in US regulations should enable the rapid take-up of this technology by that market;
- **reinvented wiper systems:** wiper systems are being reinvented, with new-generation wiper motors. The Wiper Systems Product Group is positioned in the field of electronic wiper system motors, resulting in lighter products and,

in turn, lower CO<sub>2</sub> emissions. The new wiper motors also take up less space and are less noisy. Following the successful release of AquaBlade® on the original equipment market, this technology is also making ever faster headway in the aftermarket. Valeo is also rolling out wiper systems on the aftermarket in North America and China. On the innovation front, the trend toward digitalization is gathering momentum and the Wiper Systems Product Group is developing digital solutions that measure wiper blade wear and inform the driver when they need changing;

- **experience of traveling:** this trend will accompany the rise of autonomous vehicles. 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 devices need to be cleaned properly to ensure video flow quality and thereby passenger safety. This new type of cleaning requirement is a major growth opportunity for the Wiper Systems Product Group. By letting the car take care of driving tasks, the driver can sit back and enjoy the ride as a passenger. The ambient lighting then adapts to the environment by changing to softer colors, for a cocoon-like cabin effect. The Business Group is designing advanced, intuitive interior lighting solutions to improve passenger well-being and enhance the ride experience in autonomous vehicles.

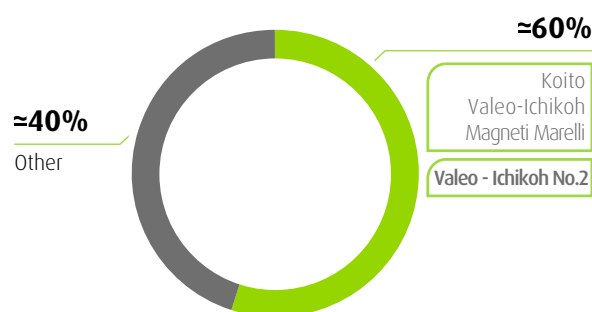
### ► MAIN COMPETITORS ON THE LIGHTING SYSTEMS AND WIPER SYSTEMS MARKET<sup>(1)</sup>

#### Wiper Systems



Market share of the three leaders down slightly compared to 2015.

#### Lighting Systems



Market share of the three leaders up on 2015.

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

### 1.3.5 Valeo Service, products and services for the aftermarket

- 320 product categories.
- 14 product lines for passenger cars.
- 11 product lines for industrial vehicles
- More than 4,800 new products added in 2016, up 37% compared to 2015.
- 15 distribution platforms.
- A footprint in 150 countries.

#### 2016 HIGHLIGHTS

- Groupauto International Supplier of the Year award.
- Spare Parts/Original Equipment Spares Certification from Centro Zaragoza Instituto de Investigación sobre Reparación de Vehículos (Spanish vehicle repair research institute).
- Valeo Service UK & Republic of Ireland became an approved IMI (Institute of the Motor Industry) training center.
- New global organization to strengthen regional market/product expertise and step up growth:
  - four regions: Europe, Asia, Americas and TMAO (Turkey, Middle East, Africa and French Overseas territories), with 18 Sales Divisions;
  - regional organization geared to markets and products:
    - regional operational marketing unit, in charge of developing and coordinating marketing activities,
    - Booster unit, in charge of developing the product portfolio and product references.
- Launch of new Valeo Service strategy, We Care For You – Trust the Specialist, at the Automechanika Show in Frankfurt (Germany).
- Expansion of Valeo Service with opening of a new Sales Division, Valeo Service Middle-East, based in Dubai (United Arab Emirates).
- Release of more than 4,800 new references, an increase of 37% in 2016, through strengthening regional Booster teams.

## Presentation of Valeo Service

Valeo Service supplies original equipment spares to automakers (OES market) and replacement parts to the independent aftermarket (IAM market).

Valeo Service offers all aftermarket channels worldwide a broad range of products and services designed to help boost the efficiency of repair services and to provide greater safety, comfort and driving pleasure. Valeo Service also develops innovative support and services: diagnostic tools, training through e-learning and webinars, sales support tools, and technical documentation.

The We Care For You – Trust the Specialist strategy closely addresses all Valeo Service customer categories: distributors, mechanics, insurers, fleet managers, and the end customers, drivers. Through We Care For You – Trust the Specialist, Valeo Service **positions itself as a specialist** on the aftermarket, building on six key strengths:

- products:
  - undeniable expertise on Valeo Service's six major product lines: transmissions, wipers, lighting, air conditioning, engine cooling, and electrical systems,
  - legitimacy rooted in expertise in original equipment spares;
- techniques: ever more precise services and tools for training, assisting and advising professionals and users;
- marketing: range of dedicated analysis, coordination, promotion and sales support programs personalized for each Valeo Service customer;
- logistics: commitment to a service rate of at least 93%, through a worldwide network of 30 Valeo Service distribution centers and platforms;
- customer relations: dedicated customer relations management services with special attention to rapid complaints processing, for optimum customer satisfaction;
- digital systems: digital technologies deliver an ever more accessible and personalized offering for all target customers: distributors, mechanics, fleet managers, insurers and drivers.

Valeo Service covers 150 countries split into four regions (Europe, Asia, Americas and TMAO (Turkey, Middle East, Africa and French Overseas territories) with 18 Sales Divisions. Its product offering spans five markets (Repair, Maintenance, Crash, Post-Equipment and Heavy-Duty Vehicles), with 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; filtration; and driving and parking assistance systems.

## 2016 highlights

Valeo Service brought in a new customer-focused organization, strengthening its position as a top-end specialist on all of its markets and with regard to all of its target customers by delivering specific products and services.

This major strategic focus proved its worth throughout the year, and enabled Valeo Service to beat 49 other contenders to Grouppauto International Trading Group's Supplier of the Year Award.

### Product and service specialist

- Market release of more than 4,800 new references in 2016, an increase of 37% on 2015.
- Spare Parts/Original Equipment Spares Certification from *Centro Zaragoza Instituto de Investigación sobre Reparación de Vehículos* (Spanish vehicle repair research institute), in recognition of the quality of Valeo products and their compliance with original equipment standards, to ensure ease of use, performance and, above all, safety.
- Launch of a new range of wiper blades, Valeo HydroConnect™. This short product range, exclusively addressing the aftermarket, was developed using the best original equipment technologies. This is also the only product range to offer multi-connection flat blades for the rear window. With this range comprising just 42 references, Valeo Service covers 96% of cars on the road in Europe.
- Launch of the FullPACK DMF® to meet the needs of mechanics and repairers. This includes everything needed for fitting a dual-mass flywheel (disk, mechanism, mechanical or hydraulic release bearing, fastening screws and the dual-mass flywheel itself). The 60 references cover all types of vehicle applications.
- Launch of a new range of original-equipment ultrasonic sensors for the aftermarket, in the form of ready-to-use products for easy fitting in the workshop and a short range of 15 references covering the 10 million vehicles per year fitted with Valeo sensors as original equipment.
- Steep rise in the commercial vehicles market, with the launch of a full range of clutches for vehicles compliant with the Euro 6 standard. The 47 references cover some 795 applications. This offering is in line with Valeo Service's aim on rapid provision of spares for the most recent vehicles, and on contributing considerably to reductions in fuel consumption and CO<sub>2</sub> emissions.

- Launch of a full offering of brake linings for light commercial vehicles, with a range of 100 references covering 95% of the light commercial vehicles on Europe's roads.
- Ongoing commitment to combat counterfeiting, through trademark and patent protection measures. In Asia, more than 30 suits are filed each year. Tens of thousands of products have been seized since 2012. The number of products seized is on the increase, indicating Valeo Service's determination to actively combat copying, which can be potentially dangerous for consumers. Valeo also takes measures on patent infringement, mainly for its lighting products, in countries including Germany, Spain and Holland.

### Marketing specialist

- Automechanika, Frankfurt (Germany): at this international aftermarket show, Valeo Service reasserted its presence on this market and unveiled its new We Care For You – Trust the Specialist strategy. Valeo Service presented a large number of innovations and initiatives to professional visitors across an indoor and outdoor area. Special events were also put on for an audience of thirty or so journalists and more than 200 customers.
- At this show, Valeo was awarded the Automechanika Innovation Prize for its Valeo SCALA™ laser scanner. This laser scanner, a fine example of Valeo know-how, opens the way to future autonomous vehicles. The second product presented by Valeo at the show, the electric turbocharger, was one of the five finalists in the same product and service category.
- Launch of the Valeo On Tour program The Valeo On Tour product showroom truck visited nearly 20 European countries in 2016, contributing to more than 100 events. This highly effective sales support operation helps Valeo Service strengthen its proximity to mechanic customers.
- Improved warranty program for truck clutches. The two-year warranty becomes compatible with unlimited mileage coverage, and now extends to the whole of Europe (the 28 European Union members plus Norway, Iceland, Switzerland, Macedonia, Montenegro, Serbia, Bosnia, Albania and Kosovo).

As part of its development, Valeo Service was more active at motor shows in 2016, exhibiting many product range extensions:

- Automec show in Brazil: an opportunity for Valeo Service to reassert its presence on this important market, and above all to present its new references (nearly 1,000 across all product lines in 2016);
- AAPEX show in the United States: presentation of the Cibié range and the Valeo brand portfolio. In 2016, more than 1,000 new references dedicated to American markets were launched;

- Autotechnica show in Belgium: launch of the Valeo On Tour program, with introductory sessions and training on the TechCare service;
- Automechanika show in Dubai: presentation of product portfolio from the new Sales Division, for passenger cars and commercial vehicles.

Valeo Service was also more visible at European industrial vehicle trade shows in 2016:

- CVShow (Commercial Vehicle Show) in the United Kingdom: focus on new products including the line-up of clutches for trucks, especially those meeting the Euro 6 standard.
- Solutrans show in France: focus 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 for industrial vehicle specialists).

Because 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 distributor networks, wide-reaching support tools for repair centers, and tailored logistics services. Daily contact with BtoC customers is provided via websites and social networks, offering at-a-click access to services, catalogs, production specifications, FAQs, etc.

### Technical specialist

- In 2016, Valeo Service UK & Republic of Ireland became an approved IMI (Institute of the Motor Industry) training center. The division thus becomes one of the 600 training centers approved by this organization for training students, technicians and mechanics on replacement parts.
- Launch of the TechCare program, aimed at mechanics. This program makes the full breadth of Valeo Service's technical know-how available to maintenance and repair professionals. It covers training through to support on a permanent basis, in various forms:
  - technical promotion: personalized customer support;
  - training: workshops, e-learning modules and webinars (real-time interactive online courses);
  - technical support via the hotline and the website [www.valeo-techassist.com](http://www.valeo-techassist.com);
  - garage tools, including the ClimFill® range of charging stations.
- Press conference by the Valeo Service France Division at the Valeo Service headquarters in Saint Denis, presenting the rollout of the TechCare program across its territory. Around a dozen journalists were given details on the program, which generated substantial media coverage following the event.

## Digital specialist

- Launch of the new mobile app, MyValeoParts, a precise and practical application offering users access to the whole Valeo Service parts portfolio, with all related information (technical information, fitting instructions, technical drawings, etc.) There's also a product search function, by VIN (vehicle identification number) for example, and a market news section. MyValeoParts is available on the Apple Store and Google Play.
- The speeding up of the digitization of Valeo Service technical resources for mechanics and technicians, such as e-learning modules, webinars and the Connected Hotline.
- Stronger online presence, with 23 channels, three brand channels and 33 new videos published on YouTube in 2016, providing real services to customers, with installation tutorials, for example.

## Customer relations specialist

- 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 personalized promotional campaigns, and make optimum 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).

## Market trends and outlook

The total number of passenger cars worldwide should continue to grow in 2017, by around 4% compared with 2016<sup>(1)</sup>.

Measured in value, the markets in which Valeo Service has a product offering grew by around 2% in 2016, with air conditioning markets up by around 5%, driven largely by demand in emerging countries.

Consequently, with its extensive product portfolio and global geographic footprint, especially in high-growth Asian markets, Valeo Service's independent aftermarket activity outperformed the market.

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<sup>(1)</sup>. 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.

<sup>(1)</sup> 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 2016, the Group enjoyed widespread recognition from its customers and partners for innovation capability and product and service quality, attesting to its operational excellence.

### 1.4.1 Innovation rewarded

- In 2016, Valeo was named, for the fourth time, one of the most innovative companies in the world in the Top 100 Global Innovators Report published by Clarivate Analytics (former intellectual property and science business of Thomson Reuters).
- Valeo won two 2016 PACE (Premier Automotive Suppliers' Contribution to Excellence) awards, for its electric supercharger and its water-cooled condenser.
- At a ceremony organized by CLEPA (the European Association of Automotive Suppliers) in Brussels (Belgium), a panel of independent experts awarded first prize in the Safety category to Valeo's Remote Clean4U™ (remote-controlled windshield de-icing and cleaning system) and second prize in the Green category to Valeo's EG (Efficiency Generator) alternator.
- At the 2016 Automechanika Show (Germany), Valeo's SCALA™ laser scanner won the Innovation Prize in the Original Equipment Products & Services category.

### 1.4.2 Outstanding excellence

Customers continued to recognize the high standard of the Group's performance, particularly in the area of quality. Valeo received 79 distinctions in 2016 (up 32% on 2015), including:

#### European customers

- Groupauto International Trading Group awarded Valeo Service its 2016 Supplier of the Year prize.
- The Powertrain Systems Business Group's Czechowice site (Poland) won Opel/Vauxhall's Supplier Quality Excellence Award.
- PSA Peugeot Citroën awarded Best Supplier Plant distinctions to Valeo's Visibility Systems site in Tuam (Ireland) for the second year running, the Comfort & Driving Assistance Systems site in Ben Arous (Tunisia), the Thermal Systems site in Humpolec (Czech Republic), and the Visibility Systems site in Issoire (France) and Giarmata and Timisoara (Romania). The Timisoara site also won a Supplier Quality Award.
- PSA Peugeot Citroën gave Quality System Basics Awards to the Thermal Systems site in Itatiba (Brazil), the Visibility Systems and Powertrain Systems site in Fuenlabrada (Spain), the Powertrain Systems site in Nanjing (China) and the Visibility Systems site in Wenling (China).
- The Visibility Systems site in Shenyang (China) earned an Excellent Quality Award from Volkswagen.
- The Thermal Systems and Visibility Systems site in Foshan (China) earned Quality Excellence Awards from Volvo Cars.

#### US customers

- Valeo Lighting North America earned a Recognition of Excellence Award from Fiat Chrysler Automobiles (FCA).
- In Ford Motor Company's Annual World Excellence Awards, the Hainaut site (Belgium – Special Lighting Products) won a Gold Award for Valeo's Visibility Systems Business Group and a Smart Brand Pillar Award for the Comfort & Driving Assistance Systems Business Group.
- Ford Q1 Certification was obtained by the wiper and alternator businesses at the Bursa site (Turkey – Certification) and Ford Q1 Awards were earned by the Chennai (India), Fuenlabrada (Spain) and Timisoara (Romania) Visibility Systems sites.
- General Motors named Valeo Supplier of the Year for the eleventh time; nine Visibility Systems Business Group sites received the Supplier of the Year distinction: Córdoba (Argentina), Sao Paulo (Brazil), Querétaro (Mexico, two businesses), Seymour (United States), Foshan (China), Wuhan (China), Le Hainaut (Belgium), Timisoara (Romania). And ten sites earned Supplier Quality Excellence Awards: Itatiba (Brazil – Thermal Systems); Foshan (China – Thermal Systems), Wenling and Wuhan (China – Visibility Systems); Kyong Ju (South Korea – Powertrain Systems); Pune (India – Powertrain Systems); Akita and Ibaraki (Japan – Comfort & Driving Assistance Systems); Czechowice (Poland – Powertrain Systems); Rayong (Thailand – Thermal Systems).
- Toyota North America awarded Certificates of Achievement for Quality to the Visibility Systems Seymour (United States) and Querétaro (Mexico) sites.

## Asian customers

- Dongfeng-Nissan gave a Quality Improvement in 2016 S1 Award to the Thermal Systems site in Shashi (China).
- The Visibility Systems Wuhan and Foshan sites (China) won Excellent Supplier Awards from Geely.
- Great Wall gave a Best Quality Research Award to the Visibility Systems Foshan site (China) and a Best Quality Award to the Visibility Systems Wenling site (China).
- The Powertrain Systems Nanjing Valeo Clutch Co., Ltd site (China) earned a Best Quality Award from Lingong Group Jinan Heavy Industry Company.
- The Powertrain Systems Chennai site (India) earned a Supplier Performance Award from Mahindra. It also received a Best Supplier Award from Tata Motors CVBU SPD.
- Valeo's four Business Groups earned distinctions from Nissan Motor Corporation: Visibility Systems: Chennai (India – Best in Time Delivery Award), Querétaro (Mexico – Zero Incident Performance), Seymour (United States – Quality Award); Powertrain Systems: Valeo Electrical Systems North America (Recognition of Best Practice – Process Improvement); Thermal Systems: Shashi (China – Quality Improvement in 2016); Comfort & Driving Assistance Systems: Winchester (United States – Quality Award) and Award of Merit from Nissan Shatai Co., Ltd, subsidiary of Nissan Motor Corporation, for the Ibaraki site (Japan).
- Best Supplier and A Class Supplier Certification for Valeo Nanjing Transmission Systems (Nanjing) Co., Ltd (China) from SAGW (Shanghai Automobile Gear Works).
- Toyota distinctions for quality performance were earned by five Visibility Systems sites (Chrzanów in Poland, Córdoba in Argentina, Foshan in China, Querétaro in Mexico and Seymour in the United States) and by two Powertrain Systems sites: (Mondeville in France and Pune in India).
- FAW-Volkswagen gave the Visibility Systems site in Shenyang (China) an Excellent Quality Award.

## Other distinctions attesting to the Group's operational excellence

- Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo,
  - ranked number ten in the Harvard Business Review's list of the hundred Best-Performing CEOs in the World. Criteria include social and environmental policy as well as financial results;
  - was voted *Journal de l'Automobile's* Man of the Year by a panel of 37 specialist journalists;
  - won the automotive suppliers category in the 2016 Automotive News Eurostars list.
- Valeo's non-financial performance won the recognition of RobecoSAM, receiving an overall score of 80/100. The Group has risen to become the number one player in the auto components industry, earning the RobecoSAM Gold Class 2017 and RobecoSAM Industry Mover 2017 awards, and was named to the Dow Jones Sustainability Index (DJSI World and DJSI Europe) for the first time.
- After winning the Registration Document Grand Prix in 2015, Valeo picked up the CAC Large 60 Grand Prix at the 2016 Financial Transparency Awards (*Grands Prix de la Transparence*), for the quality of its financial information overall. Valeo therefore ranked first out of the sixty biggest companies listed on the French stock exchange.
- Valeo won the prize for the Best Mandatory CSR Report at the 16th CSR (corporate social responsibility) Trophy event organized jointly by the *Conseil supérieur de l'ordre des experts-comptables* (Chartered Accountants Council) and the *Compagnie nationale des Commissaires aux comptes* (Auditors Council) to reward relevant, transparent and reliable reporting of environmental, labor-related and social information.
- Valeo won the 2016 Risk Management Trophy in the internal control category awarded by the IFACI (French Audit and Internal Control Institute) and Crowe Horwath Global Risk Consulting in cooperation with Dechert LLP.
- Toyota North America awarded Valeo a Certificate of Achievement for Supplier Diversity for its efforts on promoting diversity among its suppliers.
- For the second year running, Wuhan Valeo ranked among the top ten companies in the Wuhan Economic and Technological Development Zone, in recognition of its contribution to the economic and social development of the district.
- Valeo Autoklimatizace k.s. (Thermal Systems Business Group) was named Best Regional Employer and the Rakovník and Prague sites Best Employer for the Central Bohemia region at the outcome of a selection and certification process coordinated by PricewaterhouseCoopers (PwC).

# 2

## RISKS AND RISK MANAGEMENT

|                                                                                   |           |                                                                                                                                                                                                                  |           |
|-----------------------------------------------------------------------------------|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
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**VALEO RISK MANAGEMENT POLICY IS IN KEEPING WITH SUSTAINABILITY CONCERNS**

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 or accident risks, and legal and financial risks. It also describes the internal control system implemented by General Management and by Valeo teams in order to prevent and mitigate these risks.

However, these procedures do not provide absolute assurance that the Group's objectives will be achieved and that risks will be avoided. The purpose of the risk management system put in place by Valeo 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.

The Report of the Chairman of the Board of Directors was presented to:

- the Governance, Appointments & Corporate Social Responsibility Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017; see Chapter 3, section 3.2.2 "Committees created by the Board", pages 121 to 129) as regards information relating to the composition of the Board of Directors, 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
- the Audit & Risks Committee, as regards internal control procedures and risk management, including financial risks related to the effects of climate change and measures taken Valeo to reduce them by implementing a low carbon strategy in all the components of its business.

The report was approved by the Board of Directors on February 15, 2017, in accordance with Article L.225-37 of the French Commercial Code (*Code de commerce*). It is included in this chapter in section 2.3 "Internal control and risk management", pages 85 to 91; in Chapter 3, section 3.2 "Composition of the Board of Directors, and preparation and organization of its work", pages 96 to 137; and in Chapter 4, section 4.1.3 "Risks and opportunities related to the impacts of climate change", page 166.

## 2.1 Risk factors AFR

### 2.1.1 Operational risks

#### Risks related to the development and launch of new products

##### Risk factor

The Group is exposed to the risks inherent in developing and manufacturing new products. Problems encountered in connection with project management, from design through to industrialization and including management of changes to orders already made, can impact the Group's image or reputation in terms of its ability to deliver to customers on time, and this in turn can impact the Group's financial position.

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 software developers and connected services, in order to prevent products becoming obsolete or less attractive to automakers.

#### Management of risk

The Group employs every means necessary to remain at the cutting edge of technology, notably by 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.

Acquisitions of companies that are leaders in their industries and special units set up to manage "open innovation"<sup>(1)</sup> and identify high-tech start-ups enable the Group to reinforce its portfolio of technologies and diversify its sources of inspiration and relations amid deep-seated changes in automotive market technology and in the competitive landscape. This strategy also enables secure IT developments in projects and new services. Along these lines, Valeo recently completed the acquisitions of peiker in the onboard telematics and connectivity segment and of Spheros in the field of bus climate control; created a 50/50

(1) See Sustainable Development Glossary, page 450.

joint venture with Siemens in high-voltage powertrains; and acquired shareholdings in, and embarked on, joint projects with companies with renowned expertise in the development of smart and innovative solutions for cars (CloudMade). The Group also entered into several partnerships, particularly in the fields of digital security (Gemalto) and digital expertise (Capgemini).

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. Valeo provides ongoing operating and financial supervision based on a structured approach defined by the Group. This defines key issues in terms of product development and processes, including principles applicable to Product Groups, organizational and governance guidelines, business descriptions, and ideas and best practices that can be adopted by Valeo's teams in their daily work. The Group also offers training to members of project teams with a view to developing the skills it needs. Reviews are also performed to ensure that this policy is duly applied.

In order to identify and properly understand the regulations applicable to its products in each of the countries where it operates, Research and Development teams have been strengthened by the appointment of a Regulatory Officer for each Product Group. Each regulation is translated into a standard, thereby ensuring that products developed and manufactured by the Group comply with applicable regulations. Meanwhile, in 2016 a Product Development Integrity Charter in the form of online training was rolled out to General Management and to R&D, Project, Purchasing, Quality, Industrial and Logistics, Sales and Business and Development networks, representing some 18,000 people. This charter is based on five core pillars: regulation, transparency, compliance, quality assurance and management reporting.

Valeo systematically incorporates an environmental approach into all the stages in the life of its products and processes, from design and production to utilization and end-of-life management. Experts in environmental matters and in R&D work together to reduce the environmental impacts of processes and products over their entire lifecycle and to ensure that they comply with applicable regulations. Valeo helps draft and enforce best practices and was actively involved in EU Regulation No. 1907/2006, "Registration, Evaluation, Authorization and Restriction of Chemicals" (REACH) – see Chapter 4, section 4.2.3 "Resources, materials and eco-design", pages 177 to 180).

The Group constantly looks to anticipate changes in technology and in the regulatory landscape. However, it cannot be sure to anticipate all such changes.

For more on Valeo's Research and Development policy, see Chapter 4, section 4.2.1 "Valeo's innovation policy", pages 170 to 174.

## Risks related to attracting and retaining talent

### Risk factor

The Group operates in a fast-changing competitive environment against a backdrop of robust growth. This requires a sustained increase in human resources as well as a broad spectrum of skills to ensure that it can adapt to changes in the automotive industry. Valeo may therefore face difficulties in attracting and retaining talent and in adapting and taking on the necessary qualifications and skill sets to develop and manufacture its systems and products. The Group's massive investments in innovation mean that it hires a growing number of managers and professionals. In addition, the scarcity of labor in certain employment areas makes it difficult to hire the employees needed to increase production.

### Management of risk

The Group aims to add 10,000 employees to its global workforce each year over the next five years. This ambitious recruitment strategy will enable Valeo to meet the different challenges facing the Group, such as the war for talent and the ability to capture and boost specialist skills. The strategy draws particularly on a strong employer brand, with increased Group visibility and renown, more visible external communications and an enhanced presence on social media. The development of initiatives and partnerships with selected schools and universities is also part of this strategy.

The HR network has undergone several changes in order to meet these new requirements. New recruitment units are being set up for each country or region, with the aim of building specific recruitment expertise, developing a countrywide or regional approach and improving hiring efficiency.

Valeo continues to develop the means for identifying and hiring the right employees and for fostering employee loyalty. The Group's international scope enables it to offer its employees the opportunity to move between sites, countries, Product Groups and networks. Improved Technical Institutes and a network of experts help develop in-house training and skills building. To support the need for new skills, Valeo works closely with schools and universities to train new engineers and to ensure that it will be able to meet the needs created by the challenges that await it in terms of innovation.

## Risk factors

Valeo is also attentive to its employees' opinion of the Group and its strategy, but also their view of the quality of work life. Worldwide surveys are conducted among all employees and targeted action plans developed which are then communicated to all staff. Valeo also has a Well-Being at Work program designed to guarantee a good work-life balance for its employees.

For more on Valeo's talent management policy, see Chapter 4, section 4.4.3 "Attracting and engaging talent", pages 225 to 235.

## Industrial risks related to growth

## Risk factor

The Group's fast-paced growth implies managing the risks of failing to anticipate growth trends or to adapt its production processes and supply chain accordingly, or even that its suppliers cannot provide the capacity it needs, which could have operational, reputational and financial consequences.

## Management of risk

The Group's industrial strategy is rolled out in a strong growth environment and is aimed at preserving that environment. The key aspects of this strategy are based on:

- managing capacity, in terms of plants, investments or human resources, as part of the yearly preparation and review of the medium-term business plan;
- setting up multidisciplinary sites in order to generate synergies between sites and businesses, with "daughter plants" undergoing development or change assisted by more mature, "mother plants";
- benchmarking of processes, using industrial indicators such as the duration of the cycle and the costs generated by quality defects;
- standardizing procedures for Product Groups and for production systems and the supply chain;
- selecting and supervising blue collar workers, supervisors and managers;
- setting up a crisis management unit where necessary.

The Group's Industrial function is described in Chapter 1, section 1.2.3 "Industrial", pages 40 to 41.

## Cybersecurity and IT systems failure risk

## Risk factor

The Group depends on infrastructure and IT applications common to all of its businesses. These include procurement, production, distribution, billing, reporting and consolidation

software, as well as new product design and development. Cybersecurity risks can lead to an information system malfunction (loss of availability, data theft, data destruction or loss of data integrity) owing to external (denial of service, hacking, malware<sup>(1)</sup>) or internal (tampering, breach of data confidentiality) threats. Valeo also faces other indirect social engineering-type threats such as Chairman or treasurer fraud, blackmail, ransomware<sup>(2)</sup>, etc. All of these risks and threats could impact the Group's operations and its profitability.

## Management of risk

To address these risks and threats, the Group stepped up information system security by recruiting a Group Chief Information Security Officer in 2016 who reports to the Information Systems Department and is responsible for:

- preventing risk by raising employee awareness, particularly as regards social engineering, and by stepping up audits of critical system components;
- continuing the protection program in order to bolster access control for persons and access to equipment, and identify potential system weaknesses;
- improving the detection of security incidents and the response model in accordance with the type of threat or its potential impact.

Cybersecurity risks are managed in every region by a cybersecurity officer at each site. The program for vetting suppliers and more generally, for verifying external systems interfacing with the Group's information systems, has been stepped up to better take into account the needs of Valeo's customers, current and future legal and regulatory requirements, and the recommendations issued by various government information systems security organizations.

All information system security rules are formally documented in an Information Systems Security Policy (ISSP), set out in an Information and Communications Technologies User Charter put in place by the Group and applied by all users. 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. An additional program to raise employee awareness of emerging IT threats will be rolled out in 2017.

For more on our information systems protection policy, see Chapter 4, section 4.2.5 "Security and use of computer data", page 185.

<sup>(1)</sup> Malicious software used to contaminate information systems.

<sup>(2)</sup> Malicious software taking data hostage. Ransomware encrypts and locks files saved on computers and demands a ransom in exchange for a key allowing them to be decrypted.



## Supplier failure risk

### Risk factor

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 high-risk suppliers, 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 also published its Supplier Development Handbook. This document, intended for 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 mitigate supplier risk as far as possible while maintaining acceptable economic conditions.

Since the supply capacity for certain businesses is limited, particularly electronic components, Valeo may be exposed to capacity allocation issues. To address this, production 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 1,225 suppliers. The Group's biggest supplier represents 2% of its purchases, the five biggest suppliers account for 9% and the ten biggest, 15%.

In April 2016, the Group launched a worldwide insurance program allowing each supplier to contract insurance with appropriate coverage and amounts in order to protect themselves any harm they may cause Valeo as a result of the products they supply.

## Risks related to the automotive equipment industry

### Risk factor

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 or a change in the regulatory, pricing or tax environment in the regions in which the Group and its customers are present, particularly Europe, Asia or North America, could lead to a decline in the Group's earnings and/or to the default of some of its customers or suppliers, and could thereby affect Valeo's financial position.

It should be pointed out that supply contracts with automakers take the form of open orders for all or part of a vehicle model's equipment needs, with no minimum volume guarantee.

Similarly, the automotive industry is highly competitive and the Group may not be chosen to supply future generations of a model which it previously supplied, which could impact its earnings. Valeo's earnings could be affected by a model's commercial failure or as a result of a delisting, and this risk would be more pronounced given that vehicle platforms nowadays are worldwide.

### Management of risk

Valeo has the appropriate expertise and resources to undertake the necessary restructuring measures should the automotive market experience a downturn or a geographic shift in automotive production. 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.

## Risk factors

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 50% of production in 2016, Asia 26%, North America 22% and South America 2%;
- customers: German customers accounted for 30% of production in 2016, Asian customers 27%, US customers 22% and French customers 15%. The Group's two largest customers accounted for 31% of its original equipment sales, its five largest customers, 58%, and its ten biggest customers, 85%.

Valeo also derives 10% of its sales from the aftermarket, which is less vulnerable to fluctuations in the economic climate.

## Customer credit risk

### Risk factor

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 balance its customer portfolio as far as possible, by including new, especially Asian, players. Asian customers represent 27% of the Group's original equipment sales.

The two largest customers represented 31% of the Group's original equipment sales in 2016. The Group's five largest customers accounted for 58% of its original equipment sales, and its ten largest customers, 85%. Valeo also generates 10% 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-2016) is by nature highly diversified and is constantly monitored. Credit insurance policies have been taken out to protect the Group against the risk of payment default.

The average days' sales outstanding, after the sale of trade receivables, stood at 47 days at December 31, 2016, compared to 45 days at December 31, 2015.

For more information on the aging of accounts and notes receivable and the impairment of doubtful receivables, see Chapter 5, section 5.4.6, Note 4.2 "Accounts and notes receivable" to the 2016 consolidated financial statements, page 304 and Note 8.3.3 "Credit risk" to the 2016 consolidated financial statements, page 352.

## Geopolitical risks

### Risk factor

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.

## 2.1.2 Environmental or accident risks

### General principles for protecting sites and managing environmental or accident risks

The Group has always had a policy of providing the highest level of protection for its sites against natural events 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”, page 85).

### Risks related to environmental regulations

#### Risk factor

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”, pages 186 to 195, 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 79).

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 13.7 million euros at December 31, 2016 (see Chapter 5, section 5.4.6, Note 7.1 “Other provisions” to the 2016 consolidated financial statements, page 332).

## Risks related to the impacts of climate change and natural events

### Risk factor

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

When choosing where to locate new production sites or the measures to be taken to protect existing sites in vulnerable areas, Valeo takes into account weather events caused by global warming.

### Management of risk

All sites in seismic risk zones have been built or upgraded to comply with 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 the impacts of climate changes and any natural events that could occur. These safeguards include building compliant with the most appropriate seismic standards, roofing reinforcements against hurricanes or cyclones, and appropriate protection (raised buildings for new sites, cofferdams for existing sites) against flooding. Specific inspections are carried out to check site compliance and safety and to ensure that the system in place is able to adapt to the changing risk environment in terms of climate change.

Audits are performed with regard to natural hazards on a regular basis every two years or so, 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.

For more information, see Chapter 4, section 4.1.3 "Risks and opportunities related to the impacts of climate change", page 166.

## Risks related to accidents that could affect plant availability

### Risk factor

Valeo's production facilities may be exposed to accident 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 accident 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. Actions plans are implemented by each site based on these audits and a report setting out a series of recommendations is drawn up as appropriate.

## 2.1.3 Legal risks

### Risks related to products and services sold

#### Risk factor

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 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 Quality functions (see Chapter 1, section 1.2.3 "Operations", pages 39 to 41), driven by the same total quality approach, look to ensure that components and materials purchased meet the requisite quality standards and are regularly supplied, 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 a recall campaign (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", page 85).

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", page 85). 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 242 million euros at December 31, 2016 (see Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the 2016 consolidated financial statements, page 332).

### Intellectual property risks (patents and trademarks)

#### Risk factor

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. Claims may also be filed against Valeo by patent trolls, especially in the United States and in the field of new technologies.

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. Valeo's growing visibility is a key factor in the increasing counterfeit risk, particularly in Asia and the Middle East.

### Management of risk

As far as possible and where warranted, Valeo's industrial expertise and the innovations generated by the Group's research are covered by patents to protect its intellectual property. Valeo is therefore an important patent filer in its business sector, with 1,840 patents filed in 2016. 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, the Group set up procedures several years ago in order to identify the various possible instances of counterfeiting:

- in terms of trademarks, customs surveillance has been set up in various countries including China, so that the Group can be alerted to questionable imported and/or exported products. If the counterfeit is confirmed, Valeo refers the matter to administrative or litigation courts in order to have the courts put an end to the practice and sanction the infringement of its intellectual property rights;
- in terms of patents, the Group systematically monitors potential counterfeits in its four Business Groups and in Valeo Service, as regards products for both the original equipment and spare parts markets. This system draws on third party product launch supervision at trade shows across the globe and particularly in Europe, the United States and China. Valeo vigorously defends its rights against any such infringements and takes action as needed, including before the courts, in order to have the courts put an end to the practice and sanction the infringement of its intellectual property rights.

Regarding activities related to autonomous vehicles and connectivity, particularly in terms of software, Valeo is building up its teams of intellectual property engineers in order to bolster protection and oversight in these fields.

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.

Provisions for employee-related and other disputes totaled 182 million euros and cover intellectual property disputes in particular. Details of these provisions are provided in Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the 2016 consolidated financial statements, page 332.

## Risks of non-compliance with the Code of Ethics or the law

### Risk factor

Ethics and integrity are core values for Valeo. Like any international group, Valeo – which employed 91,800 people in 32 countries at December 31, 2016 – 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 administrative sanctions and could adversely impact its reputation and results. They could also lead to customers bringing legal proceedings against the Group. 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. The Ethics and Compliance Department has rolled out a detailed and 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. Complementary programs on the prevention of moral harassment or on the ethics of production were designed and rolled out in 2016, along with training modules.

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 core 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 have been organized since 2016.

Compliance Champions, touchstones for the Ethics and Compliance Department in each country, along with Valeo's functional departments and operational networks take an active role in helping to prevent risks by circulating information on compliance policies and on program priorities, as well as providing on-hand assistance to staff.

A whistleblowing hotline is also in place whereby employees can confidentially (and anonymously if they so wish) inform management of any potential or known incidents of negligence that come to their attention, allowing for quick problem resolution.

The Fraud Department (part of the Internal Audit and Control Department) comprising two Fraud Investigation Officers is responsible for analyzing and verifying fraud allegations reported through the whistleblowing hotline or via other channels. The Alert Committee is informed of the findings of these investigations and decides on the appropriate follow-up and, in the case of proven fraud, the penalties to be applied. In 2016, a leaflet entitled "External fraud: how to detect it, how to fight it" was distributed to all Group employees and translated into nine languages (French, English, German, Spanish, Portuguese, Russian, Chinese, Japanese and Korean). The aim of this leaflet is to help employees identify attempted fraud and to understand the risks associated with external fraud. It also describes the most common tactics employed by fraudsters.

The Group has also put in place systems to ensure that its operations comply with rules on export controls.

The Group updated its Code of Conduct as regards securities transactions and the prevention of insider trading in order to bring it into line with EU Regulation No. 596/2014 on market abuse ("MAR") which came into force on July 3, 2016. The new version of the Code of Conduct was approved by the Board of Directors on January 24, 2017.

For more information on the work of the Ethics and Compliance Department, please refer to Chapter 1, section 1.1.5 "Strict adherence to ethics and compliance principles", page 32, and to Chapter 4, section 4.5.2 "Ethics and compliance", pages 238 to 239.

Section 2.3.3 of this chapter, "Steering the internal control system", pages 89 to 90, describes the role of the Internal Audit and Control Department and the Fraud Department.

## 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. Almost exclusively 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 having been employed at sites officially recognized by decree as having contained asbestos. Under certain conditions, the workers concerned are entitled to early retirement. Pursuant to rulings previously handed down by the Supreme Court (*Cour de cassation*), many former employees entitled to early retirement on these grounds have brought claims against Valeo before the French Labor Court seeking damages for anxiety regarding an asbestos-related illness. These claims have been time-barred since June 2013.

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 employee-related and other disputes totaling 182 million euros notably cover risks relating to former employees, particularly in connection with asbestos. A provision for 89 million euros had been set aside for tax disputes. Details of these provisions are provided in Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the 2016 consolidated financial statements, page 332.

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.

### Antitrust proceedings and attendant procedures

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

In the United States, a 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. 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 in the United States District Court for the Eastern District of Michigan. Valeo settled two of these actions, both brought by indirect purchasers. The first was an action brought by automotive dealers that was settled on August 25, 2016 and received final court approval on November 30, 2016. The second action was brought by automotive end payers, and was settled on September 28, 2016 (subject to final court approval in 2017).

On March 8, 2017, the European Commission handed down its decision and fined the automotive air conditioning and engine cooling suppliers under investigation, including Valeo (see Chapter 5, section 5.2 “Subsequent events”, page 283).

The remaining action in the United States, brought by a purported class of direct purchasers, was settled on February 14, 2017, pending definitive approval by the United States District Court for the Eastern District of Michigan in 2017. Separately, two class actions also remain ongoing in Canada.

In 2016, Valeo recognized an expense of 99 million euros to cover the main risks relating to the investigations and proceedings involving the Group (see Chapter 5, section 5.4.6, Note 7.2 “Antitrust investigations” to the 2016 consolidated financial statements, page 333).

### Other proceedings

To the best of Valeo’s knowledge, and excluding these antitrust 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 banking counterparty risks. The Financing and Treasury Department also monitors customer credit risk.

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

The Financing and Treasury Department is supported by, among other things, 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 Finance Department 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.

### Commodity risk

#### Risk factor

The Group uses a variety of raw materials for its industrial operations, including non-ferrous metals, steel, plastics and rare-earth metals. These represented purchases of 2.1 billion euros in 2016, of which 34% non-ferrous metals, 36% steel, 29% 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 in commercial contracts as far as possible. This is the case particularly for non-ferrous metals and steel, for which such clauses cover approximately three-quarters and one-half of the Group's exposure, respectively.

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 (primarily swaps). These transactions are eligible for cash flow hedge accounting within the meaning of IAS 39. In 2016, an unrealized gain of 6 million euros related to these hedges was recognized directly in other comprehensive income. In 2015, an unrealized loss of 6 million euros was recognized directly in other comprehensive income.

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

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

Exposure to commodity risk and the related pre-tax sensitivity analysis are detailed in Chapter 5, section 5.4.6, Note 8.1.4.2 "Fair value of commodity (non-ferrous metals) derivatives" to the 2016 consolidated financial statements, page 346.

### Foreign currency risk

#### Operational currency risk

#### Risk factor

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 exposures (non-financial foreign currency receivables and payables). The corresponding currency instruments are classified as trading derivatives within the meaning of IAS 39 – "Financial Instruments".

The Group also hedges its operating margin against foreign currency risk, on a regular basis over the budget period and on an exceptional basis over a contractual period (beyond one year) for specific major contracts. In this case, it applies hedge accounting rules as permitted by the standard on financial instruments. In 2016, an unrealized loss of 4 million euros arising on these hedges was recognized directly in other comprehensive income (unrealized gain of 7 million euros recognized directly in other comprehensive income in 2015).

Subsidiaries primarily hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties (leading banks).

## Financial currency risk

### Risk factor

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" of this chapter, pages 82 to 83), in particular for debt issues under the Euro Medium Term Notes (EMTN) program.

At December 31, 2016, the Group's foreign currency borrowings were:

- the EIB loan contracted in November 2011, of which 51.5 million US dollars was outstanding at December 31, 2016;
- the convertible bond subscribed on June 16, 2016 for 450 million US dollars, to which the Group added 125 million US dollars under the same conditions on November 16, 2016.

These US dollar borrowings are hedged by EUR/USD currency swaps until they fall due. In 2016, an unrealized loss of 15 million euros related to this debt was recognized directly in other comprehensive income.

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 gross and net forex risk exposure is shown in Chapter 5, section 5.4.6, Note 8.1.4.1 "Fair value of foreign currency derivatives" to the 2016 consolidated financial statements, pages 343 to 345.

## Liquidity risk

### Risk factor

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 pooled 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 cross-border cash pooling arrangement in euros 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, 2016, Valeo had 2.4 billion euros in cash and cash equivalents (1.7 billion euros at December 31, 2015). Cash comprises bank deposits for 668 million euros and cash equivalents (mainly money market funds) for 1,691 million euros.

Other sources of liquidity were as follows:

- confirmed bank credit lines with a weighted average maturity of three years, representing an aggregate amount of 1.2 billion euros. None of these credit lines were drawn down during 2016. These bilateral credit lines were taken out with ten 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 1.7 billion euros had been drawn at December 31, 2016.

The Group's gross debt amounted to 2.9 billion euros at December 31, 2016 (1.8 billion euros at December 31, 2015). Gross debt includes short-term debt totaling 542 million euros, long-term debt totaling 2,295 million euros (of which 225 million euros maturing within one year), and a liability relating to put options granted to holders of non-controlling interests totaling 79 million euros.

In June 2016, Valeo issued five-year, cash-settled convertible bonds with a nominal value of 450 million US dollars. A further 125 million US dollars were added to this issue in November 2016. Issued at 100% and 107% of nominal value, respectively, these bonds are redeemable at nominal value (if they are not converted) and do not bear interest. At the same time as these bond issues, Valeo purchased cash-settled call options on its own shares to hedge its exposure to pay the cash amounts due on any exercise of the bond conversion rights. All of these transactions, which have been converted into euros using swaps, provide the Group with the equivalent of traditional euro financing on favorable terms. The initial price for converting the bonds was set at 64.6137 euros. Details of the accounting for these transactions are provided in Chapter 5, section 5.4.6, Note 8.1.2.1 "Long-term debt" to the 2016 consolidated financial statements, pages 337 to 339.

On March 18, 2016, Valeo also issued 600 million euros' worth of ten-year bonds maturing on March 18, 2026 and paying a fixed coupon of 1.625% under the EMTN program. Under the same program, on January 11, 2017 the Group also issued 500 million euros' worth of bonds maturing on January 11, 2023 and paying a fixed coupon of 0.625%.

The Group seeks to ensure a balanced long-term debt repayment profile. At December 31, 2016, the average maturity of its debt with its parent company (Valeo) was 5.8 years (4.3 years at December 31, 2015).

The following table summarizes the amounts and maturities of Valeo's main borrowings (excluding accrued interest):

| Type                          | Maturity      | Nominal amount<br>(in millions) | Nominal amount<br>outstanding at<br>Dec. 31, 2016<br>(in millions) | Currency | Nominal<br>interest rate |
|-------------------------------|---------------|---------------------------------|--------------------------------------------------------------------|----------|--------------------------|
| European Investment Bank loan | November 2018 | 103                             | 52                                                                 | USD      | 6-month USD Libor +1.9%  |
| Bond (EMTN program)           | January 2017  | 500                             | 146                                                                | EUR      | 5.75%                    |
| Bond (EMTN program)           | May 2018      | 500                             | 273                                                                | EUR      | 4.875%                   |
| Bond (EMTN program)           | January 2024  | 700                             | 700                                                                | EUR      | 3.25%                    |
| Bond (EMTN program)           | March 2026    | 600                             | 600                                                                | EUR      | 1.625%                   |
| Convertible bond              | June 2021     | 575                             | 575                                                                | USD      | 0%                       |

Details of the Group's borrowings and debt are included in Chapter 5, section 5.4.6, Note 8.1.2 "Gross debt" to the 2016 consolidated financial statements, pages 336 to 340:

- bank credit lines and the European Investment Bank loan are subject to a covenant stipulating that Valeo's net-debt-to-EBITDA ratio must not exceed 3.25. At December 31, 2016, the ratio calculated over 12 months was 0.3%;
- for the European Investment Bank loan, 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 convertible bond also includes a change of control clause allowing lenders to request early repayment of the amount lent or request that the bonds be purchased by the issuer, at the issuer's discretion;
- the bonds issued under the EMTN program include an option allowing bondholders to request early repayment or redemption of their bonds in the event of a change of control at Valeo leading either to a withdrawal of the bond's rating or a downgrade in the rating to below investment grade (assuming that the bonds had previously been rated

investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one category downgrade in the rating (e.g., from Ba1 to Ba2);

- the Group's bank credit lines and long-term debt (bond issues under the EMTN program and convertible bond issue) include "cross default" clauses. This means that if a given amount of debt is likely to be called for early repayment, then the other debt amounts may also be called for early repayment.

At the end of the reporting period, the Group expects to comply with all debt covenants over the next 12 months.

### Credit rating

On January 31, 2017, Standard & Poor's confirmed Valeo's credit rating at BBB, raising its outlook from "stable" to "positive". On May 9, 2016, Moody's confirmed Valeo's long-term corporate credit rating at Baa2.

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

| Rating agency     | Published        | Long-term debt | Outlook  | Short-term debt |
|-------------------|------------------|----------------|----------|-----------------|
| Standard & Poor's | January 31, 2017 | BBB            | Positive | A-2             |
| Moody's           | May 9, 2016      | Baa2           | Stable   | P-2             |

## Interest rate risk

### Risk factor

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 may use 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, 2016, only the US dollar EIB loan was at a variable interest rate. All other borrowings are at fixed rates. They are not hedged against interest rate risk.

Taking into account the hedges in place at end-2016, 98% of long-term debt (i.e., debt due in more than one year) was at fixed rates at December 31, 2016 (75% at December 31, 2015).

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 8.1.4.3 "Fair value of interest rate derivatives" to the 2016 consolidated financial statements, pages 347 to 348.

## Banking counterparty risk

### Risk factor

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 at December 31, 2016 is minimal (see Chapter 5, section 5.4.6, Note 8.1.1 "Fair value of financial assets and liabilities" to the 2016 consolidated financial statements, pages 335 to 336).

## 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 2016, 2,731,203 shares were acquired in connection with the liquidity agreement and 4,515,403 shares were sold (including 2,766,339 shares in connection with the liquidity agreement and 1,749,064 shares in relation to stock option and free share plans), leading to a 13 million euro increase in consolidated equity at end-2016.

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", page 414.

### Equity investments for pension funds

Pension fund assets comprised 261 million euros in equities at December 31, 2016, representing 51% of the assets invested. After a lower-than-expected return on plan assets in 2015, essentially in the United States, plan asset yields exceeded expectations in 2016, leading to an increase of around 31 million euros in the value of the assets. Actual return on plan assets was a negative 2 million euros in 2015 (see Chapter 5, section 5.4.6, Note 5.3.5 "Breakdown and movements in plan assets" to the 2016 consolidated financial statements, pages 317 to 318).

Decisions to allocate the funds among the different asset classes (equities, bonds, and cash equivalents) are taken 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. 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

At December 31, 2016, the Group held 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 67 million euros at December 31, 2016 (53 million euros at December 31, 2015). On January 13, 2017, the Group announced the success of the takeover bid for Ichikoh launched on November 24, 2016. The shares tendered to the bid were delivered to Valeo on January 20, 2017. Upon completion of this transaction, Valeo held 55.08% of Ichikoh's capital and therefore takes control of Japan's leading automotive lighting company, which remains listed on the Tokyo Stock Exchange. Ichikoh will be fully consolidated in Valeo's consolidated financial statements as from February 1, 2017.



## 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 events (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 17 million euros in premiums for its insurance coverage in 2016.

The Group entered into an insurance policy in 2016 allowing each supplier to contract insurance with appropriate coverage and amounts so as to protect themselves against any damage they may cause Valeo as a result of the products they supply.

## 2.3 Internal control and risk management AFR

The Chairman of the Board of Directors has asked the Group Internal Audit and Control Director to describe in this section the internal control and risk management procedures in place in accordance with the reference framework and the Application Guide prepared in 2010 under the aegis of the French financial markets authority (*Autorité des marchés financiers* – AMF).

The Group's risk control system as described hereafter can be illustrated in accordance with the three lines of defense model, as follows:

**BOARD OF DIRECTORS**

The Board of Directors defines the composition of the Board, the responsibilities of the Audit & Risks Committee and its modus operandi, and approves the Chairman's report on the internal control and risk management procedures put in place by the Group.

**AUDIT & RISKS COMMITTEE**

The Audit & Risks Committee oversees the effectiveness of the risk management and internal control systems within the Group. It regularly reviews 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. It also ensures that appropriate action plans have been implemented to mitigate the problems and weaknesses identified.

**GENERAL MANAGEMENT**

General Management sets strategic guidelines, arbitrates the allocation of resources to the Business Groups/Product Groups and Valeo Service, develops synergies between the Business Groups and National Directorates through the functional networks, and ensures that internal control procedures are duly in place.

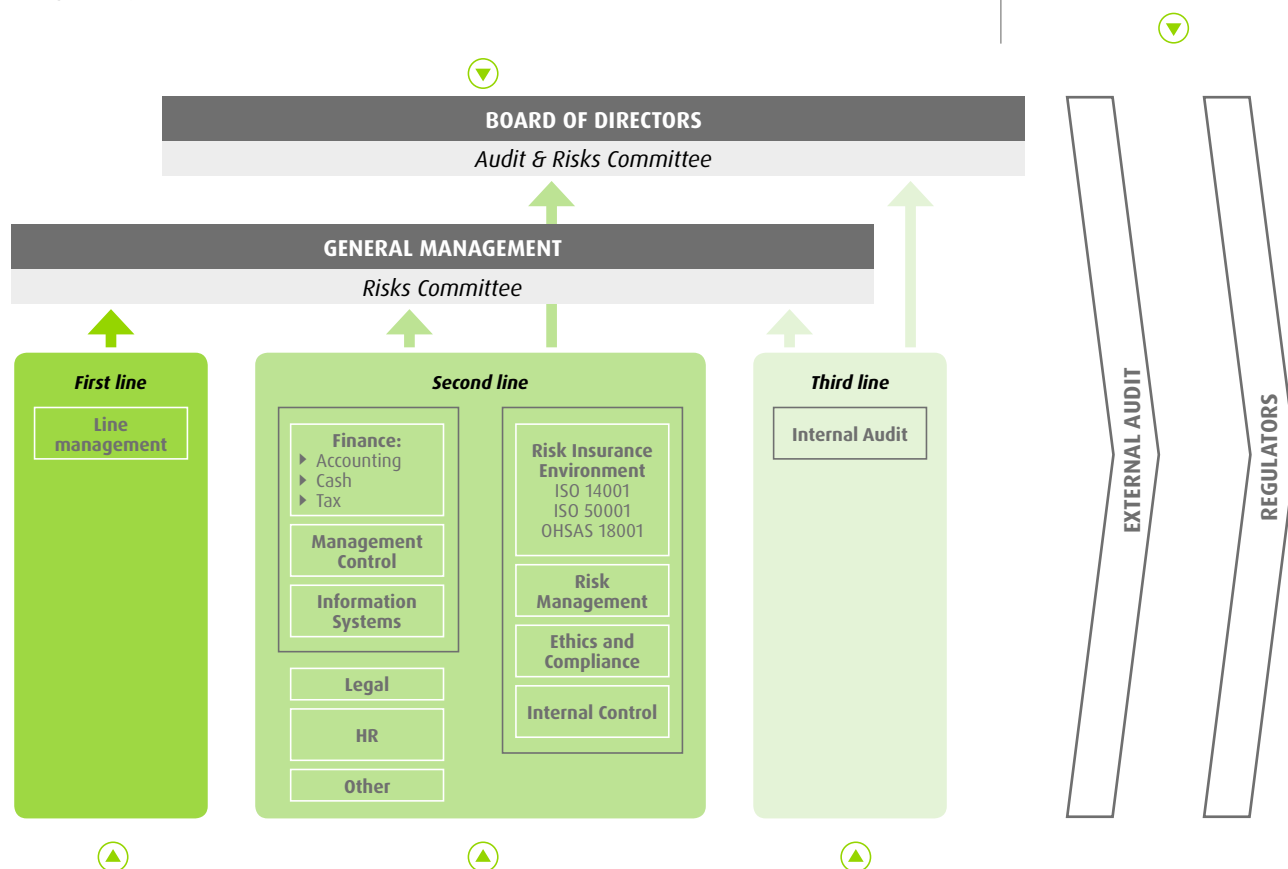
**RISKS COMMITTEE**

The Risks Committee coordinates the risk management process, reviews risk mapping and heads up the dynamic risk management system.

**OTHER PLAYERS**

► **Independent auditors** report on any material internal control weaknesses with regard to the procedures for preparing and processing accounting and financial information. This is part of their annual statutory audit and consolidated/parent company financial statement certification engagement.

► The **regulators** also play a part in reinforcing existing risk management procedures.

**FIRST-LINE DEFENSE**

The Business Groups, Product Groups, Valeo Service and National Directorates verify the performance of operating entities and provide entity coordination and assistance. Each line manager is directly involved in implementing internal controls and is responsible for assessing and mitigating risks associated with the processes falling within his/her remit.

**SECOND-LINE DEFENSE**

The functional departments are responsible for areas of expertise and functions regarding coordination of the overall risk management framework. These include, in particular:

- the **Finance Department**, whose role is to provide the tools and design the procedures needed to monitor and control the Group's businesses and to ensure the Group's financial risks are duly managed;
- the **Risk Insurance Environment Department**, whose role is to apply the Group's risk management policy to all sites in terms of environment, safety and security and site certification (ISO 14001, OHSAS 18001 and ISO 50001);
- **Internal Control**, whose role is to ensure the internal control system is consistent and deployed at all of the Group's sites;
- **Risk Management**, whose role is to keep the risk map up-to-date and to oversee the active management of risks;
- the **Legal Department**, whose role is to ensure that transactions are conducted in full compliance with legislation and the Group's procedures.

**THIRD-LINE DEFENSE**

**Internal Audit** carries out financial, IT and operational audits of all Group entities to ensure that procedures are duly applied.

## 2.3.1 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.

## 2.3.2 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.

## 2.3.3 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 February 2013 publication 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, Valeo Service, 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 and National Directorates through the functional networks. The Business Groups/Product Groups, Valeo Service 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 and 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 Chairman and 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](http://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 managers and professionals.

The section of the Code of Conduct concerning the prevention of insider trading and the notification procedure for those affected was updated following the entry into force of EU Regulation No. 596/2014 on market abuse (see Chapter 3, section 3.2.2 "Directors' rights and duties", pages 117 to 118).

## 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 Risks Committee made up of nine permanent members: the Chief Operating Officer; 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. This Committee met six times in 2016 and is mainly tasked with reviewing the risk mapping process and heading up the dynamic risk management system. This involves identifying for each major risk in the mapping process a "risk owner" who reports to a member of the Risks Committee, whose role is to monitor the changes in the risk based on key indicators reviewed by the Risks Committee. Based on how the risk evolves 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.

Risk monitoring by the Business Groups and National Directorates enhances the dynamic risk management implemented by the Risks 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 Risks 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 22, 2016. Four new risks have been included in the risk map: the risk of attracting and retaining talent, the risk of a breach of information security, security risk for IT developments within the scope of projects and new services, and cybersecurity risks. A 2017 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 section 2.1 of this chapter "Risk factors", pages 70 to 84. They are:

- operational risks, which include in particular risks related to the development and launch of new products, risks related to attracting and retaining talent, industrial risks related to growth, cybersecurity and information systems failure risks, supplier failure risks, risks related to the automotive equipment industry, customer credit risk and geopolitical risks;
- environmental or accident risks, including risks related to the environmental regulations, the impacts of climate change and natural events, and risks related to accidents that could affect plant availability;
- legal risks, comprising notably risks relating to products and services sold, intellectual property risks (patents and trademarks), risks of non-compliance with the Code of Ethics or the law, and risks relating to claims, litigation, and governmental, legal and arbitration proceedings;
- financial risks, which include commodity risk, foreign currency risk, liquidity risk, interest rate risk, banking counterparty risk, and equity 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 statement of financial position 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 at the different levels of the operational organization. At the end of 2016, 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:

- 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 define 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 laws and regulations applicable in the countries where the Group operates, the Group's contractual obligations and the rules protecting the Group's intellectual property.

Details of these rules and procedures can be consulted on the Group's intranet by the staff concerned.

As regards quality, Valeo has set its own standard – Valeo 5000. In addition, the QRQC (Quick Response Quality Control) method ensures the prompt implementation of corrective action, and the Lessons Learned Cards (LLC) process enables the Group to monitor best practices and explore avenues for improvement. These changes were incorporated into product standards and processes through the RAISE (Robustness Accountability Innovation Standardization Expertise) process.

For the past decade, the Group has organized Valeo Finance Academy seminars with the aim of developing internal control and financial management skills. By combining modules (on accounting, cash flow, management control and internal control) with case studies and simulations, these yearly training sessions help the Group's younger financial managers to get better acquainted with the methods and tools used in financial control.

## Information and communication

Pertinent information must be identified and communicated in a form and timeframe that enable all of the Group's staff to carry out their responsibilities and perform the checks required of them. The information originating from the management system is analyzed and circulated 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 Risks Committee, and the Internal Audit and Control Department, with support from the functional departments, management of the Business Groups/Product Groups, Valeo Service 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 2016, 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, processes to ensure that products under development comply with applicable regulations, key IT risks and processes governing non-production purchases.

In 2016, the Fraud Department within the Internal Audit Department also performed over 70 specific investigations following allegations of fraud reported through the whistleblower hotline put in place in February 2014 or through other channels (mostly anonymous emails or letters). 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, 2016, 122 and 118 plants, respectively, had been certified to these standards out of a total of 130 eligible plants. The percentage of ISO 14001 and OHSAS 18001 certified plants is therefore 94% and 91%, 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, 2016, 15 plants (12%) were ISO 50001-certified out of a total of 122 eligible sites.

### 2.3.4 Organization of internal control and description of the assessment process

The Internal Control Department reports directly to the Internal Audit and Control Department. At the end of December 2016, it was made up of a team of 11 people, exclusively dedicated to internal control at Group and regional levels. In 2016, the main role of the regional controllers was 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 operational entities.

In 2016, to assess entities' compliance with the internal control system, the Group based itself on a self-assessment questionnaire focusing 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 questionnaire involved 251 operational entities, including 20 shared services centers (Finance).

Rules for documentation and testing (size of the sample used) are set 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 2016 was presented to the Audit & Risks Committee on November 22, 2016. The results highlight that internal control standards and the assessment procedure have been significantly improved owing mainly to the department's greater visibility and efficiency thanks to 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 Auditor.

The areas for improvement for the Group's internal control and risk management procedures are presented in section 2.3.6 "Outlook" of this chapter, page 91.

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 package is deployed for the first time, the Internal Audit team provides manuals and tracks incompatibility matrices, in liaison with the entities concerned.



### 2.3.5 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 statement of financial position items, the process for reconciling inter-company transactions within the Group, and the supervision of off-balance sheet commitments (entities are 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, the order book, and margin and EBITDA analyses<sup>(1)</sup> for each Business Group/Product Group and geographic area;
- the Tax Department coordinates the Group's tax policy and advises the legal entities, National Directorates and, where necessary, the Business Groups/Product Groups and Valeo Service on all issues relating to tax law and also on the implementation of the tax consolidation system within certain countries.

### 2.3.6 Outlook

The Group will pursue ongoing efforts to improve its 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 2017, the Group will continue to develop its internal control policy, in particular by creating a department focused specifically on IT internal control, by adapting its internal control guidelines to meet emerging operating imperatives, and by developing data analysis software.

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.

<sup>(1)</sup> See Financial Glossary, page 449.

## 2.4 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

*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.*

**Year ended December 31, 2016**

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, 2016.

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 financial and accounting 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.

Paris-La Défense, February 15, 2017

The Statutory Auditors

**MAZARS**

Thierry Colin

Gaël Lamant

**ERNST & YOUNG et Autres**

Jean-François Ginies

Philippe Berteaux

# 3

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

MEETINGS OF THE BOARD OF DIRECTORS

 8

AVERAGE EFFECTIVE ATTENDANCE RATE

 96%

PROPORTION OF INDEPENDENT DIRECTORS

93%

PROPORTION OF WOMEN

 42%

Valeo refers to the AFEP-MEDEF Corporate Governance Code for Listed Companies as amended in November 2016. Similarly, the Company complies with the provisions set out in the July 22, 2010 final report of the French financial markets authority (*Autorité des marchés financiers* – AMF) on audit committees.

The application of the recommendations of the AFEP-MEDEF Code as amended in November 2016 is described in section 3.2.4 “Corporate Governance Code”, page 131.

The AFEP-MEDEF Code is available in French and English on the MEDEF website ([www.medef.com](http://www.medef.com)).

The Report of the Chairman of the Board of Directors was presented to:

- the Governance, Appointments & Corporate Social Responsibility Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017; see section 3.2.2 “Committees created by the Board”, pages 121 to 128), as regards information relating to the composition of the Board of Directors, 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
- the Audit & Risks Committee, as regards information relating to internal control and risk management procedures, including financial risks related to the effects of climate change and measures taken by Valeo to mitigate them by implementing a low-carbon strategy in all areas of its business.

It was approved by the Board of Directors on February 15, 2017, in accordance with Article L.225-37 of the French Commercial Code (*Code de commerce*). This report is included in Chapter 3, section 3.2 “Composition of the Board of Directors, and preparation and organization of its work”, pages 96 to 137, in Chapter 2, section 2.3 “Internal control and risk management”, pages 85 to 91 and in Chapter 4, section 4.1.3 “Risks and opportunities related to the impacts of climate change”, page 166.

## 3.1 Corporate governance bodies

Since February 18, 2016, the Group’s Executive Management team has included the Chairman and Chief Executive Officer, as well as the Functional Directors and the Operational Directors, who are members of the Operations Committee. Between January 1, 2016 and February 18, 2016, the roles of Chairman of the Board of Directors and Chief Executive Officer were separate and at its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, unanimously decided to combine the positions of Chairman of the Board of Directors and Chief Executive Officer.



**Chairman and 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 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 the 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 FEBRUARY 22, 2017)

|                                                                                            |                                                                                                                |                                                                                       |                                                                                                          |
|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| <b>Geoffrey Bouquot</b><br>Vice-President, Corporate<br>Strategy<br>and External Relations |                               |     | <b>Fabienne de Brébisson</b><br>Vice-President,<br>Communications                                        |
|           | <b>Robert Charvier</b><br>Chief Financial Officer                                                              |      | <b>Xavier Dupont</b><br>President, Powertrain<br>Systems<br>Business Group                               |
| <b>Éric Antoine<br/>Fredette</b><br>General Counsel                                        |                              |    | <b>Bruno Guillemet</b><br>Senior Vice-President,<br>Human Resources                                      |
|         | <b>Maurizio Martinelli</b><br>President, Visibility<br>Systems Business Group                                  |    | <b>Francisco Moreno</b><br>President, Thermal<br>Systems Business Group<br><i>since January 16, 2017</i> |
| <b>Christophe Périllat</b><br>Chief Operating Officer                                      |                             |   | <b>Éric Schuler</b><br>President,<br>Valeo Service                                                       |
|         | <b>Jean-François<br/>Tarabbia</b><br>Senior Vice-President,<br>Research & Development<br>and Product Marketing |  | <b>Marc Vrecko</b><br>President,<br>Comfort &<br>Driving Assistance<br>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

According to the Company's articles of association, the Board of Directors comprises 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 14 members.

In 2016, there were no directors representing employee shareholders or employees on the Board of Directors within the Group. As Valeo's Board of Directors is now required to have such representation in accordance with the law on labor relations and employment of August 17, 2015, the Group will ask the shareholders to amend the Company's articles of association to allow the appointment of directors representing employees at the Shareholders' Meeting of May 23, 2017.

Directors are appointed by shareholders at Shareholders' Meetings on the recommendation of the Board of Directors, which in turn receives proposals from the Governance, Appointments & Corporate Social Responsibility Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017). If the Shareholders' Meeting of May 23, 2017 amends the articles of association in order to allow the representation of employees on the Board of Directors, the first director representing employees will be appointed by the Group's Committee, and if the number of directors is higher than 12 on the appointment of the director representing employees, a second director representing employees will be appointed by the Group's European Works Council. The director or directors representing employees will be appointed within six months following the amendment of the articles of association by the Shareholders' Meeting of May 23, 2017, at the latest.

At the beginning of 2016, the Board of Directors comprised the following 12 members: Jacques Aschenbroich, Gérard Blanc, Daniel Camus, Pascal Colombani (Chairman of the Board of Directors), Jérôme Contamine, C. Maury Devine, Sophie Dutordoir, Michel de Fabiani, Noëlle Lenoir, Thierry Moulouguet, Georges Pauget and Ulrike Steinhorst.

At its meetings on November 11, 2015 and January 21, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to ask the Shareholders' Meeting of May 26, 2016 called to approve the 2015 financial statements, to appoint Mari-Noëlle Jégo-Laveissière and Véronique Weill as directors of the Company and to renew the directorships of Thierry Moulouguet, Georges Pauget and Ulrike Steinhorst.

In addition, 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 Appointments, 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 of Valeo and Georges Pauget as Lead Director.

At the Shareholders' Meeting of May 26, 2016, the shareholders approved the recommendations to appoint and renew the directorships of the abovementioned directors. Since that date, the Board of Directors has comprised the following 14 members: Jacques Aschenbroich (Chairman and Chief Executive Officer), Gérard Blanc, Daniel Camus, Pascal Colombani, Jérôme Contamine, C. Maury Devine, Sophie Dutordoir, Michel de Fabiani, Mari-Noëlle Jégo-Laveissière, Noëlle Lenoir, Thierry Moulouguet, Georges Pauget (Lead Director), Ulrike Steinhorst and Véronique Weill. The composition of the Board of Directors remained unchanged at December 31, 2016.



## Composition of the Board of Directors, and preparation and organization of its work

In accordance with AMF recommendation no. 2012-02, the following table provides an overview of the changes in the composition of the Board of Directors in 2016:

| Date                                             | Departure(s)                                                                                                                                                                                                                                                      | Appointment(s)                                                                                                                                                                                                                                           | Renewal(s)                                                                                                  | Other                                                                       |
|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Board of Directors' Meeting of February 18, 2016 | Given the age limit set out in Valeo's articles of association for the performance of the duties of Chairman of the Board of Directors, Pascal Colombani stepped down from his position as Chairman of the Board of Directors, in view of a change of governance. | As part of the new governance structure, Jacques Aschenbroich, director and Chief Executive Officer, was appointed as Chairman and Chief Executive Officer. Georges Pauget was appointed as Lead Director.                                               |                                                                                                             | Pascal Colombani was appointed as Honorary Chairman and remains a director. |
| Annual Shareholders' Meeting of May 26, 2016     |                                                                                                                                                                                                                                                                   | Mari-Noëlle Jégo-Laveissière and Véronique Weill were appointed as directors <sup>(1)</sup> . These appointments bring new skills and experience in terms of Research and Development, knowledge of the banking sector, risk analysis (insurance, etc.). | The directorships of Thierry Moulouguet, Georges Pauget and Ulrike Steinhorst were renewed <sup>(1)</sup> . |                                                                             |
| Board of Directors' Meeting of May 26, 2016      |                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                          | Georges Pauget's term of office as Lead Director was renewed.                                               |                                                                             |

(1) The term of office is four years.

The directors have different backgrounds and were selected for their experience and skills in various areas of business. Through that experience, Valeo's directors are able to exercise good judgment and an ability to anticipate events, enabling them to act in the Company's best interests. For details of the directorships and other positions held by members of the Board of Directors over the last five years, see "Presentation of directors at December 31, 2016", pages 102 to 116 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 of the Board of Directors 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 Corporate Governance Code, the Company's articles of association were amended by the Shareholders' Meeting of June 8, 2011 to provide for a staggered renewal of the directors' terms of office.

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 2016 financial statements | Gérard Blanc, Sophie Dutordoir and C. Maury Devine                                                      |
| Shareholders' Meeting called to approve the 2017 financial statements | Daniel Camus, Jérôme Contamine and Noëlle Lenoir                                                        |
| Shareholders' Meeting called to approve the 2018 financial statements | Jacques Aschenbroich, Pascal Colombani and Michel de Fabiani                                            |
| Shareholders' Meeting called to approve the 2019 financial statements | Mari-Noëlle Jégo-Laveissière, Thierry Moulouguet, Georges Pauget, Ulrike Steinhorst and Véronique Weill |

No individual who is more than 70 years old may be appointed as a 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 provided

in the articles of association applies, where applicable, to representatives of legal entities holding directorships.

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

## Independence of directors

Classification as an independent director is reviewed by the Governance, Appointments & Corporate Social Responsibility Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017) on two occasions: on the appointment of a new director and every year before the Annual Report is prepared.

Therefore, in view of the Board of Directors' decision to propose the appointment of Mari-Noëlle Jégo-Laveissière and Véronique Weill as directors at the Shareholders' Meeting of May 26, 2016, the Board of Directors, on the recommendation of the Appointments, Compensation & Governance Committee, reviewed their status in light of the independence criteria set out in the Internal Procedures, which were based on the independence criteria provided for by the AFEP-MEDEF Code as amended in November 2015 and considered that they were independent at its meeting on November 11, 2015.

Thus, in preparing the Annual Report, at its meeting on January 26, 2017, the Board of Directors, on the recommendation of the Appointments, Compensation & Governance Committee, reviewed the status of each of its members in light of the independence criteria set out in the Internal Procedures, which are based on the independence criteria provided for by the AFEP-MEDEF Code as amended in November 2016.

In compliance with the AFEP-MEDEF Code as amended in November 2016, the 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 updated in accordance with the latest version of the AFEP-MEDEF Code (as amended in November 2016), independence is presumed to exist when a director:

- is not and has not been in the past five years:
  - an employee or an executive corporate officer of the Company,
  - an employee, executive corporate officer or director of one of the Company's consolidated subsidiaries,
  - an employee, executive corporate officer or director of the parent company of the Company or of one of the parent company's consolidated subsidiaries;
- 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 during the last five years) is a director;

- is not a customer, supplier, commercial banker or investment banker:
  - that is material to the Company or its Group, or
  - for which the Company or its Group represents a significant part of the business.

The issue of whether or not the relationship with the Company or the Group qualifies as significant is discussed by the Board, and the quantitative and qualitative criteria used for the assessment (continuity, economic dependence, exclusivity, etc.) are explicitly stated in the Annual Report;
- is not related by close family ties to a corporate officer;
- has not been a Statutory Auditor of the Company in the past five years;
- has not been a director of the Company for more than 12 years.

A non-executive corporate officer cannot be deemed independent if he/she receives variable compensation in cash or shares, or any compensation tied to Company or Group performance.

Directors who represent major Company shareholders can be deemed independent if those shareholders do not have a controlling interest in the Company. However, above a 10% threshold of the share capital or voting rights in the Company, the Board, acting on a report from the Governance, Appointments & Corporate Social Responsibility Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017), will render a decision on whether the directors qualify as independent, taking into account the composition of the share capital of the Company and the existence of a potential conflict of interest.

In application of these criteria, the Board of Directors noted that at December 31, 2016:

- 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 qualitative and quantitative criteria established based on the characteristics of the Company and the business relationship in question;
- one director, Pascal Colombani, currently Honorary Chairman, is not and has not been an executive corporate officer in the past five years as he held the position of Chairman of the Board of Directors until February 18, 2016. Therefore, he is independent within the meaning of the Internal Procedures and the AFEP-MEDEF Code as amended in November 2016;
- one director holds the position of Chairman and Chief Executive Officer: Jacques Aschenbroich, who therefore cannot be considered independent;
- 13 out of 14 directors are considered independent according to both the criteria set out in the Internal Procedures and the AFEP-MEDEF Code as amended in November 2016: Gérard Blanc, Daniel Camus, Pascal Colombani, Jérôme Contamine, C. Maury Devine, Michel de Fabiani, Sophie Dutordoir, Mari-Noëlle Jégo-Laveissière, Noëlle Lenoir, Thierry Moulouquet, Georges Pauget, Ulrike Steinhorst and Véronique Weill.

## Composition of the Board of Directors, and preparation and organization of its work

The table below provides an overview of the status of the directors of the Company at December 31, 2016, in light of the independence criteria set out in the Internal Procedures, which are based on the independence criteria provided for by the AFEP-MEDEF Code as amended in November 2016:

|                              | Employee or executive corporate officer in the last five years <sup>(1)</sup> | Cross-directorships <sup>(1)</sup> | Significant business relationships <sup>(1)</sup> | Family ties <sup>(1)</sup> | Statutory Audit <sup>(1)</sup> | 12 years <sup>(1) (2)</sup> |
|------------------------------|-------------------------------------------------------------------------------|------------------------------------|---------------------------------------------------|----------------------------|--------------------------------|-----------------------------|
| Pascal Colombani             | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Jacques Aschenbroich         | X                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Gérard Blanc                 | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Daniel Camus                 | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Jérôme Contamine             | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| C. Maury Devine              | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Sophie Dutordoir             | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Michel de Fabiani            | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Mari-Noëlle Jégo-Laveissière | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Noëlle Lenoir                | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Thierry Moulouquet           | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Georges Pauget               | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Ulrike Steinhorst            | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |
| Véronique Weill              | 0                                                                             | 0                                  | 0                                                 | 0                          | 0                              | 0                           |

(1) "0" represents an independence criterion that has been met, "x" represents an independence criterion that has not been met.

(2) The December 2016 application guide for the AFEP-MEDEF Code states that the recommendation according to which a director no longer qualifies as an independent director after 12 years will apply at the close of the Shareholders' Meeting to be called in 2017 to approve the 2016 financial statements. For information, no independent director of Valeo met or will meet this criterion in 2016 or 2017.

## Balance in the composition of the Board of Directors

Since May 26, 2016, the Board of Directors has included six women directors (C. Maury Devine, Sophie Dutordoir, Mari-Noëlle Jégo-Laveissière, Noëlle Lenoir, Ulrike Steinhorst and Véronique Weill) out of a total of 14 directors, representing 42% of the Board's members. The Company therefore already satisfies the legal provisions on equal representation of women and men on the Board of Directors, which set an objective of 40% to be reached at the latest at the close of the Shareholders' Meeting to be called in 2017 to approve the 2016 financial statements.

The Company enjoys balanced representation of women and men on the Board of Directors and plans to continue its efforts to diversify the composition of the Board of Directors (see section 3.2.2 "Assessment of the operation of the Board of Directors", page 129).

## Appointment of a Lead Director

In accordance with AMF recommendation no. 2012-02, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, at its meeting on 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 within 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.

Following the decision by the Board of Directors at its meeting on February 18, 2016 to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, the Board of Directors, at the same meeting, acting on the recommendation of the Appointments, Compensation & Governance Committee, appointed Georges Pauget, independent director, as Lead Director.

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 of Directors in the event of the temporary absence or death of the Chairman and Chief Executive Officer or, in case of an emergency, 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 the transparent operation 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 and chairs meetings, in the absence of executive corporate officers, for purposes including but not limited to (i) the assessment of the performance of General Management, and (ii) the assessment of the operation 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, the progress report of the Lead Director assessing (i) the nature of the due diligence and tasks performed as Lead Director, and (ii) how he/she has made use of the powers given to him/her, is presented below.

#### REPORT OF THE LEAD DIRECTOR

In this report, Georges Pauget reports on the due diligence and tasks performed as Lead Director (as defined below) since February 18, 2016, the date of his appointment as Lead Director, until February 15, 2017, the date on which this report was finalized.

#### Appointment and duties of the Lead Director

According to Article 1.7(a) of the Board of Directors' Internal Procedures (the "**Internal Procedures**"), when the Chairman of the Board of Directors is responsible for the General Management of the Company, the Board of Directors, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee (specialized committee set up following the division of the Appointments, Compensation & Governance Committee into the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee on January 26, 2017), may appoint any one of its independent members as a lead director (the "**Lead Director**"). The Lead Director is appointed for a term which may not exceed his/her term of office as a director. He/she may be re-elected. The Board may terminate his/her appointment at any time, and the appointment will terminate in advance of term if the role of Chairman of the Board of Directors is separated from the role of Chief Executive Officer before the end of the Lead Director's term.

Pursuant to Article 1.7(a) of the Board of Directors' Internal Procedures, on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to appoint Georges Pauget, independent director, as Lead Director. This appointment is the result of (i) the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer, and (ii) the appointment of Jacques Aschenbroich as Chairman of the Board of Directors (Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer) on February 18, 2016. The appointment of Georges Pauget as Lead Director met the double objective of (i) providing additional assurance as to the smooth operation of the Board of Directors and the balance of powers within General Management and the Board of Directors, and (ii) ensuring the avoidance of potential conflicts of interest. Following the renewal of the term of office of Georges Pauget as director by the Shareholders' Meeting on May 26, 2016, the Board of Directors, meeting on the same day and acting on the recommendation of the Appointments, Compensation & Governance Committee, re-elected Georges Pauget as Lead Director.

The duties of the Lead Director are set out in Article 1.7(b) of the Internal Procedures, available on Valeo's website ([www.valeo.com](http://www.valeo.com)) and summarized in section 3.2.1 "Appointment of a Lead Director" on page 99 of this Registration Document.

## Work of the Lead Director

### Access to information

To be able to perform his duties, the Lead Director must have a good knowledge of the Group and be well informed about the business. The Lead Director kept informed about the Group's developments and business, by meeting regularly with the Chairman and Chief Executive Officer. The Lead Director also had direct relations with the Chief Financial Officer and the General Counsel, Secretary of the Board of Directors. During these discussions, major governance matters arising in 2016 were covered.

### Organization of the Board of Directors' work

The Lead Director participated in the preparation and organization of the Board of Directors' work. He was consulted by the Chairman and Chief Executive Officer and the Secretary of the Board of Directors on the preparation of meeting agendas, which he discussed before sending the notices of meeting and documents related to the agenda to the directors. The annual program regarding the strategic matters to be included in the agenda of Board meetings was also discussed. Further to his due diligence activities, the Lead Director considered that the governing bodies operated normally and in a satisfactory manner (see section "Other duties" below). For information, the Lead Director did not ask the Chairman and Chief Executive Officer to call a meeting of the Board of Directors regarding a specific meeting agenda.

As part of his duty to ensure that the directors have all the necessary information, the Lead Director made sure that the information concerning the Group and the items on the agenda of Board meetings was provided to the directors to enable them to perform their duties in an informed way.

### Executive meetings

The Lead Director organizes and chairs "executive meetings" which are held without the presence of the executive corporate officer. The Board of Directors periodically held meetings during which the directors gave their views and comments on the operation of General Management, the Board of Directors and its specialized committees. They discussed temporary assignments to be entrusted by the Board of Directors to certain directors. At these meetings, they also assessed the performance of General Management and of the Board of Directors (see below). Pursuant to Article 1.7(b) of the Internal Procedures, the Lead Director reported on the findings of these executive meetings to the Board of Directors.

### Other duties

The Lead Director led the work of the Appointments, Compensation & Governance Committee and the Governance, Appointments & Corporate Social Responsibility Committee following the division of the Appointments, Compensation & Governance Committee on January 26, 2017, particularly on governance issues entrusted to that Committee, including the annual assessment of the operation of the Board of Directors and of each director's individual contribution, conducted with the assistance of the Secretary of the Board of Directors and an external service provider. According to this assessment, whose conclusions were discussed at the meeting of the Governance, Appointments & Corporate Social Responsibility Committee of February 14, 2017 and the meeting of the Board of Directors of February 15, 2017, the Company's governing bodies operate with efficiency, openness and transparency. The Board of Directors' conclusions and avenues for improvement are described in section 3.2.2 "Assessment of the operation of the Board of Directors", page 129. The Lead Director also drove the work of the Appointments, Compensation & Governance Committee regarding the review of the Company's practices in light of the recommendations contained in (i) the AFEF-MEDEF Code as amended in November 2016 and (ii) the 2016 reports of the AMF and of the High Committee on Corporate Governance (*Haute Comité de Gouvernement d'Entreprise*), and followed the process for the implementation of a director representing employees and the creation of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee following the division of the Appointments, Compensation & Governance Committee on January 26, 2017. He also supervised the revision of the Code of Conduct relating to the prevention of insider trading following the entry into force of European Regulation No. 596/2014 on market abuse and the process for notifying the persons concerned of their obligations in respect of this European regulation.

The Lead Director maintained regular contact with the directors, particularly the independent directors, and met individually with each one.

He was not informed of any conflicts of interest concerning the Chairman and Chief Executive Officer or the other directors, which he would have had to report to the Board of Directors.

### Attendance

Since his appointment as Lead Director and until February 15, 2017, the date on which this report was finalized, Georges Pauget attended all the Board of Directors' meetings (i.e., eight meetings, including three days at the strategy seminar in San Francisco) and led all the meetings of the Appointments, Compensation & Governance Committee and specialized committees following its division (i.e., seven meetings).



## Presentation of directors at December 31, 2016

**Jacques Aschenbroich**

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

French  
Age: 62

**Valeo**  
43, rue Bayen  
75017 Paris, France

Number of shares held: 770,622

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 2016**

- Director (various companies)

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- Chairman of the Board of Directors, *École nationale supérieure des Mines ParisTech*
- Director, Veolia Environnement ♦ (member of the Accounts and 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 has been Chairman and Chief Executive Officer since that date. He is a director of Valeo.

He is Chairman of the Board of Directors of *École nationale supérieure des mines ParisTech* and a director of Veolia Environnement. He was also Chairman of Valeo Finance and Valeo (UK) Limited (United Kingdom) until January 17, 2017 and Valeo SpA (Italy) until February 3, 2017.

He held several positions in the French administration and served in 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*.

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



**Gérard Blanc**

Independent director  
Member of the Strategy Committee

French                      17, rue Joseph Marignac  
Age: 73                      31300 Toulouse, France

Number of shares held: 1,500

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 2016**

- Director (various companies)

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

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

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

- Chairman and CEO, Marignac Gestion SAS (until January 2, 2016)

**Experience**

**Gérard Blanc** is a director of Sogclair.

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

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. He then served as Chairman and CEO of Marignac Gestion SAS until January 2, 2016.

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

**Daniel Camus**

Independent director  
Chairman of the Audit & Risks Committee

French and  
Canadian  
Age: 64

**The Global Fund**  
Chemin de Blandonnet 8,  
1214 Vernier, Switzerland

**Number of shares held:** 2,200

**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 2016**

- Chief Financial Officer, The Global Fund

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- Senior Advisor, Roland Berger Strategy Consultants (Germany)
- 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)
- Member of the Board of Directors of ContourGlobal Ltd (Grand Cayman) (member of the Audit Committee)

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

- Member of the Supervisory Board of Morphosys AG (Germany) and Vivendi SA

**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) and ContourGlobal Ltd (Grand Cayman). He was a member of the Supervisory Boards of Morphosys AG (Germany) and of Vivendi SA until 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).



### Pascal Colombani

Independent director

Chairman of the Board of Directors until February 18, 2016 and Honorary Chairman since that date

Member of the Compensation Committee, the Governance, Appointments & Corporate Social Responsibility Committee (committees set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017) and the Strategy Committee

French  
Age: 71

Valeo  
43, rue Bayen  
75017 Paris, France

Number of shares held: 1,800

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 2016

- Chairman, TII Stratégies SAS
- Senior Advisor, J.P. Morgan Chase and A.T. Kearney, strategic consulting firms
- Corporate Director, TechnipFMC (United Kingdom)

#### Other directorships and positions held in companies other than Valeo subsidiaries in 2016

- Director, Alstom SA ♦ (Chairman of the Ethics and Governance Committee and member of the Audit Committee) and Technip SA ♦ (Chairman of the Strategy Committee and member of the Audit Committee)
- Member of the Supervisory Committee, 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)
- Consultant, French Ministry of Foreign Affairs

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

- Director of Energy Solutions Inc.
- Chairman of the Board of Directors, Noordzee Helikopters Vlaanderen (NHV) (Belgium) (until December 9, 2016)
- Member, AFEP-MEDEF High Committee on Corporate Governance (*Haut Comité de Gouvernement d'Entreprise*) (until November 24, 2016)

#### Experience

Pascal Colombani was Chairman of the Board of Directors until February 18, 2016 and is a director of Valeo. Since February 18, 2016, he has been Honorary Chairman.

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, a member of the European Advisory Board of J.P. Morgan Chase, Corporate Director of TechnipFMC (United Kingdom), Chairman of TII Stratégies SAS and a director of Alstom SA and Technip SA. He also serves as a consultant to the French Ministry of Foreign Affairs. He was a director of Energy Solutions Inc. until 2013, then Chairman of the Board of Directors of Noordzee Helikopters Vlaanderen (NHV) (Belgium) until December 9, 2016 and member of the AFEP-MEDEF High Committee on Corporate Governance until November 24, 2016. 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 Senior Advisor at both Detroyat 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).

**Jérôme Contamine**

Independent director  
Member of the Strategy Committee

French                      **Sanofi**  
Age: 59                      54, rue La Boétie  
75414 Paris Cedex 8, France

Number of shares held: 6,000

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 2016**

- Executive Vice-President and Chief Financial Officer, Sanofi

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

-

**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 Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee (committees set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017)

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

Number of shares held: 1,500

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 2016**

- Director (various companies)

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- Director, Technip ♦ (Chair of the Ethics and Governance Committee and member of the Nominations and Remunerations Committee) and John Bean Technologies (United States) ♦ (member 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
- Director of FMC Technologies (United States) (until May 17, 2016)

**Experience**

C. Maury Devine is a director of John Bean Technologies (United States). She is also a member of the independent Nominating and Governance Committee of Petroleum Geo-Services (Norway).

She served as a director of FMC Technologies (United States) until May 17, 2016 and Technip until January 17, 2017.

C. Maury Devine was also Vice-Chair 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

Chair and Chief Executive Officer of its Norwegian subsidiary from 1996 to 2000 and 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 Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee (committees set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017)

Belgian  
Age: 54

Pelikaanhof 5 3090  
Overijse, Belgium

Number of shares held: 1,500

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 2016**

- Director (various companies)

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- 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, 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)
- CEO and director, Electrabel (Belgium)
- Member of the Executive Committee, Federation of Enterprises in Belgium (*Fédération des entreprises de Belgique*)

**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 and was a 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 a director of Electrabel (Belgium) and Chair of the Board of Directors and a director of Electrabel Customer Solutions (Belgium). Up to this time, she was also a director of GDF Suez Energie Deutschland (Germany) and a 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, the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee (committees set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017)

French  
Age: 71

CCI Franco-Britannique  
63, avenue de Villiers,  
75017 Paris, France

Number of shares held: 1,500

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 2016**

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

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- Director, BP France and EB Trans SA (Luxembourg)
- Member of the Supervisory Board, 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) and SEMS (Morocco)
- Member of the Supervisory Board of Vallourec (until June 2016)

**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 a member of the Board of BP France and of EB Trans SA (Luxembourg), and a member of the Supervisory Board of Valco Group. He serves as Chairman of the Board of the British Hertford Hospital Corporation (Levallois, France), 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. He also served as a Member of the Supervisory Board of Vallourec until June 2016.

After joining the BP group in 1969, Michel de Fabiani held a number of positions in the nutrition, chemicals, finance and oil sectors in Milan, Paris and Brussels. In May 1995, he 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 a director of the Rhodia group.

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


**Mari-Noëlle Jégo-Laveissière**

Independent director

Member of the Audit &amp; Risks Committee

 French  
Age: 48

**Orange**  
78, rue Olivier de Serres,  
75015 Paris, France

Number of shares held: 1,500

First appointed: 05/26/2016

Start of current term of office: 05/26/2016

 End of current term of office:  
Shareholders' Meeting called to approve  
the 2019 financial statements

**Main position held outside the Company in 2016**

- Executive Vice-President of Innovation, Marketing & Technologies, Orange

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- Independent director, Engie ♦ (member of the Ethics, Environment and Sustainable Development Committee)
- Director, Nordnet, Orange Romania and BuyIn SA
- Chair of the Board of Directors, Soft@Home and Viaccess SA
- Member of the Monitoring Committee, Next.com
- Chair of the Strategy Committee, Institut Orange SAS

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

-

**Experience**

**Mari-Noëlle Jégo-Laveissière** is Executive Vice-President of Innovation, Marketing & Technologies at Orange. As well as serving as an independent director of Engie and a director of Nordnet, Orange Romania and Bulyn SA, she is also Chair of the Board of Directors of Soft@Home SA and Viaccess SA, a member of the Monitoring Committee of Next.com and Chair of the Strategy Committee of Institut Orange SAS.

She began her career in 1996 at the Paris regional office (*Direction Régionale de Paris*) of France Télécom's commercial distribution network. Since then, she has held various leadership positions within the Orange group: head of Consumer Marketing France (*Marketing Grand Public*

*France*), Director of Research and Development and Director of International Networks. She became a member of the Executive Committee of Orange in March 2014 in her capacity as Executive Vice-President of Innovation, Marketing & Technologies.

Mari-Noëlle Jégo-Laveissière holds a degree from *École normale supérieure* and she graduated in engineering from *Corps des Mines Telecom*. She also holds a doctorate in quantum chemistry from the *Université de Paris XI – Waterloo*.

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

**Noëlle Lenoir**

Independent director  
Member of the Audit & Risks Committee

French  
Age: 68

**Kramer Levin Naftalis  
& Frankel LLP**  
47, avenue Hoche 75008  
Paris, France

Number of shares held: 3,000

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 2016**

- Partner, Kramer Levin Naftalis & Frankel LLP

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- 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* and *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 International Committee of the French Institute of Directors
- Director of Cluster Maritime Français
- Member of the Competition Committee of the International Chamber of Commerce
- Honorary member of the *Conseil d'État* (France's highest administrative court) and the French Constitutional Council (*Conseil constitutionnel*)

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

- Director, Generali France
- Ethics Officer at the French National Assembly
- Municipal advisor, Valmondois (Val d'Oise, France)
- Member of the Board of Directors, Comparative Law Society (*Société de Législation Comparée*)

**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), then Jeantet et Associés and now Kramer Levin Naftalis & Frankel LLP. She has been a director of Compagnie des Alpes since March 2013. She is also President of the Europe Institute at HEC, Adjunct Professor at HEC, Founding Chair of *Association des amis d'Honoré Daumier* and the *Cercle des Européens*. She is also a member of the American Law Institute and of the French Academy of Technology,

a member of the Board of Directors of the French Association of Constitutionalists, a director of Cluster Maritim Français, a member of the International Committee of the French Institute of Directors, and a member of the Competition Committee of the International Chamber of Commerce.

She was also a member of the *Conseil d'État* (France's highest administrative court) and the French Constitutional Council (*Conseil constitutionnel*), a director of Générali France, Ethics Officer at the French National Assembly, a member of the Board of the French Comparative Law Society and a Municipal Advisor of Valmondois (Val d'Oise).

Noëlle Lenoir is a graduate of *Institut d'études politiques de Paris* (IEP) and holds a postgraduate degree in public law.

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

**Thierry Moulonguet**

Independent director

Member of the Audit &amp; Risks Committee and the Strategy Committee

French  
Age: 65**Fimalac**  
97, rue de Lille  
75007 Paris, France

Number of shares held: 1,500

First appointed: 06/08/2011

Start of current term of office: 05/26/2016

End of current term of office:  
Shareholders' Meeting called to approve  
the 2019 financial statements**Main position held outside the Company in 2016**

- Director (various companies)

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- Independent director, Fimalac SA ♦ (member of the 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) and Prodways
- 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 an independent director of Fimalac SA, Fimalac Développement, Lucien Barrière group, HSBC France, HSBC Europe (United Kingdom) and Prodways. 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 a 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 Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee (committees set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017) and member of the Strategy Committee

French  
Age: 69

**ALMITAGE16. LDA**  
Rua do Almirante Pessanha  
16 2DT0, 1200-022 Lisbon  
Portugal

Number of shares held: 1,500

First appointed: 04/10/2007

Start of current term of office: 05/26/2016

End of current term of office:  
Shareholders' Meeting called to approve  
the 2019 financial statements

**Main position held outside the Company in 2016**

- Chairman, Économie Finance et Stratégie SAS

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- 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) and Dalenys (member of the Audit Committee and the Remuneration Committee) ♦
- Vice-President, Club Med (Chairman of the Audit Committee)
- Legal Manager of ALMITAGE16. LDA (Portugal)

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

-

**Experience**

**Georges Pauget** is Chairman of Économie Finance et Stratégie SAS, a member of the Supervisory Board of Eurazeo, and a member of the Board of Directors of Tikehau and Dalenys, as well as Vice-President of Club Med.

He is also Honorary Chairman of the Board of Directors of LCL – Le Crédit Lyonnais and Legal Manager of ALMITAGE16. LDA (Portugal).

He was previously Scientific Director of the 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, a 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

Chair of the Strategy Committee and member of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee (committees set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017)

German                      3, villa du Coteau,  
Age: 65                      92140 Clamart, France

Number of shares held: 1,500

First appointed: 02/24/2011

Start of current term of office: 05/26/2016

End of current term of office:  
Shareholders' Meeting called to approve  
the 2019 financial statements

**Main position held outside the Company in 2016**

- Member of the Board of Directors, Mersen SA ♦ (Chair of the Governance, Appointment and Remuneration Committee and member of the Strategy Committee)
- President of Nuria Consultancy, consulting firm

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- Member of the Board of Directors, F2I (UIMM), the Franco-German Chamber of Commerce and Industry and *École des Mines de Paris*

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

- Strategy, Planning and Finance Director, Airbus group's Technical Corporate division (until the end of 2015, then Senior Advisor to the Chief Technical Officer until December 2016)
- Member of the Board of Directors, Imagine (genetic disease research institute) (until December 2016)
- Chief of Staff to the Executive Chairman of EADS

**Experience**

**Ulrike Steinhorst** is a member of the Board of Directors of Mersen SA, and President of Nuria Consultancy. She is also a member of the Board of Directors of the F2I Innovation Fund (UIMM), the Franco-German Chamber of Commerce and Industry and *École des Mines de Paris*.

She started her career in France at the office of the Minister for European Affairs. In 1990, she joined Electricité de France. From 1990 to 1998, she held a number of positions in the International division, then 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 in Germany (Head of Human Resources of a division, and then Vice-President, Executive Development).

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 to the Executive Chairman. From 2012 to the end of 2015, she then served as Strategy, Planning and Finance Director of the Technical Corporate division before serving as Senior Advisor to the Chief Technical Officer (until December 2016).

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).



**Véronique Weill**

Independent director  
Member of the Strategy Committee

French  
Age: 57  
AXA Group  
15, avenue Matignon  
75008 Paris, France

Number of shares held: 2,390

First appointed: 05/26/2016

Start of current term of office: 05/26/2016

End of current term of office:  
Shareholders' Meeting called to approve  
the 2019 financial statements

**Main position held outside the Company in 2016**

- Chief Customer Officer, AXA Group
- Chief Executive Officer, AXA Global Asset Management
- Member of the Scientific Board, AXA Research Fund
- Director of the Gustave Roussy Foundation and the Louvre Museum

**Other directorships and positions held in companies other than Valeo subsidiaries in 2016**

- Various directorships within the AXA Group, including director of AXA MPS Assicurazioni Danni S.p.A. (Italy) ♦ and of AXA MPS Assicurazioni Vita S.p.A (Italy) ♦

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

-

**Experience**

**Véronique Weill** is Chief Customer Officer for the AXA Group and Chief Executive Officer of AXA Global Asset Management. She also sits on AXA's Research Fund Scientific Board, as well as on the Board of Directors of the Gustave Roussy Foundation and the Louvre Museum.

She is Chair of various AXA subsidiaries in France, Spain and Italy.

After spending more than 20 years at J.P. Morgan, where she held various positions including global head of operations for

the investment banking business and global head of IT and operations for the asset management and private banking business, Véronique Weill joined AXA in June 2006 as Chief Executive Officer of AXA Business Services and Director of Operational Excellence.

Véronique Weill is a graduate of *Institut d'études politiques de Paris* (IEP) and has a bachelor's degree in literature from the Sorbonne University.

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

## Composition of the Board of Directors, and preparation and organization of its work

The table below presents a summary of the composition of the Board of Directors at December 31, 2016.

|                                                              | Age | Gender | Nationality | Independent | Number of directorships held in listed companies other than Valeo | Audit & Risks Committee | Appointments, Compensation & Governance Committee | Strategy Committee | Start of first term of office | End of current term of office | Number of years on the Board | Attendance <sup>(1)</sup> |
|--------------------------------------------------------------|-----|--------|-------------|-------------|-------------------------------------------------------------------|-------------------------|---------------------------------------------------|--------------------|-------------------------------|-------------------------------|------------------------------|---------------------------|
| Jacques Aschenbroich<br>Chairman and Chief Executive Officer | 62  | M      | F           | No          | 1                                                                 |                         |                                                   |                    | 2009                          | 2019                          | 8                            | 100%                      |
| Gérard Blanc                                                 | 74  | M      | F           | Yes         | 1                                                                 |                         | ●                                                 |                    | 2007                          | 2017                          | 10                           | 100%                      |
| Daniel Camus                                                 | 64  | M      | FC          | Yes         | 2                                                                 | ● (Chair)               |                                                   |                    | 2006                          | 2018                          | 11                           | 100%                      |
| Pascal Colombani <sup>(2)</sup>                              | 71  | M      | F           | Yes         | 2                                                                 |                         | ●                                                 | ●                  | 2007                          | 2019                          | 10                           | 100%                      |
| Jérôme Contamine                                             | 59  | M      | F           | Yes         | 0                                                                 |                         | ●                                                 |                    | 2006                          | 2018                          | 11                           | 63%                       |
| Caroline Maury Devine                                        | 65  | F      | Am          | Yes         | 3                                                                 |                         | ●                                                 |                    | 2015                          | 2017                          | 2                            | 88%                       |
| Sophie Dutordoir                                             | 54  | F      | B           | Yes         | 1                                                                 |                         | ●                                                 |                    | 2013                          | 2017                          | 4                            | 100%                      |
| Michel de Fabiani                                            | 71  | M      | F           | Yes         | 0                                                                 | ●                       | ●                                                 |                    | 2009                          | 2019                          | 8                            | 100%                      |
| Mari-Noëlle Jégo-Laveissière <sup>(3)</sup>                  | 48  | F      | F           | Yes         | 1                                                                 | ●                       |                                                   |                    | 2016                          | 2020                          | 1                            | 100%                      |
| Noëlle Lenoir                                                | 68  | F      | F           | Yes         | 1                                                                 | ●                       |                                                   |                    | 2010                          | 2018                          | 7                            | 100%                      |
| Thierry Moulonguet                                           | 65  | M      | F           | Yes         | 1                                                                 | ●                       | ●                                                 |                    | 2011                          | 2020                          | 6                            | 100%                      |
| Georges Pauget                                               | 69  | M      | F           | Yes         | 2                                                                 |                         | ● (Chair)                                         | ●                  | 2007                          | 2020                          | 10                           | 100%                      |
| Ulrike Steinhorst                                            | 65  | F      | G           | Yes         | 1                                                                 |                         | ●                                                 | ● (Chair)          | 2011                          | 2020                          | 6                            | 100%                      |
| Véronique Weill <sup>(3)</sup>                               | 57  | F      | F           | Yes         | 2                                                                 |                         |                                                   | ●                  | 2016                          | 2020                          | 1                            | 100%                      |
| Number of meetings                                           |     |        |             |             | 5                                                                 | 7                       | 4                                                 |                    |                               |                               | 8                            |                           |
| Attendance rate                                              |     |        |             |             | 90%                                                               | 92%                     | 91%                                               |                    |                               |                               | 96%                          |                           |

(1) Rate of attendance at Board meetings (director present).

(2) At the Board of Directors' meeting of January 26, 2017, Pascal Colombani was considered independent.

(3) Since she was appointed on May 26, 2016.

#### NATIONALITIES

F: French – FC: French-Canadian – Am: American – B: Belgian – G: German

## 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 Appointments, Compensation & Governance Committee, the Board of Directors updated its

Internal Procedures on January 26, 2017, notably to take into account the changes introduced by the AFEP-MEDEF Code as amended in November 2016. Internal procedures have also been drawn up for the Board of Directors' committees, and are included in the appendices of the Board of Directors' Internal Procedures.

The 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 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, and (iv) they comply with the applicable law relating to multiple directorships. As regards undisclosed information, they are bound by a duty of confidentiality 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 a 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 and Chief Executive Officer provides directors with the information 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 the recommendations of the Compensation Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017).

Article 14 of Valeo's articles of association stipulates that each director must hold at least 1,500 registered shares throughout his or her term of office. This obligation is included in Article 1.1(b) of the Internal Procedures.

A Code of Conduct related to trading in financial instruments 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 January 26, 2017, following the entry into force of European Regulation No. 596/2014 on market abuse on July 3, 2016 and publication of AMF position-recommendation no. 2016-08 on ongoing information and management of inside information on October 26, 2016, governs the trading of the Company's financial instruments by the members of the Board of Directors, the executive corporate officers, the members of the Operations Committee and the Liaison Committee and any other 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 the Chairman and Chief Executive Officer, members of the Board of Directors and other executive managers in relation to declaring transactions concerning the Company's financial instruments.

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 attempt to carry out, either on their own behalf or for third parties, directly or indirectly, one or more transactions (including the sale of shares resulting from the exercise of stock purchase options and stock subscription options or the cancellation or modification of an order) 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 or attempting to disclose insider information about the Company or any Group entity, other than in the normal course 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 or attempting to advise any person to carry out one or more transactions on the Company's financial instruments based on insider information about Valeo or any other Group entity, or encouraging or attempting to encourage any person to carry out such transactions on Valeo's financial instruments based on this insider information.

The Chairman and Chief Executive Officer, the members of the Board of Directors, 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 financial instruments 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 financial instruments 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.

The Code of Conduct also applies to the purchase or sale (or forward transaction) of the financial instruments of any company other than Valeo 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 the Company's financial instruments. The Chairman and Chief Executive Officer, the directors and members of the Operations Committee of the Group must check with the Group's General Counsel before carrying out any transactions involving the Company's financial instruments that they do not have insider information as a result of their position.

Restrictions on trading in the Company's financial instruments apply to any person having insider information up to the third trading day, inclusive, following publication of the press release on the insider information in question.

In addition, within the limits provided for by the applicable law, the members of the Board of Directors, the members of the Operations Committee and the Liaison Committee and any person having permanent or regular access to insider information, as well as the Group employees entered in the list of occasional insiders issued by the Company, are prohibited from carrying out one or more transactions involving the Company's shares, debt securities, derivatives or other related financial instruments (including the sale of free shares and the exercise of stock purchase or subscription options), either on their own behalf or for third parties, directly or indirectly, during the following lock-up periods:

- between the thirtieth calendar day inclusive preceding the date of publication of Valeo's press release on the annual and half-yearly results, and the third trading day, inclusive, following the date of publication of said 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 day, 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 respected.

In addition, pursuant to this Code, the Chairman and Chief Executive Officer, the members of the Board of Directors, 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 the Company's shares, debt securities, derivatives or other related financial instruments in accordance with applicable laws and regulations.

Although not expressly provided by the Internal Procedures, in practice the directors attend the Company's Shareholders' Meetings, in accordance with the relevant recommendations of the AFEP-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, allowing the directors to review any useful information for the meetings.

### 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 2016 fiscal year, two directors were represented by proxy at Board meetings.

### Chairmanship of Board meetings

Board of Directors' meetings are chaired by the Chairman of the Board of Directors (or, 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, including the Lead Director. All eight Board of Directors' meetings held during the 2016 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. To ensure clarity at the Board of Directors' meetings, the 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. The minutes of Board of Directors' meetings provide a record of the Board of Directors' proceedings.

## Frequency and duration of Board meetings and average attendance rates of directors

The Board of Directors met on eight occasions in 2016, i.e., almost one and a half times as many meetings as the minimum stipulated in the Internal Procedures. The average duration of Board meetings was three hours and ten minutes. The directors held their annual strategy seminar in San Francisco, United States, over three days in November 2016. The frequency and duration of Board meetings allowed the review and in-depth discussion of matters falling within the competence of the Board of Directors.

The average attendance rate of directors at Board of Directors' meetings held during 2016 was: (i) 100% of directors present or represented, and (ii) 96% 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<br>(director in attendance) |
|--------------------------------------------|---------------------------------------------|
| Jacques Aschenbroich                       | 100%                                        |
| G rard Blanc                               | 100%                                        |
| Daniel Camus                               | 100%                                        |
| Pascal Colombani                           | 100%                                        |
| J r me Contamine                           | 63%                                         |
| C. Maury Devine                            | 88%                                         |
| Sophie Dutordoir                           | 100%                                        |
| Michel de Fabiani                          | 100%                                        |
| Mari-No lle J go-Laveiss re <sup>(1)</sup> | 100%                                        |
| No lle Lenoir                              | 100%                                        |
| Thierry Moulonguet                         | 100%                                        |
| Georges Pauget                             | 100%                                        |
| Ulrike Steinhorst                          | 100%                                        |
| V ronique Weill <sup>(1)</sup>             | 100%                                        |

(1) Since she was appointed on May 26, 2016.

## 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. In accordance with the AFEP-MEDEF Code as amended in November 2016, prior to the appointment of the director or directors representing employees, the Company may provide specific training for their role.

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 notify the Chairman and Chief Executive Officer and/or the Lead Director and request 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 (whether Chief Executive Officer or not) or the Lead Director who shall report to the Chairman of the Board of Directors (whether Chief Executive Officer or not). 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 relevant.

The Chairman and Chief Executive Officer shares with the directors any information about the Company that he has and that he deems 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 2016 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. Other members of the Group's Management discussed and reviewed specific issues such as external growth operations, strategy, CSR and insurance. 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 the consolidated financial statements, the Annual Management Report and the forecast management documents;
- authorize related party agreements;
- appoint and remove 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 French territory provided that the decision is approved at the next Ordinary Shareholders' Meeting;
- acting under the authority of the Extraordinary Shareholders' Meeting, amend the articles of association as necessary to ensure their compliance with applicable laws and regulations, provided that the articles of association are approved at the next Extraordinary 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 non-dilutive bonds and/or securities giving or not giving access to the share capital;
- decide on any planned merger or spin-off;
- authorize the Chairman and Chief Executive Officer to carry out 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.
- the Board of Directors is also informed about market and competitive trends and the main challenges faced by the Company, including those related to corporate social responsibility (CSR).

In 2016, the main topics addressed by the Board of Directors concerned in particular:

- the financial position, cash position and commitments of the Group, and in particular:
  - analyzing the 2016 budget,
  - the Statutory Auditors' presentation on the parent company and the consolidated financial statements for the 2015 fiscal year, and on the review of the interim consolidated financial statements for the six months ended June 30, 2016,
  - preparing the parent company and the consolidated financial statements for the 2015 fiscal year,
  - reviewing the results for the first half of 2016, the forecasts for the second half of 2016 and the outlook for the 2016 fiscal year,
  - preparing the Management Report and the related notes for the 2015 fiscal year,
  - handling the proposed payment of a dividend of 3 euros per share for 2015,
  - reviewing the quarterly figures and results, and the forecasts and projections prepared for 2016;



## Composition of the Board of Directors, and preparation and organization of its work

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- oversight relating to key strategies, and in particular:
  - the Company's stock split,
  - discussing acquisitions, investments and strategic operations under review,
  - discussing strategic issues that the Company must deal with,
  - monitoring changes in the industry and the Group's key strategies;
- executive compensation, and in particular:
  - the variable portion of the Chairman and Chief Executive Officer's compensation,
  - the review of a supplementary pension plan covering the Chairman and Chief Executive Officer,
  - the criteria for allocating the variable portion of compensation and allotting performance shares to the Chairman and Chief Executive Officer,
  - the assessment of performance criteria for the performance share plans,
  - 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 review of the Shares4U 2016 and Shares4U 2017 plans,
  - the training program;
- corporate governance and internal control, and in particular:
  - implementing new governance rules (combining the positions of Chairman of the Board of Directors and Chief Executive Officer) and appointing the new Chairman of the Board of Directors,
  - reviewing the status of directors in light of the independence criteria set out in the Internal Procedures,
  - reviewing risk mapping,
  - assessing the operation of the Board of Directors and the committees,
  - reviewing the procedure for appointing directors representing employees,
  - changing the composition of the committees,
  - re-appointing directors,
  - appointing and re-appointing the Lead Director,
  - 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), and the report of the High Committee on Corporate Governance,
  - reviewing the Board of Directors' special report on components of compensation due or granted to executive corporate officers (say on pay) for the year ended December 31, 2015,
  - reviewing certain provisions of law no. 2016-1691 on transparency, anti-corruption and economic modernization of December 9, 2016 (known as the "Sapin II law") and other legislative developments,
  - reviewing the Code of Conduct relating to securities trading and the prevention of insider trading,
  - amending the Internal Procedures,
  - setting the age limits for directors and the Chief Executive Officer;
- financial operations, and in particular:
  - sureties, endorsements and guarantees,
  - issuance of bonds;
- other issues, and in particular:
  - calling the Ordinary and Extraordinary Shareholders' Meeting (including deciding on the content of draft resolutions and the Board of Directors' Report on the resolutions),
  - reviewing related party agreements that remain in effect over time,
  - reviewing the composition of the committees,
  - reviewing antitrust proceedings,
  - organizing the Investor Day,
  - reviewing changes in the Group's compliance policies,
  - reviewing changes in governance,
  - reviewing market and competitive trends,
  - reviewing press releases,
  - reviewing the ownership structure and changes thereto,
  - reviewing CSR and safety policies.

### 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.

At December 31, 2016, the committees of the Board of Directors were:

- the Audit & Risks Committee;
- the Appointments, Compensation & Governance Committee;
- the Strategy Committee.

The work of the various committees in 2016 was presented on a regular basis to the Board of Directors throughout the year in the form of reports.

At its meeting on January 26, 2017, acting on the recommendation of the Appointments, Compensation & Governance Committee, the Board of Directors approved the division of the Appointments, Compensation & Governance Committee into two committees: (i) a Compensation Committee and (ii) a Governance, Appointments & Corporate Social Responsibility Committee.

The division is aimed at achieving continuous improvement in governance. Valeo is committed to a sustainable development strategy through a CSR policy, aimed at ensuring the consistency of its economic, environmental and social targets, and bases its method of governance and its development on its values and socially responsible operating principles. It therefore seemed appropriate for this competency to be placed within the remit of the committee in charge of governance.

The two committees were set up on January 26, 2017. The roles of the Appointments, Compensation & Governance Committee were shared between the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee. New roles on corporate social responsibility were entrusted to the latter committee. They include reviewing the strategies related to the corporate social responsibility policy of the Company and the Group, determining the objectives and challenges of corporate social responsibility, ensuring that the objectives are met, ensuring the progressive and growing implementation of this policy and assessing the Group's contribution to sustainable development. The operating rules of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee are those of the Appointments, Compensation & Governance Committee as adapted to their own responsibilities and the provisions of the AFEP-MEDEF Code as amended in November 2016. These responsibilities and operating rules are set out in the respective internal procedures of the two new committees.

As part of the effective implementation of the new committees, it was decided that the composition of the committees set up following the division would initially be identical to that of the Appointments, Compensation & Governance Committee; however the composition may subsequently change. No additional attendance fees will be paid to the members of these committees for their attendance at these two committees (instead of one Committee before the division) until any subsequent change of the composition of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee.

### Appointments, Compensation & Governance Committee

Prior to the effective division of the Appointments, Compensation & Governance Committee on January 26, 2017, the majority of the Committee's members had to be independent directors as defined by the criteria set out in its internal procedures in accordance with the Board of Directors' Internal Procedures. The Chairman and Chief Executive Officer in office was not a

member of the Appointments, Compensation & Governance Committee but was involved in its work, except when deliberations concerned his compensation or the renewal of his term of office.

At the beginning of 2016, the Appointments, Compensation & Governance Committee comprised five members: Georges Pauget (Chairman of the Appointments, Compensation & Governance Committee), C. Maury Devine, Sophie Dutordoir, Michel de Fabiani and Ulrike Steinhorst, all of whom were considered independent according to the criteria set out in the Internal Procedures. At its meeting on July 26, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to enlarge the Committee's composition and to appoint Pascal Colombani as a member of the Appointments, Compensation & Governance Committee. At December 31, 2016, the Appointments, Compensation & Governance Committee comprised six members: Georges Pauget (Chairman of the Appointments, Compensation & Governance Committee), Pascal Colombani, C. Maury Devine, Sophie Dutordoir, Michel de Fabiani and Ulrike Steinhorst, all of whom were considered independent according to the criteria set out in the Internal Procedures. The Company thus complies with the provisions of the AFEP-MEDEF Code as amended in November 2016 (Articles 16.1 and 17.1) recommending that the majority of directors on the Appointments Committee and on the Compensation 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 acted as the meeting secretary. The Lead Director, where applicable, could attend and participate in any meeting of the Appointments, Compensation & Governance Committee, even if he/she was not a member.

According to its internal procedures, the roles and responsibilities of the Appointments, Compensation & Governance Committee included 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,

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- 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 the above topics 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,
  - reviewing the status of each director in light of the independence criteria set out in the 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' operation 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 was guided by the interest of the Company and all its shareholders. The Committee could consider: (i) the appropriate balance of the composition of the Board of Directors based on the composition of the Company's ownership structure and changes thereto, (ii) any representation of vested interests,

(iii) the timeliness of renewing directorships, (iv) the integrity, skills, international experience, nationality and independence of each candidate, and (v) the appropriate number of independent directors. The Committee also had to 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, while ensuring the stability of the Company's corporate bodies.

The Appointments, Compensation & Governance Committee also had to strive, when it was issuing opinions or recommendations on selections and appointments, to ensure that (i) the acting independent directors represented at least half of the members of the Board of Directors, (ii) the Audit & Risks Committee did not include the Chairman and Chief Executive Officer, and (iii) independent directors accounted for at least two-thirds of the Committee's members. The Committee conducted its own research on potential candidates before contacting them.

In carrying out its duties, the Committee could contact the Company's executive managers or request external technical studies on matters falling within its competence, in particular after informing the Chairman and Chief Executive Officer and reporting to the Board of Directors.

The roles of the Appointments, Compensation & Governance Committee were split between (i) the Compensation Committee, and (ii) the Governance, Appointments & Corporate Social Responsibility Committee, which has been entrusted with new corporate social responsibility duties. The operating rules of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee are those of the Appointments, Compensation & Governance Committee as adapted to their own responsibilities and the provisions of the AFEP-MEDEF Code as amended in November 2016. These responsibilities and operating rules are set out in the respective internal procedures of these committees.

The Appointments, Compensation & Governance Committee met seven times in 2016 with an attendance rate of 92%.

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

| Director                        | Attendance rate |
|---------------------------------|-----------------|
| Georges Pauget                  | 100%            |
| Pascal Colombani <sup>(1)</sup> | 100%            |
| C. Maury Devine                 | 71%             |
| Sophie Dutordoir                | 86%             |
| Michel de Fabiani               | 100%            |
| Ulrike Steinhorst               | 100%            |

(1) At its meeting on July 26, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to appoint Pascal Colombani as a member of the Appointments, Compensation & Governance Committee.

During these meetings, the Appointments, Compensation & Governance Committee:

- examined the independence of directors;
- assessed significant business relationships during the assessment of the directors' independence status;
- reviewed the assessment of the operation of the Board of Directors and its committees for 2015;
- launched an invitation to tender to select an external service provider to review the assessment of the operation of the Board of Directors and its committees for 2016;
- reviewed the appointment of the Lead Director;
- reviewed the renewal of terms of office of directors;
- reviewed the Company's governance (combining the positions of Chairman of the Board of Directors and Chief Executive Officer) and the appointment of the new Chairman of the Board of Directors;
- reviewed and recommended changes to the composition of the committees;
- reviewed the procedure for appointing directors representing employees;
- reviewed the amendments to the articles of association regarding amending the age limits for directors and the Chief Executive Officer;
- reviewed the attendance fees payable to directors;
- reviewed the compensation of the Chairman and Chief Executive Officer and his supplementary pension benefits;
- examined the resolution on free shares proposed at the Shareholders' Meeting;
- reviewed the plans to allot free shares or performance shares to the Group's corporate officers and employees and assessed the performance criteria;
- examined the Shares4U 2016 and Shares4U 2017 employee share ownership plans;
- reviewed the variable portion of the executive corporate officers' compensation for 2015 and 2016;
- reviewed the comply or explain table pursuant to the consolidated AFEF-MEDEF Code and the report of the High Committee on Corporate Governance;
- reviewed the draft Report of the Chairman of the Board of Directors on corporate governance and internal control;
- reviewed the report on the remuneration due or granted to executive corporate officers in 2015 (say on pay);
- reviewed the legislative and regulatory changes relating to the allotment of free shares and executive compensation, including those from the Sapin II law on the legal implementation of say on pay;
- reviewed the succession and development plans for the Group's main executive managers;
- reviewed the salary policy for the Group's main executive managers;
- reviewed the revised Code of Conduct relating to securities trading and the prevention of insider trading;

- reviewed the revised Internal Procedures;
- reviewed the ownership structure and changes thereto;
- reviewed the Group's corporate social responsibility and safety policies, including sustainable low-carbon products, implementing an environmentally efficient manufacturing process, employee health, safety and working conditions, human capital development, labor relations, diversity and equal opportunities, ethics and compliance within the Group, applying corporate social responsibility, environmental and safety policies to the Group's purchasing policy and contributing to the improvement of social conditions of communities in cities or countries where it operates.

### Audit & Risks Committee

At the beginning of 2016, the Audit & Risks Committee comprised four members: Daniel Camus (Chairman of the Audit & Risks Committee), Michel de Fabiani, Noëlle Lenoir and Thierry Moulouquet, all of whom were considered independent according to the criteria set out in the Internal Procedures. At its meeting on July 26, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to enlarge the Audit & Risks Committee's composition and to appoint Mari-Noëlle Jégo-Laveissière, independent director, as a member of the Audit & Risks Committee. At December 31, 2016, the Audit & Risks Committee comprised five members: Daniel Camus (Chairman of the Audit & Risks Committee), Michel de Fabiani, Mari-Noëlle Jégo-Laveissière, Noëlle Lenoir and Thierry Moulouquet, all of whom were considered independent according to the criteria set out in the Internal Procedures. The Company therefore complies with the provisions of the AFEF-MEDEF Code as amended in November 2016 (Article 15.1) recommending that at least two-thirds of directors on the Audit & Risks Committee be independent. In accordance with the internal procedures of the Audit & Risks Committee, the Group Internal Audit Director or any other person designated by the Chairman of the Committee acts as the meeting secretary. The Chairman and Chief Executive Officer is not a member of the Audit & Risks Committee but may be invited to attend its meetings. The Lead Director, where applicable, may attend and participate in any Audit & Risks Committee meetings, even if 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 3.2.1 "Presentation of directors at December 31, 2016", pages 102 to 116.

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In accordance with Article L.823-19 of the French Commercial Code and its internal procedures, the roles and responsibilities 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 Group entity level,
- monitor the statutory audit work on the annual 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 reporting on the performance of their assignment and the findings of their work, thereby informing the Committee of the principal risks and uncertainties identified by the Statutory Auditors in the financial statements, their audit approach and possible difficulties encountered in carrying out the assignment and (ii) a presentation from the Chief Financial Officer describing the Company's risk exposure and material off-balance sheet commitments and accounting options applied. 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 as well as any material off-balance sheet commitments, and assess the extent of the failures and weaknesses reported to it and inform the Board of Directors, where appropriate,
- 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 and, where appropriate, internal audit related to the procedures for preparing and processing financial and accounting information within the Group. 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 Internal Audit reports or regular summaries of these 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,
- 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,
- pre-approve non-audit services;

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 potential conflicts of interest brought to its attention;

e) as regards other reviews performed and falling within its remit:

- remain informed by General Management and regularly hear from the Taxation Department on the Group's tax strategy and its implications,

- remain informed by General Management and regularly hear from the IT Services Department on the Group's governance and IT security policy,
- periodically review the Group's Ethics and Compliance policy and the rules and procedures for its implementation,
- remain informed by General Management and regularly hear from the Insurance Department on the Group's insurance program,
- receive information on a regular basis from General Management on the organization of the finance teams and the succession plan for these teams.

Any risk-related subject may be handled by the Audit & Risks Committee as part of its annual duties.

The internal procedures of the Audit & Risks Committee were updated on January 26, 2017, to take into account the changes introduced by the audit reform. The internal procedures include a new Article 3 relating to the approval of the services performed by the Statutory Auditors. The internal procedures now provide that the provision of non-audit services is subject to the approval of the Audit & Risks Committee and the verification by the Statutory Auditor of its independence, in accordance with the new provisions of the French Commercial Code.

The approval of the Audit & Risks Committee is required for the provision of non-audit services by the Statutory Auditors or members of their network, in France or abroad, to the Company and entities controlling or controlled by the Company within meaning of the Article L.233-3 I and II of the French Commercial Code. For this purpose, the Audit & Risks Committee reviews the nature and scope of the services subject to its approval in accordance with the rules and regulations governing the independence of Statutory Auditors. In the absence of procedures required by the provisions, the Audit & Risks Committee implemented a procedure allowing it to fulfill its obligations, by drawing up a list of the non-audit services that can be provided by the Statutory Auditors or their network, with the related approval procedures. Each year, the Audit & Risks Committee will examine and pre-approve the list of the services that can be provided by the Statutory Auditors and will examine the list of prohibited services. These lists may be reviewed and amended by the Audit & Risks Committee at any time, where appropriate. The validity period of any pre-approval is 12 months, unless otherwise decided by the Audit & Risks Committee.

In order to implement this procedure, it is important to distinguish between:

- audit services that do not require the prior approval of the Audit & Risks Committee other than that required for the audit fee budget;



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- non-audit services whose performance is required by law or regulations, that are authorized under a general procedure (general approval according to which the Audit & Risks Committee approves once a year all the services to be performed during the year as required by law or regulations);
- non-audit services that are authorized, subject to prior approval based on the nature of the assignment. This prior approval based on the nature of the assignment is appropriate for services usually provided by the Statutory Auditor, for which an independence analysis has already been performed and which do not represent a risk to the independence of Statutory Auditors;
- non-audit services that are authorized, requiring approval on a case by case basis. The Audit & Risks Committee renders a decision after analyzing the risks in terms of independence and measures taken by the Statutory Auditor to mitigate these risks. It documents its findings;
- assignments not permitted to be carried out by the Statutory Auditors or their network.

The services mentioned above are set out in the Board of Directors' Internal Procedures, which include the internal procedures of the Audit & Risks Committee and are available on the "Governance" page of the Company's website ([www.valeo.com](http://www.valeo.com)).

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 Company's Statutory Auditors without the members of General Management or executive corporate officers being present, if it sees fit and has previously notified the Chairman and Chief Executive Officer. The Audit & Risks Committee can interview third parties if this is deemed useful to complete its assignments. It may also contact the Company's executive managers or request external technical studies on matters falling within its remit, subject to informing the Chairman and Chief Executive Officer beforehand.

The Audit & Risks Committee may also seek the assistance of external experts whenever it needs to, while ensuring that they are competent and independent, subject to informing the Chairman and Chief Executive Officer beforehand. The Committee may not address issues that fall outside the scope of its role unless requested to do so. It has no decision-making authority.

The Audit & Risks Committee met five times in 2016 with an attendance rate of 90%.

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%            |
| Mari-Noëlle Jégo-Laveissière <sup>(1)</sup> | 100%            |
| Noëlle Lenoir                               | 80%             |
| Thierry Moulonguet                          | 80%             |

(1) Since she was appointed as a member of the Audit & Risks Committee on July 26, 2016.

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

- reviewed the draft financial statements for 2015;
- reviewed the Group's draft consolidated results for the first quarter of 2016 and the forecasts for the first half of 2016;
- reviewed the 2016 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 re-appointment of the Statutory Auditors;
- reviewed the Management Report for the 2015 fiscal year;
- reviewed the draft Report of the Chairman of the Board of Directors 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 Information Systems Director on risk mapping of information systems and implementation of action plans as well as governance of information systems;
- studied the Company's proposed stock split;
- assessed the consequences of the legislative and regulatory changes on the operation of the Audit & Risks Committee;
- reviewed the Group's insurance program;
- reviewed cybersecurity issues;
- analyzed information presented by the Group Tax Director on the Group's tax policy.

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The Audit & Risks Committee's work complied with the objectives defined for it during the year. Adequate time was given to make the financial statements available and to review the financial statements. 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. They did not highlight any difficulties in carrying out their assignment.

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.

### Strategy Committee

At the beginning of 2016, the Strategy Committee comprised five members: Jérôme Contamine (Chairman of the Strategy Committee), Gérard Blanc, Thierry Moulonguet, Georges Pauget and Ulrike Steinhorst, who are all considered independent according to the criteria set out in the Internal Procedures. The Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to appoint (i) Ulrike Steinhorst to replace Jérôme Contamine as Chair of the Strategy Committee at its meeting on March 24, 2016, and (ii) Véronique Weill, independent director, and Pascal Colombani as additional members of the Committee at its meeting on July 26, 2016. At December 31, 2016, the Strategy Committee therefore comprised seven members: Ulrike Steinhorst (Chair of the Strategy Committee), Gérard Blanc, Pascal Colombani, Jérôme Contamine, Thierry Moulonguet, Georges Pauget and Véronique Weill, all of whom were

considered independent at that date according to the criteria set out in the Internal Procedures. In accordance with the Committee's internal procedures as updated on January 26, 2017, the Secretary of the Board of Directors or any other person designated by the Chair of the Strategy Committee acts as the meeting secretary.

In carrying out its duties, the Strategy Committee may meet with Company and Group Executive Management teams, after first informing the Chairman and Chief Executive Officer. Where appropriate, and provided that it first informs, in particular, the Chairman and Chief Executive Officer, it may be assisted by independent consultants on matters dealt with by the Committee. The Committee can also interview third parties if this is deemed useful for the fulfillment of its responsibilities.

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;
- the review of the Group's development projects, including external growth transactions;
- the review of development or expansion projects in a country where the Group does not operate and which represents a particular risk (this new role was added to the internal procedures of the Strategy Committee at the Board of Directors' meeting of January 26, 2017).

The Lead Director, where applicable, may participate in the Strategy Committee's meetings even if he/she is not a member. In agreement with the Chairman and Chief Executive Officer, the Committee may invite other directors to participate in its discussions.

The Strategy Committee met four times in 2016 with an attendance rate of 91%.

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

| Director                        | Attendance rate |
|---------------------------------|-----------------|
| Ulrike Steinhorst               | 100%            |
| Gérard Blanc                    | 100%            |
| Pascal Colombani <sup>(1)</sup> | 100%            |
| Jérôme Contamine                | 50%             |
| Thierry Moulonguet              | 100%            |
| Georges Pauget                  | 100%            |
| Véronique Weill <sup>(1)</sup>  | 100%            |

(1) Since he/she was appointed as a member of the Strategy Committee on July 26, 2016.

During these meetings, the Committee:

- reviewed the Group's intellectual property strategy;
- reviewed the results of the M&A transactions carried out in 2015, as well as their consolidation;
- analyzed the impacts of technological developments and digitalization on the automotive industry;
- reviewed the Group's industrial and financial strategy as a whole;
- reviewed strategic targets set for the Company;
- examined the Company's strategy in certain business sectors and specific regions worldwide;
- analyzed and discussed potential acquisitions, investments and partnerships;
- analyzed the organization and operation of the Group's Research and Development;
- analyzed the competitive landscape;
- examined the Company's medium-term plan.

## 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 the Board of Directors' discussions are adequately organized and held, and assess the actual contribution of each director to the Board of Directors' work.

The assessment of the Board of Directors is carried out either based on a detailed questionnaire sent to each director whose responses are summarized, and then analyzed by the Governance, Appointments & Corporate Social Responsibility Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017) and discussed at a Board of Directors' meeting, or based on a study carried out with the help of specialized consulting firm.

The Board of Directors' meeting on October 20, 2016, noting that this assessment had been based on a detailed questionnaire in 2015, decided to assess its operation for 2016 with the help of a specialized consulting firm selected following a tender process. The assessment conducted between the end of 2016 and beginning of 2017 by the specialized consulting firm involved assessing each director to obtain their assessment of the Board of Directors' operation and their suggestions to improve it, and assessing the individual contribution of each director to the work of the Board of Directors. The topics covered included the operation, structure, governance, composition and duties of the Board of Directors, as well as directors' access to information, the issues discussed, the quality of the discussions, directors' participation in and actual contribution to the work of the Board of Directors and the general running of the committees.

The summary assessment report was reviewed by the Governance, Appointments & Corporate Social Responsibility Committee at its meeting on February 14, 2017, and presented and discussed at the Board of Directors' meeting held on February 15, 2017. The review highlighted the directors' very positive assessment of the Company's governance. Based on this assessment, the directors noted the success of combining the positions of Chairman of the Board of Directors and Chief Executive Officer after a period during which the separation thereof was deemed relevant, and the performance of the Chairman and Chief Executive in his role as Chairman of the Board of Directors. They were also satisfied with the newly created position of Lead Director, who played an appropriate role in Valeo's governance. The Board of Directors' operation was considered to be of high quality and improving constantly, with an excellent trust-based working relationship between the Board of Directors and the Chairman and Chief Executive Officer. The quality of the Board of Directors' meetings, whether at the preparation stage in terms of files and information provided or during the meetings themselves in terms of content or discussions between the directors and between the directors and the Chairman and Chief Executive Officer, was highlighted. The relationship between the Board of Directors and General Management was considered to be excellent and based on trust and mutual respect. The efficient operation of the specialized committees was also noted. The strategy seminar held in Silicon Valley, United States, over three days in November 2016 was considered a key moment for the Board of Directors, given the quality of its organization, the issues covered and the people in attendance. It provided the Board of Directors with an opportunity for deeper reflection.

During the analysis of this assessment, the Board of Directors continued to contemplate the appropriate balance of its composition, particularly with respect to diversity of skills and international profiles. The changes in the composition of the Board of Directors and the succession plans are topics of considerable importance to the Board of Directors. The assessment also gave rise to recommendations regarding the exploration of human resources-related issues, enhanced discussions with the operating staff or the role of the Strategy Committee at Board of Directors' meetings.

### 3.2.3 Declarations concerning the Group's corporate officers

#### Conflicts of interest

At December 31, 2016, there are no conflicts 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 as updated on January 26, 2017 to take into account the provisions of the AFEF-MEDEF Code as amended in November 2016, 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 (whether actual or only potential) and must abstain from voting in connection with any matters discussed by the Board in which there could be a conflict of interest (whether actual or only potential)" (Article 1.1(d));*
- *"a director cannot accept any responsibilities that may present a conflict of interest (whether actual or only potential) with those he/she has accepted within the Company" (Article 1.1(n));*
- *"without prejudice to the authorization and control formalities provided for by law and the articles of association, the Company's directors are required to communicate to the Chairman, as soon as possible, any agreement entered into by the Company in which they have a direct or indirect interest. In particular, the directors must inform the Chairman of any agreement entered into by them or by a company they manage or in which they hold, directly or indirectly, a significant interest, and the Company or one of its subsidiaries, or which was 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 an executive 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 professional 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 Valeo's activity, and/or (ii) in a transaction involving the Company (including the Company's shares), its subsidiaries or other companies in which the Company holds an interest.

The Internal Procedures, including the rules on preventing conflicts of interest, are available on the "Governance" page of the Company's website ([www.valeo.com](http://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 and Chief Executive Officer and the Chairman of the Governance, Compensation and Corporate Social Responsibility Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017) if they are solicited to hold a corporate office outside the Company so as to consider the action 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) been convicted of 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 described in section 3.2.2 "Directors' rights and duties", pages 117 to 118.

## Composition of the Board of Directors, and preparation and organization of its work

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 132 to 133, the Chairman and Chief Executive Officer must respect a minimum holding period and, in accordance with the Company’s articles of association and Internal Procedures, directors must hold at least 1,500 shares in the Company at all times during their term of office.

As far as the Company is aware, no arrangement or agreement has been signed with the main shareholders, or with customers or suppliers, under which one of them is selected to become a director of Valeo or a member of its General Management.

### 3.2.4 Corporate Governance Code

The Company refers to the AFEP-MEDEF Code as amended in November 2016, available in French and English on the MEDEF website ([www.medef.com](http://www.medef.com)) and, in accordance with Article 27.2 of the Code, is a member of the AFEP-MEDEF High Committee on Corporate Governance. The Company also complies with the provisions set out in the AMF’s final report on audit committees of July 22, 2010.

The Company’s practices comply with the recommendations set out in the AFEP-MEDEF Code as amended in November 2016, 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 2016, this involves the recommendations set out in the following table:

| Recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Directors’ compensation</b><br>(Article 20.1 of the AFEP-MEDEF Code)<br><i>“It should be recalled that the method of allocation of directors’ compensation, the total amount of which is determined by the meeting of shareholders, is set by the Board of Directors. The Board should take account, in such ways as it shall determine, of the directors’ actual attendance at meetings of the Board and committees, and the amount shall therefore consist primarily of a variable portion.”</i> | This rule is not followed for (i) the Committee chairs and the Lead Director, given the special duties for which they are responsible, and (ii) a director, Pascal Colombani, in respect of his role in managing the governance transition and preparing the Shareholders’ Meeting of May 26, 2016, entrusted to him following the end of his duties in view of the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer and the appointment of Jacques Aschenbroich as Chairman of the Board of Directors, Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer.                                                                                                             |
| <b>Supplementary pension schemes with defined benefits governed by Article L.137-11 of the French Social Security Code (Code de la sécurité)</b><br>(Article 24.6.2 of the AFEP-MEDEF Code)<br><i>“(…) the beneficiaries must meet reasonable requirements of seniority within the Company, of at least two years, as determined by the Board of Directors, before they benefit from payments from a pension plan with defined benefits.”</i>                                                         | The Board of Directors’ meetings of April 9, 2009 and October 20, 2009, on the recommendation of the Appointments, Compensation & Governance Committee, decided to credit Jacques Aschenbroich, on 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 Chairman and Chief Executive Officer end his professional career within the Group.                                                                                                                                                                    |
| <b>Provisions specific to stock options and performance shares</b><br>(Article 24.3.3 of the AFEP-MEDEF Code)<br><i>“The Board must ensure that awards are made at the same calendar periods, e.g. after the disclosure of the financial statements for the previous financial year, and should preferably do so each year.”</i>                                                                                                                                                                      | In practice, the Group usually allots performance shares in March of each year, after the publication of the annual results. However, as an exception, shares in respect of 2016 were allotted in May 2016, based on the twentieth resolution adopted by the Shareholders’ Meeting of May 26, 2016 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). The Company indicates that it will resume its usual practice to allot performance shares in March of each year as of 2017, after the publication of the annual results. |



### 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 (referred to as "performance shares") complies with the recommendations of the AFEP-MEDEF Code as amended in November 2016, to which Valeo refers. Accordingly:

#### Concerning the allotment of stock purchase options and performance shares

- The Board of Directors decides to allot stock purchase options and performance shares based on the recommendation of the Compensation Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017). It corresponds to a policy of involvement in the capital, i.e., a policy that aligns the interests of beneficiaries with those of the shareholders along with the associated uncertainty.
- All stock purchase options and performance shares allotted to the Chairman and Chief Executive Officer are subject to performance criteria.
- It is only possible to allot stock purchase options or performance shares to the Chairman and Chief Executive Officer if the Chairman and Chief Executive Officer's term of office has not expired on the exercise date or on the vesting date of the performance shares (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) or if he claimed his retirement benefits.
- 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 the Chairman and Chief Executive Officer.
- Each time that it decides to allot stock purchase options and performance shares, the Board of Directors ensures that allotments for 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 stock purchase options and performance shares are allotted to the Chairman and Chief Executive Officer, the Group's employees also receive stock purchase options and 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. In practice, the Group usually allots stock purchase options and performance shares in March of each year, after the publication of the annual financial statements. However, shares were

exceptionally allotted on May 26, 2016 for 2016, based on the twentieth resolution adopted by the Shareholders' Meeting of May 26, 2016 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.
- The Chairman and Chief Executive Officer, as a beneficiary of stock purchase options and performance shares, must not engage in hedging transactions according to the Code of Conduct.

#### 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 financial instruments are described in section 3.2.2 "Directors' rights and duties", pages 117 to 118.

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

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 two 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 term of office.

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 147 to 149.



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 155 to 157, and in section 3.3.4 "Information about stock purchase or subscription options and performance shares", page 158.

### 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 2016

Apart from Pascal Colombani and Jacques Aschenbroich, no Board member was paid any compensation or benefits other than attendance fees by the Company during 2016. For further information, see section 3.3.1 "Compensation of executive corporate officers", pages 138 to 153, and section 3.3.2 "Compensation of non-executive corporate officers", pages 154 to 155.

#### Basis for allocating attendance fees

In accordance with the French Commercial Code, the Internal Procedures and the internal procedures applicable to the Compensation Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017), the Board of Directors has powers to decide how attendance fees should be allocated. It bases its decision on the rules recommended by the Compensation 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.

Following the Shareholders' Meeting of May 26, 2016, the amount of the budget for attendance fees was set at 1,100,000 euros for 2016 and subsequent years until a new decision of the Shareholders' Meeting, compared to 700,000 euros at the Shareholders' Meeting of May 21, 2014. This decision was taken by the Shareholders' Meeting of May 26, 2016 after considering 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 was lower than the average reported for these companies, (ii) the number of directors eligible for attendance fees would increase following the appointment of two new women directors decided by the Shareholders' Meeting, (iii) as from February 18, 2016, date of the end of his term of office as Chairman of the Board of Directors, Pascal Colombani received attendance fees as a director (which was not the case when he was an executive corporate officer) and (iv) the Lead Director would receive additional attendance fees for the performance of his duties.

The rules for allocating attendance fees among directors were approved and amended by the Board of Directors at its meetings on July 27, 2010, February 21, 2013, July 24, 2014 and January 21, 2016, on the recommendation of the Appointments, Compensation & Governance Committee. As part of the increase of the budget for attendance fees decided by the Shareholders' Meeting of May 26, 2016 to take into account the aforementioned circumstances, the Board of Directors at its meeting on January 21, 2016 decided to propose the increase of the amount of (i) the fixed and variable portions paid for attending Board of Directors' meetings (from 22,000 to 25,000 euros with respect to the fixed portion and from 2,700 to 3,000 euros per meeting attended with respect to the variable portion) and (ii) the variable portion paid to committee members (from 2,700 to 3,000 euros per meeting attended), with the other amounts remaining unchanged. This change was subject to the approval of the new budget for attendance fees by the Shareholders' Meeting of May 26, 2016.

Following the approval of the new budget for attendance fees at the Shareholders' Meeting of May 26, 2016, the rules for allocating attendance fees are now as follows:

- (i) each director receives:
  - fixed portion: 25,000 euros/year,
  - variable portion: 3,000 euros/meeting attended;
- (ii) each director who is a member (but not Chairman) of a Board Committee also receives:
  - fixed portion: 0,
  - variable portion: 3,000 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: 3,000 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: 3,000 euros/meeting attended.

These payments are not capped; however, if the budget of 1,100,000 euros set by the Shareholders' Meeting of May 26, 2016, in accordance with the eleventh resolution, is exceeded the following formula is applied:

$$\frac{\text{Fees paid to an individual director}}{\text{Total fees paid to all directors}} \times 1,100,000 \text{ euros}$$

Since February 12, 2009, no corporate officer has received attendance fees in respect of the positions he or she holds within the Group. Acting on the recommendation of the Appointments, 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 Appointments, 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 February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, confirmed the maintenance of this rule 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.

The compensation of the Lead Director is 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 2016 is presented in section 3.3.2 "Compensation of non-executive corporate officers", pages 154 to 155.

## Compensation of executive corporate officers

The compensation packages of the Company's executive corporate officers are determined by the Board of Directors acting on the recommendations of the Compensation Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017) and in compliance with the AFEP-MEDEF Code.

The fixed compensation of each executive 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 Appointments, 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. Since that date and until February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided not to change the amount of the fixed annual compensation of Jacques Aschenbroich.

In light of the combination of the positions of Chairman of the Board and Chief Executive Officer, the continued growth of the Valeo Group's operations since 2011 and after noting that the fixed compensation of Jacques Aschenbroich was lower than the average fixed compensation reported in 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 comparable European industrial companies, at its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to increase the fixed annual compensation of Jacques Aschenbroich from 900,000 euros to 1,000,000 euros. See section 3.3.1 "Fixed compensation and benefits in kind", page 143 for a description of these principles.

Each year, the Board of Directors reviews and analyzes the variable compensation of the Chairman and Chief Executive Officer, on the recommendation of the Compensation Committee (former Appointments, Compensation & Governance Committee). See section 3.3.1 "Variable compensation", pages 143 to 146 for a description of these principles.

There is no specific pension plan for executive corporate officers. No pension plan other than the plan covering the Group's senior management is available to the Chairman and Chief Executive Officer (see section 3.3.1 "Pension plan", pages 149 to 150). 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. 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'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 amended supplementary pension plan, which was authorized by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, at its meeting on February 18, 2016, was approved by the shareholders at the Shareholders' Meeting of May 26, 2016 in its fifth resolution. See section 3.3.1 "Pension plan", pages 149 to 150 for a description of the performance criteria.

Following the appointment of Jacques Aschenbroich as Chairman and Chief Executive Officer, Jacques Aschenbroich notified the Board of Directors at its meeting on February 18, 2016 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 on May 26, 2015. At its meeting on February 18, 2016, the Board of Directors duly noted the decision of Jacques Aschenbroich to waive his termination benefits.

The appointment of Jacques Aschenbroich as Chairman 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 on the whole by the Board of Directors acting on the recommendations of the Compensation Committee

(committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017) and in compliance with the AFEP-MEDEF Code.

The compensation policy applicable to Jacques Aschenbroich is determined in line with the Group's executive compensation policy according to which the compensation of senior management includes a variable portion which is subject to the achievement of performance criteria aligned to their responsibilities. In addition, each year, the members of the Operations Committee are allotted performance shares subject to criteria identical to those applied to the performance shares allotted to Jacques Aschenbroich, and the members of the Liaison Committee, as well as the main direct reports of the Liaison Committee members, are allotted performance shares subject to similar criteria.

### 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 18, 2016, 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 15, 2017 renewed this commitment based on the same terms and conditions.

During 2016, no further commitments of this type were made by the Company's Chairman and Chief Executive Officer.

### 3.2.8 General Management of the Company and limitations on the powers of the Chief Executive Officer

At its meetings on March 20, 2009, June 8, 2011 and May 26, 2015, the Board of Directors decided, then confirmed, the separation of the role of Chairman of the Board of Directors from that of Chief Executive Officer. 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. Accordingly, Pascal Colombani, Chairman of the Board of Directors until February 18, 2016, did not fulfill any duties other than those entrusted to him by law. Jacques Aschenbroich, Chairman and Chief Executive Officer since February 18, 2016, 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 Appointments, 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 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.

On February 18, 2016, Pascal Colombani, having reached the age limit set out in the articles of association, stepped down from this position. On that same day, the Board of Directors, acting on the recommendation of the Appointments, 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 also strengthens the relationship between Valeo's shareholders and senior management.

The strong presence of independent directors on the Board of Directors (13 out of 14 at December 31, 2016), the Audit & Risks Committee (five out of five at December 31, 2016), the Appointments, Compensation & Governance Committee (six out of six at December 31, 2016) and the Strategy Committee (seven out of seven at December 31, 2016), 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, 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 99 to 101.

In addition, at its meeting on January 21, 2016, the Board of Directors, on the recommendation of the Appointments, Compensation & Governance Committee based on the self-assessment results of the Board of Directors' operation for 2015, 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 operation of the Board of Directors. These practices were implemented and meetings were held periodically without the presence of executive corporate officers between February 18, 2016 and February 15, 2017.

The powers of the Chairman and Chief Executive Officer are 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 Articles L.225-38 et seq. 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 Chairman and Chief Executive Officer and already approved by a Shareholders' Meeting were pursued in 2016:

- 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 143;

- a non-competition payment equal to 12 months of compensation (Board of Directors' decisions of February 24, 2010 and February 24, 2015) provided Jacques Aschenbroich does not work 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. This policy is described in section 3.3.1 "Non-competition payment", page 150;

- a commitment in the form of a defined benefit pension plan to the Chairman and Chief Executive Officer, Jacques Aschenbroich (Board of Directors' decision of April 9, 2009 implemented on October 20, 2009), which was amended by the Board of Directors' decision of February 18, 2016 (see section 3.2.10 "Agreements governed by Article L.225-42-1 of the French Commercial Code authorized during the year", page 137).

Regarding the termination benefit, 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 on May 26, 2015. The Board of Directors duly noted this decision at its meeting on February 18, 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 "Statutory Auditors' special report on related party agreements and commitments", pages 395 to 398).

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

The commitment in the form of a defined benefit pension plan to the Chairman and Chief Executive Officer, Jacques Aschenbroich (Board of Directors' decision of April 9, 2009 implemented on October 20, 2009) was amended by the Board of Directors' decision of February 18, 2016 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. This change in the form of additional performance criteria was

approved by the Shareholders' Meeting of May 26, 2016. This policy is described in section 3.3.1 "Pension plan", pages 149 to 150.

A special report on related party agreements and commitments has been drawn up by the Statutory Auditors in respect of the commitment described above (see Chapter 5, section 5.7 "Statutory Auditors' special report on related party agreements and commitments", pages 395 to 398).

### 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", page 426.



### 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 Compensation Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017), for 2016, are described in this section.

##### Compensation of Pascal Colombani for his role as Chairman of the Board of Directors until February 18, 2016

The Board of Directors set the compensation paid by Valeo to Pascal Colombani for his role as Chairman of the Board of Directors until February 18, 2016 based on the recommendation of the Appointments, Compensation & Governance Committee. Pascal Colombani did 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, on the recommendation of the Appointments, Compensation & Governance Committee, decided that:

- after having examined the practices of a selection of similar companies, 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 remained unchanged since June 8, 2011;
- 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.

Following the end of the term of office of Pascal Colombani as Chairman of the Board of Directors on February 18, 2016, date on which the positions of Chairman of the Board of Directors and Chief Executive Officer were combined and Jacques Aschenbroich became Chairman and Chief Executive Officer, the fixed compensation of Pascal Colombani for 2016 was calculated pro rata to the period (in months) of his term of office as Chairman of the Board of Directors during the

year. In addition, the employment allowance in kind was terminated with the end of his term of office as Chairman of the Board of Directors.

As a result, in 2016, Valeo paid Pascal Colombani fixed compensation of 50,000 euros for his term of office as Chairman of the Board of Directors until February 18, 2016.

##### Variable compensation

In 2016, no variable compensation was paid to Pascal Colombani for his term of office until February 18, 2016.

##### Attendance fees

No attendance fees were paid to Pascal Colombani for his term of office as Chairman of the Board of Directors until February 18, 2016. At its meeting on April 9, 2009, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided that no attendance fees would be paid to Pascal Colombani in respect of his role as Chairman.

Following the end of his term of office as Chairman of the Board of Directors on February 18, 2016, Pascal Colombani remained a director of the Company and as such he has been receiving attendance fees since that date.

##### Compensation paid by companies controlled by Valeo

Pascal Colombani did 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 until February 18, 2016, i.e., the end of his term of office as Chairman of the Board of Directors, or in previous years.

No stock purchase or subscription options or performance shares have been allotted to Pascal Colombani since February 18, 2016, i.e., the end of his term of office as Chairman of the Board of Directors.

##### Pension plan

Pascal Colombani was not covered by a supplementary pension plan for his role in the Valeo Group.



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

**Termination benefits**

Pascal Colombani was 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 for his term of office as Chairman of the

Board of Directors, which ended on February 18, 2016. The information in the tables below shows the compensation due or paid and the stock options and shares allotted to Pascal Colombani for his term of office as Chairman of the Board of Directors in 2016, only until the end of his term of office on February 18, 2016.

► **SUMMARY OF COMPENSATION PAID AND STOCK PURCHASE OPTIONS AND SHARES ALLOTTED TO PASCAL COLOMBANI (AMF TABLE No. 1)**

| (in euros)                                                          | 2015           | 2016                  |
|---------------------------------------------------------------------|----------------|-----------------------|
| Compensation                                                        | 300,000        | 50,000 <sup>(1)</sup> |
| Value of multi-annual variable compensation granted during the year | -              | -                     |
| Value of stock purchase options allotted during the year            | -              | -                     |
| Value of performance shares allotted during the year                | -              | -                     |
| <b>TOTAL</b>                                                        | <b>300,000</b> | <b>50,000</b>         |

(1) Following the end of the term of office of Pascal Colombani as Chairman of the Board of Directors on February 18, 2016, his fixed compensation for 2016 was calculated pro rata to the period (in months) of his term of office as Chairman of the Board of Directors during the year.

► **SUMMARY OF COMPENSATION PAID TO PASCAL COLOMBANI (AMF TABLE No. 2)**

| (in euros)                                         | 2015           |                | 2016          |                       |
|----------------------------------------------------|----------------|----------------|---------------|-----------------------|
|                                                    | Amount owed    | Amount paid    | Amount owed   | Amount paid           |
| Fixed compensation                                 | 300,000        | 300,000        | 50,000        | 50,000 <sup>(1)</sup> |
| Annual variable compensation                       | -              | -              | -             | -                     |
| Multi-annual variable compensation                 | -              | -              | -             | -                     |
| Exceptional compensation                           | -              | -              | -             | -                     |
| Attendance fees                                    | -              | -              | -             | -                     |
| ■ o/w attendance fees paid by Valeo                | -              | -              | -             | -                     |
| ■ o/w attendance fees paid by controlled companies | -              | -              | -             | -                     |
| Benefits in kind                                   | -              | -              | -             | -                     |
| <b>TOTAL</b>                                       | <b>300,000</b> | <b>300,000</b> | <b>50,000</b> | <b>50,000</b>         |

(1) Following the end of the term of office of Pascal Colombani as Chairman of the Board of Directors on February 18, 2016, his fixed compensation for 2016 was calculated pro rata to the period (in months) of his term of office as Chairman of the Board of Directors during the year.

► **STOCK PURCHASE OR SUBSCRIPTION OPTIONS ALLOTTED TO PASCAL COLOMBANI FROM JANUARY 1, 2016 TO FEBRUARY 18, 2016 (AMF TABLE No. 4)**

| 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 | Exercise price | Exercise period |
|-------------------|-----------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------|----------------|-----------------|
| None              | -                                       | -                                                                                   | -                                          | -              | -               |

No stock purchase or subscription options have been allotted to Pascal Colombani since February 18, 2016, i.e., the end of his term of office as Chairman of the Board of Directors.

► **STOCK PURCHASE OR SUBSCRIPTION OPTIONS EXERCISED BY PASCAL COLOMBANI FROM JANUARY 1, 2016 TO FEBRUARY 18, 2016 (AMF TABLE No. 5)**

| Plan no. and date | Number of options exercised during the year | Exercise price |
|-------------------|---------------------------------------------|----------------|
| None              | -                                           | -              |

Since no stock purchase or subscription options were allotted to Pascal Colombani until February 18, 2016, i.e., the end of his term of office as Chairman of the Board of Directors, after that date or in previous years, no stock purchase or subscription options were exercised in 2016.

► **PERFORMANCE SHARES ALLOTTED TO PASCAL COLOMBANI FROM JANUARY 1, 2016 TO FEBRUARY 18, 2016 (AMF TABLE No. 6)**

| 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                                                                                                                       | -                 | -                                         | -                                                                                  | -            | -                      | -                    |

No performance shares have been allotted to Pascal Colombani since February 18, 2016, i.e., the end of his term of office as Chairman of the Board of Directors.

► **PERFORMANCE SHARE ALLOTMENTS THAT BECAME AVAILABLE FOR TRADING FOR PASCAL COLOMBANI FROM JANUARY 1, 2016 TO FEBRUARY 18, 2016 (AMF TABLE No. 7)**

| Plan no. and date | Number of share allotments that became available for trading during the year | Vesting requirements |
|-------------------|------------------------------------------------------------------------------|----------------------|
| None              | -                                                                            | -                    |

Since no performance shares were allotted to Pascal Colombani until February 18, 2016, i.e., the end of his term of office as Chairman of the Board of Directors, after that date or in previous years, no performance shares were exercisable in 2016.

► **HISTORY OF ALLOTMENTS OF STOCK PURCHASE OR SUBSCRIPTION OPTIONS TO PASCAL COLOMBANI – INFORMATION CONCERNING STOCK PURCHASE OR SUBSCRIPTION OPTIONS (AMF TABLE No. 8)**

|                                                                                                    |   |
|----------------------------------------------------------------------------------------------------|---|
| Date of Shareholders' Meeting                                                                      | - |
| Date of Board meeting                                                                              | - |
| Total number of shares that can be purchased                                                       | - |
| Start of exercise period                                                                           | - |
| Expiration date                                                                                    | - |
| Purchase price                                                                                     | - |
| Number of options conditionally allotted to Pascal Colombani                                       | - |
| Performance criteria – rate of achievement                                                         | - |
| Total number of shares that can be purchased by Pascal Colombani                                   | - |
| Number of shares purchased                                                                         | - |
| Number of stock purchase options and stock subscription options canceled or forfeited (cumulative) | - |
| Stock purchase options and stock subscription options remaining at year-end                        | - |

No stock purchase or subscription options were allotted to Pascal Colombani until February 18, 2016, i.e., the end of his term of office as Chairman of the Board of Directors, after that date or in previous years.

► **HISTORY OF ALLOTMENTS OF PERFORMANCE SHARES TO PASCAL COLOMBANI – INFORMATION CONCERNING PERFORMANCE SHARES (AMF TABLE NO. 10)**

|                                                             |   |
|-------------------------------------------------------------|---|
| Date of Shareholders' Meeting                               | - |
| Date of Board meeting                                       | - |
| Total number of free shares allotted                        | - |
| Vesting date of shares                                      | - |
| End of holding period                                       | - |
| Number of shares conditionally allotted to Pascal Colombani | - |
| Performance criteria – rate of achievement                  | - |
| Total number of shares purchased by Pascal Colombani        | - |
| Total number of shares canceled or forfeited (cumulative)   | - |
| Free shares allotted remaining at year-end                  | - |

No performance shares were allotted to Pascal Colombani until February 18, 2016, i.e., the end of his term of office as Chairman of the Board of Directors, after that date or in previous years.

► **EMPLOYMENT CONTRACT, SUPPLEMENTARY PENSION PLANS AND BENEFITS (AMF TABLE NO. 11)**

|                                                                                                                 | Employment contract | Supplementary pension plan | Compensation or benefits owed or likely to be owed on termination or change of position | Payment relating to a non-competition clause |
|-----------------------------------------------------------------------------------------------------------------|---------------------|----------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------|
| <b>Pascal Colombani</b>                                                                                         |                     |                            |                                                                                         |                                              |
| Chairman of the Board of Directors (until February 18, 2016)                                                    |                     |                            |                                                                                         |                                              |
| First appointed as a director: 05/21/2007                                                                       |                     |                            |                                                                                         |                                              |
| First appointed as Chairman of the Board of Directors: 03/20/2009                                               |                     |                            |                                                                                         |                                              |
| Start of terms of office (director and Chairman of the Board of Directors): 05/26/2015                          |                     |                            |                                                                                         |                                              |
| End of term of office (Chairman of the Board of Directors): 02/18/2016                                          |                     |                            |                                                                                         |                                              |
| End of current term of office (director): Shareholders' Meeting called to approve the 2018 financial statements | No                  | No                         | No                                                                                      | No                                           |

## Compensation of Jacques Aschenbroich, Chief Executive Officer until February 18, 2016 and Chairman and Chief Executive Officer since that date

The Board of Directors sets the compensation paid by Valeo to Jacques Aschenbroich, Chief Executive Officer until February 18, 2016 and Chairman and Chief Executive Officer since that date, based on the recommendation of the Compensation Committee (former Appointments, Compensation & Governance Committee). Jacques Aschenbroich does not have an employment contract with the Valeo Group.

Jacques Aschenbroich's overall compensation has been determined taking into account the supplementary pension plan from which he benefits (see section 3.3.1 "Pension plan", pages 149 to 150).

The Board of Directors' report on the compensation policy applied to the Chairman and Chief Executive Officer is presented in Chapter 7, section 7.4 "Report on the compensation policy applicable to the Chairman and Chief Executive Officer", pages 434 to 438.

### ► COMPENSATION OF JACQUES ASCHENBROICH IN 2016<sup>(1)</sup>

|                                                       |                                                             |                                    |                                                                            |                                                                             |                                        |
|-------------------------------------------------------|-------------------------------------------------------------|------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------|----------------------------------------|
| Fixed compensation                                    |                                                             |                                    |                                                                            |                                                                             | €986,508                               |
| Benefits in kind                                      |                                                             |                                    |                                                                            |                                                                             | €18,526                                |
| Short-term variable compensation                      | Performance criteria                                        |                                    | Maximum amount of the variable portion as a % of fixed annual compensation | Amount of the variable portion obtained as a % of fixed annual compensation | In euros                               |
|                                                       | Quantifiable criteria                                       | Operating margin                   | 23%                                                                        | 23% <sup>(2)</sup>                                                          | 226,897                                |
|                                                       |                                                             | Operating cash                     | 23%                                                                        | 23% <sup>(3)</sup>                                                          | 226,897                                |
|                                                       |                                                             | Net income                         | 23%                                                                        | 23% <sup>(4)</sup>                                                          | 226,897                                |
|                                                       |                                                             | Return on capital employed (ROCE)  | 23%                                                                        | 23% <sup>(5)</sup>                                                          | 226,897                                |
|                                                       |                                                             | Consolidated order intake          | 23%                                                                        | 23% <sup>(6)</sup>                                                          | 226,897                                |
|                                                       |                                                             | <b>Total quantifiable criteria</b> | <b>115%</b>                                                                | <b>115%</b>                                                                 | <b>1,134,484</b>                       |
|                                                       | Qualitative criteria                                        | Financial communications           | 11%                                                                        | 11% <sup>(7)</sup>                                                          | 108,516                                |
|                                                       |                                                             | Strategic vision                   | 22%                                                                        | 22% <sup>(8)</sup>                                                          | 217,032                                |
|                                                       |                                                             | Risk management                    | 22%                                                                        | 17% <sup>(9)</sup>                                                          | 167,706                                |
|                                                       |                                                             | <b>Total qualitative criteria</b>  | <b>55%</b>                                                                 | <b>50%</b>                                                                  | <b>493,254</b>                         |
|                                                       | <b>TOTAL QUANTIFIABLE CRITERIA AND QUALITATIVE CRITERIA</b> |                                    | <b>170%</b>                                                                | <b>165%</b>                                                                 | <b>1,627,738</b>                       |
| Performance shares or long-term variable compensation | Performance criteria                                        |                                    | Number of shares allotted                                                  | Share price (in euros)                                                      | Shares available as at <sup>(11)</sup> |
|                                                       | Quantifiable criteria <sup>(10)</sup>                       | ROA                                | 70,974                                                                     | 38.04                                                                       | 06/08/2021                             |
|                                                       |                                                             | Operating margin                   |                                                                            |                                                                             |                                        |
|                                                       |                                                             | ROCE                               |                                                                            |                                                                             |                                        |
|                                                       |                                                             |                                    |                                                                            |                                                                             |                                        |
|                                                       |                                                             |                                    |                                                                            |                                                                             | 2,699,850                              |
| TOTAL                                                 |                                                             |                                    |                                                                            |                                                                             | €5,332,622                             |

(1) Subject to a say-on-pay vote at the Shareholders' Meeting to be held on May 23, 2017.

(2) 2016 operating margin increased by 20% compared to 2015, amounting to 8.1% of 2016 sales, higher than the operating margin announced under the 2016 guidance.

(3) Generation of operating cash in 2016 of 603 million euros, up 22% compared to 2015.

(4) 2016 net income increased by 27% compared to 2015, amounting to 5.6% of 2016 sales.

(5) 2016 return on capital employed (ROCE) of 34% compared to 33% in 2015.

(6) 2016 order intake increased by 17% compared to 2015, amounting to 23.6 billion euros.

(7) Increase during 2016 of 14.9% in Valeo's share price compared to an increase of 1.6% in the share price of companies in the automotive sector used in the comparison sample.

(8) List of major strategic operations achieved by Valeo in 2016: acquisition of Spheros and peiker, creation of a joint venture with Siemens. Proportion of innovations (products and technologies in series production for less than three years) in the 2016 order intake: 50%.

(9) The qualitative criterion on the management of the risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints was not entirely achieved given the demanding objectives linked to this growth.

(10) Each equal to the average over three years (2016 to 2018) of the ratio between the actual return achieved and the target return set by the Board of Directors at the beginning of each reference year, which must be at least equal to the guidance for the year under review, equal to or greater than one:

3 criteria met (100%)

2 criteria met (60%)

1 criterion met (30%)

no criteria met (0%).

(11) 50% of the number of vested shares must be held until the end of the term of office.

## Fixed compensation and benefits in kind

At its meeting on April 9, 2009, the Board of Directors set Jacques Aschenbroich's fixed annual compensation for his duties as Chief Executive Officer 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 Appointments, 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 of Directors also decided to grant coverage to Jacques Aschenbroich under the unemployment insurance fund for Company managers, 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 light of the combination of the positions of Chairman of the Board and Chief Executive Officer, with the appointment of Jacques Aschenbroich as Chairman of the Board of Directors and Chief Executive Officer, the continued growth of the Valeo Group's operations since 2011 and after noting that the fixed compensation of Jacques Aschenbroich was lower than the average fixed compensation reported in 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 comparable European

industrial companies, at its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to increase the fixed annual compensation of Jacques Aschenbroich from 900,000 euros to 1,000,000 euros, with effect from February 18, 2016, representing an increase of 11%. The amount of the fixed annual compensation has not been changed since February 18, 2016.

In 2016, fixed compensation due to Jacques Aschenbroich by Valeo came to 1,005,034 euros (compared with 916,936 euros in 2015). This consists of fixed compensation of 986,508 euros (compared with 900,000 euros in 2015) and 18,526 euros (compared with 16,936 euros in 2015) in benefits in kind.

## Variable compensation

At the beginning of each year, the Board of Directors sets the criteria on which the variable compensation is based, acting on the recommendation of the Compensation Committee (former Appointments, Compensation & Governance Committee) for the coming year. The Board of Directors 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 Jacques Aschenbroich as Chief Executive Officer until February 18, 2016 and as Chairman and Chief Executive Officer since February 18, 2016, is determined partly according to quantifiable objectives based upon the Group's operational and financial performance, and partly on a qualitative basis. The quantifiable and qualitative objectives to be reached are set according to specific and predetermined objectives.

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### ► SUMMARY OF VARIABLE COMPENSATION PAID TO JACQUES ASCHENBROICH OVER THE LAST FIVE YEARS

| (% of fixed compensation)    | 2012         |               | 2013          |               | 2014          |               | 2015          |               | 2016          |               |
|------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                              | Achieved     | Capped        | Achieved      | Capped        | Achieved      | Capped        | Achieved      | Capped        | Achieved      | Capped        |
| Quantifiable criteria        | 41.8%        | 75.0%         | 85.0%         | 85.0%         | 85.0%         | 85.0%         | 85.0%         | 85.0%         | 115.0%        | 115.0%        |
| Qualitative criteria         | 44.2%        | 45.0%         | 50.0%         | 50.0%         | 50.0%         | 50.0%         | 50.0%         | 50.0%         | 50.0%         | 55.0%         |
| <b>VARIABLE COMPENSATION</b> | <b>86.0%</b> | <b>120.0%</b> | <b>135.0%</b> | <b>135.0%</b> | <b>135.0%</b> | <b>135.0%</b> | <b>135.0%</b> | <b>135.0%</b> | <b>165.0%</b> | <b>170.0%</b> |

### Variable compensation for 2015

In 2015, the quantifiable component of the annual variable compensation of Jacques Aschenbroich as Chief Executive Officer depended on the following five criteria: (i) operating margin, (ii) operating cash, (iii) net income, (iv) return on capital employed (ROCE), and (v) consolidated order intake, whose expected level of achievement is determined precisely but is not publicly disclosed for reasons of confidentiality. The qualitative component of the annual variable compensation of Jacques Aschenbroich as Chief Executive Officer depended on the following three criteria: (i) financial communications,

(ii) strategic vision, and (iii) risk management. However, a new sub-criterion was added to assess the achievement of the strategic vision criterion, namely an increased proportion of innovative products<sup>(1)</sup> in the order intake for the year. The amount of variable compensation as a percentage of the fixed annual compensation ranged from 0% to 17% for each of the five quantifiable 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 2015 was capped at 135% of Jacques Aschenbroich's fixed annual compensation.

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

At its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, noted that the achievement rates for quantifiable criteria were 85% and achievement rates for qualitative criteria were 50% of the fixed annual 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 (as in 2014). The achievement of qualitative criteria was assessed by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, as follows:

- the financial communications criterion was measured in particular based on Valeo's share price compared with the share price of several European, North American and Japanese companies operating in the same business sector;
- the strategic vision criterion was measured based on (i) analysts' assessments, (ii) Valeo's strategic operations and (iii) an increased proportion of innovative products<sup>(1)</sup> in the order intake during the year;
- the risk management criterion was measured in particular 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 its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided that for 2016, the annual variable compensation of Jacques Aschenbroich, Chairman and Chief Executive Officer, would depend on the same five quantifiable and qualitative criteria as those applied in 2015, subject to the addition of two new sub-criteria to (i) assess the achievement of the strategic vision criterion (the presentation by Management at the strategy seminar of a technology roadmap and its impact on Research and Development), 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 ranged from 0% to 23% for each of the five quantifiable 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 Appointments, Compensation & Governance Committee and confirmed on February 18, 2016. Variable compensation for 2016 was capped at 170% of Jacques Aschenbroich's fixed annual compensation.

At its meeting on July 24, 2015 (confirmed on February 18, 2016), the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to cap the amount of variable compensation at 170% of the fixed annual compensation in view of the Company's good operating performance and after noting that the variable compensation of Jacques Aschenbroich was misaligned with the median variable compensation reported in 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 comparable European industrial companies.

At its meeting on February 15, 2017, the Board of Directors, acting on the recommendation of the Compensation Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017), noted that the achievement rate for quantifiable criteria was 115% and that for qualitative criteria was 50% of the fixed annual compensation due to Jacques Aschenbroich for 2016, bringing the amount of variable compensation paid to Jacques Aschenbroich for 2016 to 165% of his fixed annual compensation to be paid for the same year, i.e., 1,627,738 euros (compared with 1,215,000 euros in 2015). The achievement of qualitative criteria was assessed by the Board of Directors, acting on the recommendation of the Compensation Committee, as follows:

- the financial communications criterion was measured in particular based on Valeo's share price compared with the share price of several European, North American and Japanese companies operating in the same business sector;
- the strategic vision criterion was measured based on (i) analysts' assessments, (ii) Valeo's strategic operations, (iii) an increased proportion of innovative products<sup>(1)</sup> in the order intake for the year, and (iv) the presentation by Management at the strategy seminar of a technology roadmap and its impact on Research and Development;
- the risk management criterion was measured in particular based on (i) continued and intensified measures to reinforce the compliance policy, (ii) management of risks relating to ramp-up in production taking account of orders, new product launches and customer complaints, and (iii) management of risks relating to the Group CSR policy.

<sup>(1)</sup> Products or technologies in series production for less than three years.



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

The following table summarizes the quantifiable and qualitative criteria, the entitlement relating to each of these criteria in terms of percentage of fixed annual compensation, as well as the maximum variable compensation for the year ended December 31, 2016, with comments below the table on the degree of achievement of each quantifiable and qualitative criterion:

| Quantifiable criteria                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                            |                                                                             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Nature of the criterion                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Maximum amount of the variable portion as a % of fixed annual compensation | Amount of the variable portion obtained as a % of fixed annual compensation |
| Operating margin                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 23%                                                                        | 23% <sup>(1)</sup>                                                          |
| Operating cash                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 23%                                                                        | 23% <sup>(2)</sup>                                                          |
| Net income                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 23%                                                                        | 23% <sup>(3)</sup>                                                          |
| Return on capital employed (ROCE)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 23%                                                                        | 23% <sup>(4)</sup>                                                          |
| Consolidated order intake                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 23%                                                                        | 23% <sup>(5)</sup>                                                          |
| <b>TOTAL QUANTIFIABLE CRITERIA</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>115%</b>                                                                | <b>115%</b>                                                                 |
| <b>Financial communications</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 11%                                                                        | 11% <sup>(6)</sup>                                                          |
| This criterion is measured, in particular, based on variations in Valeo's share price in comparison with the share prices of several European, North American and Japanese companies operating in the same sector as the Company                                                                                                                                                                                                                                                                                                                           |                                                                            |                                                                             |
| <b>Strategic vision</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 22%                                                                        | 22% <sup>(7)</sup>                                                          |
| This criterion is measured based on:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                            |                                                                             |
| <ul style="list-style-type: none"> <li>■ assessments of the analysts;</li> <li>■ strategic operations carried out by Valeo;</li> <li>■ the increase in the proportion of innovative products<sup>(8)</sup> in the order intake for the year;</li> <li>■ the presentation by Management at a strategy seminar of a technology roadmap and its impact on R&amp;D (sub-criterion added by the Board of Directors, acting on the recommendation of the Appointments, Compensation &amp; Governance Committee, at its meeting on February 18, 2016).</li> </ul> |                                                                            |                                                                             |
| <b>Risk management</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 22%                                                                        | 17% <sup>(9)</sup>                                                          |
| This criterion is measured, in particular, based on:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                            |                                                                             |
| <ul style="list-style-type: none"> <li>■ continued and intensified measures to reinforce the compliance policy;</li> <li>■ the management of risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints;</li> <li>■ risk management relating to the Group CSR policy (sub-criterion added by the Board of Directors, acting on the recommendation of the Appointments, Compensation &amp; Governance Committee, at its meeting on February 18, 2016).</li> </ul>                              |                                                                            |                                                                             |
| <b>TOTAL QUALITATIVE CRITERIA</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>55%</b>                                                                 | <b>50%</b>                                                                  |
| <b>TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>170%</b>                                                                | <b>165%</b>                                                                 |

(1) 2016 operating margin increased by 20% compared to 2015, amounting to 8.1% of 2016 sales, higher than the operating margin announced under the 2016 guidance.

(2) Generation of operating cash in 2016 of 603 million euros, up 22% compared to 2015.

(3) 2016 net income increased by 27% compared to 2015, amounting to 5.6% of 2016 sales.

(4) 2016 return on capital employed (ROCE) of 34% compared to 33% in 2015.

(5) 2016 order intake up 17% compared to 2015, amounting to 23.6 billion euros.

(6) Increase during 2016 of 14.9% in Valeo's share price compared to an increase of 1.6% in the share price of companies in the automotive sector used in the comparison sample.

(7) List of major strategic operations achieved by Valeo in 2016: acquisition of Spheros and peiker, creation of a joint venture with Siemens. Proportion of innovations<sup>(8)</sup> in the order intake in 2016: 50%.

(8) Products or technologies in series production for less than three years.

(9) The qualitative criterion on the management of the risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints was not entirely achieved given the demanding safety objectives linked to this growth.

#### Variable compensation for 2017

The Board of Directors, acting on the recommendation of the Compensation Committee, decided that the variable compensation to be paid to Jacques Aschenbroich for his role as Chairman and Chief Executive Officer for 2017 would be conditional upon the same quantifiable and qualitative

criteria as those set for 2016. However, compared to 2016, the quantifiable criterion pertaining to operating cash has been clarified (free cash flow), the quantifiable criteria targets have been increased (targets are determined precisely but are not publicly disclosed for reasons of confidentiality), the sub-criteria of certain qualitative criteria have been adjusted and the weighting between qualitative criteria has been modified.

The following table summarizes the quantifiable and qualitative criteria, the entitlement relating to each of these criteria in terms of percentage of fixed annual compensation, as well as the maximum variable compensation for the year ending December 31, 2017:

| Quantifiable criteria <sup>(1)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Nature of the criterion                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Maximum amount of the variable portion as a % of fixed annual compensation |
| Operating margin                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 23%                                                                        |
| Free cash flow <sup>(2)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 23%                                                                        |
| Net income <sup>(3)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 23%                                                                        |
| Return on capital employed (ROCE)                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 23%                                                                        |
| Consolidated order intake <sup>(4)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                          | 23%                                                                        |
| <b>TOTAL QUANTIFIABLE CRITERIA</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>115%</b>                                                                |
| Qualitative criteria                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                            |
| <b>Financial communications</b><br>This criterion is measured, in particular, based on variations in Valeo's share price in comparison with the share prices of several European, North American and Japanese companies operating in the same sector as the Company                                                                                                                                                                                                               | 5%                                                                         |
| <b>Strategic vision</b><br>This criterion is measured based on: <ul style="list-style-type: none"> <li>■ assessments of the analysts;</li> <li>■ strategic operations carried out by Valeo;</li> <li>■ the increase in the proportion of innovative products<sup>(5)</sup> in the order intake for the year;</li> <li>■ the presentation by Management at a strategy seminar of a technology roadmap and its impact on R&amp;D and human resources.</li> </ul>                    | 25%                                                                        |
| <b>Risk management</b><br>This criterion is measured, in particular, based on: <ul style="list-style-type: none"> <li>■ continued and intensified measures to reinforce the compliance policy;</li> <li>■ the management of risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints;</li> <li>■ the Valeo Group's policy on corporate social responsibility and management of the corresponding risks.</li> </ul> | 25%                                                                        |
| <b>TOTAL QUALITATIVE CRITERIA</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>55%</b>                                                                 |
| <b>TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA</b>                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>170%</b>                                                                |

(1) Excluding tax and regulatory impact.

(2) Assuming that the investment budget is respected.

(3) Assuming a 20% tax rate for the Group.

(4) Excluding Ichikoh.

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

#### 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 Appointments, 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 Appointments, Compensation & Governance Committee, confirmed the maintenance of this rule 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.

#### Compensation paid by companies controlled by Valeo

At its meeting on April 9, 2009, the Board of Directors, acting on the recommendation of the Appointments, 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 Appointments, 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.

In 2016, Jacques Aschenbroich did not receive any compensation of any kind from companies controlled by Valeo.

## Stock purchase options and performance shares

### Allotments in 2015

At its meeting on March 26, 2015, the Board of Directors, acting on the recommendation of the Appointments, 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 Appointments, 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. Therefore, the Board of Directors decided to allot 10,232 performance shares to Jacques Aschenbroich, then Chief Executive Officer, i.e., 30,696 performance shares following an adjustment resulting from the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date.

All the performance shares allotted to Jacques Aschenbroich are conditional upon the achievement of performance criteria measured over the 2015, 2016 and 2017 fiscal years. These criteria are pre-tax return on assets (ROA), operating margin and return on capital employed (ROCE). They are met if, for each of them, the arithmetic 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 allotted will vest;
- if two of the three criteria for fiscal years 2015, 2016 and 2017 are met, only 60% of the performance shares 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 allotted will vest and the remainder will be forfeited;
- if none of the three criteria for fiscal years 2015, 2016 and 2017 are met, no performance shares allotted will vest and all the performance shares will be canceled.

The performance shares will vest after the expiration of a three-year vesting period. Jacques Aschenbroich will then have to hold the shares for two years. At the end of the statutory two-year holding period, he must also hold at least 50% of the vested performance shares as registered shares until the end of his term of office.

All the performance shares allotted to Jacques Aschenbroich will 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) or he claimed his retirement benefits.

In accordance with the provisions of the AFEP-MEDEF Code and the Code of Conduct, Jacques Aschenbroich has undertaken to not use hedging transactions to reduce his risk.

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 Jacques Aschenbroich in 2015 valued at 118.74 euros each under IFRS (before a three-for-one stock split, i.e., 39.58 euros after the stock split approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date) represented 135% of his fixed annual compensation for the same year.

### Allotments in 2016

At its meeting on May 26, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to allot performance shares to Jacques Aschenbroich, Chairman and Chief Executive Officer, under the terms and conditions adopted by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, and disclosed to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on May 26, 2016 and in the press release dated May 4, 2016. Therefore, the Board of Directors decided to allot 70,974 performance shares to Jacques Aschenbroich following a three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date.

All the performance shares allotted to Jacques Aschenbroich are conditional upon the achievement of performance criteria measured over the 2016, 2017 and 2018 fiscal years. These criteria are pre-tax return on assets (ROA) (excluding acquisitions), operating margin and return on capital employed (ROCE). They are met if, for each of them, the arithmetic 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, it being specified that the target return set by the Board of Directors may not be modified subsequently.

The target returns set by the Board of Directors for 2016 are (i) 20% (excluding acquisitions) for ROA, (ii) 7.8% for operating margin and (iii) 30% for ROCE.

The following scale then applies:

- if all three criteria for fiscal years 2016, 2017 and 2018 are met, all the performance shares allotted will vest;
- if two of the three criteria for fiscal years 2016, 2017 and 2018 are met, only 60% of the performance shares allotted will vest and the remainder will be forfeited;
- if only one of the three criteria for fiscal years 2016, 2017 and 2018 is met, only 30% of the performance shares allotted will vest and the remainder will be forfeited;
- if none of the three criteria for fiscal years 2016, 2017 and 2018 are met, no performance shares allotted will vest and all the performance shares will be canceled.

The performance shares will vest after the expiration of a three-year vesting period. Jacques Aschenbroich will then have to hold the shares for two years. At the end of the statutory two-year holding period, he must also hold at least 50% of the vested performance shares as registered shares until the end of his term of office.

All the performance shares allotted to Jacques Aschenbroich will 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) or he claimed his retirement benefits.

In accordance with the provisions of the AFEP-MEDEF Code and the Code of Conduct, Jacques Aschenbroich must not use hedging transactions to reduce his risk.

The performance shares allotted to Jacques Aschenbroich during 2016 had a limited dilutive impact and represented 0.03% of the Company's share capital at December 31, 2016.

At its meeting on May 26, 2016, the Board of Directors noted that the performance shares allotted to Jacques Aschenbroich in 2016 valued at 38.04 euros each under IFRS, i.e., 114.13 euros a share before a three-for-one stock split, represented 270% of his fixed annual compensation for the same year, in accordance with the Board of Directors' decision of February 18, 2016 that the valuation under IFRS of the performance shares allotted to Jacques Aschenbroich in 2016 should not exceed 270% of his fixed annual compensation.

At its meeting on July 24, 2015 (confirmed on February 18, 2016), the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee decided to cap the amount of performance shares at 270% of the fixed annual compensation in view of the Company's good operating performance and after noting that the variable compensation of Jacques Aschenbroich was misaligned with the median variable compensation (LTI) reported in 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 comparable European industrial companies.

**The history of stock purchase or subscription options and performance shares allotted, including to Jacques Aschenbroich, is summarized in the tables "Compensation paid to the Chairman and Chief Executive Officer, formerly the Chief Executive Officer, over the last two years" on pages 151 to 153.**

Following the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 in its nineteenth resolution and implemented by the Board of Directors on the same date, for the purpose of protecting the interests of the beneficiaries of free shares still vesting and stock purchase options, the Board of Directors decided to adjust (i) the number of free shares still vesting initially allotted to each beneficiary, by multiplying this number by three, and (ii) the exercise price of the options to be exercised by the beneficiaries, by dividing this number by three and multiplying the number of options by three.

The tables presented in "Compensation paid to the Chairman and Chief Executive Officer, formerly the Chief Executive Officer, over the last two years", pages 151 to 153, show that Jacques Aschenbroich was conditionally allotted 100,000 stock purchase options and 50,000 performance shares in 2010 (300,000 stock purchase options and 150,000 performance shares following an adjustment resulting from the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 [nineteenth resolution] and implemented by the Board of Directors on the same date), 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 (90,900 stock purchase options and 46,800 performance shares following an adjustment resulting from the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 [nineteenth resolution] and implemented by the Board of Directors on the same date). In June 2014, 18,180 stock purchase options and 9,360 performance shares vested (54,540 stock

purchase options and 28,080 performance shares following an adjustment resulting from the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 [nineteenth resolution] and implemented by the Board of Directors on the same date), equivalent to 60% of his initial allotment. Of the three criteria set (operating margin, ROCE and average 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 (105,900 stock purchase options and 34,200 performance shares following an adjustment resulting from the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 [nineteenth resolution] and implemented by the Board of Directors on the same date). In March 2015, 35,300 stock purchase options and 11,400 performance shares vested (105,900 stock purchase options and 34,200 performance shares following an adjustment resulting from the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 [nineteenth resolution] and implemented by the Board of Directors on the same date), equivalent to 100% of his initial allotment, as all of the performance criteria were met (operating margin, ROCE and average ROA for 2012-2014).

He was conditionally allotted 25,634 performance shares in 2013 (76,902 performance shares following an adjustment resulting from the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 [nineteenth resolution] and implemented by the Board of Directors on the same date). In March 2016, 25,634 performance shares vested (76,902 performance shares following an adjustment resulting from the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 [nineteenth resolution] and implemented by the Board of Directors on the same date), equivalent to 100% of his initial allotment, as all of the performance criteria were met (operating margin, ROCE and average ROA for 2013-2015).

The shares allotted to Jacques Aschenbroich in 2014, 2015 and 2016 in a total number of 10,505 and 10,232 performance shares (31,515 and 30,696 performance shares after adjustment for the three-for-one stock split approved at the Shareholders' Meeting of May 26, 2016 [nineteenth resolution] and implemented by the Board of Directors on that same date), and 70,974 performance shares (following the three-for-one stock split approved at the Shareholders' Meeting of May 26, 2016 [nineteenth resolution] and implemented by the Board of Directors on that same date), respectively, are subject to performance criteria whose achievement will be assessed after the closing of the 2016, 2017 and 2018 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 for the Group's senior executives and referred to in Article L.237-11 of the French Social Security Code. This decision was implemented on October 20, 2009 and was taken with a view to retaining Jacques Aschenbroich, then 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 Appointments, 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 24.6.2 of the AFEP-MEDEF Code, as amended in November 2016, 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.

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.



Following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors on February 18, 2016, 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. It was decided that the acquisition of conditional supplementary pension benefits under the supplementary defined benefit pension plan 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 year Y+1 (2017) for year Y (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 pro-rata basis. The amended supplementary pension plan, which was authorized by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, on February 18, 2016, was approved by the shareholders at the Shareholders' Meeting of May 26, 2016 (in its fifth resolution). At its meeting on February 15, 2017, the Board of Directors, acting on the recommendation of the Compensation Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017), noted that this criterion was fully met for 2016 and in particular for the period from February 19, 2016 to December 31, 2016. The vesting of conditional supplementary pension benefits for the period of January 1, 2017 to December 31, 2017 is subject to the same performance criterion.

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

The Chairman and 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.

At December 31, 2016, Jacques Aschenbroich's supplementary pension benefits represented a total amount of 6,335,554 euros, i.e., a yearly pension allowance of 194,352 euros (it being specified that social security contributions at a rate of 32% are payable by the Company on annuities paid).

Since the Chairman and Chief Executive Officer has not claimed his pension entitlements in 2016, no amount is owed to him for 2016.

### Termination benefits and non-competition payment

#### Termination benefits

Following the Board of Directors' decision of February 24, 2010, Jacques Aschenbroich was eligible for termination benefits which were successively amended by the Shareholders' Meetings of June 8, 2011 (twelfth resolution) and May 26, 2015 (fifth resolution). Jacques Aschenbroich is no longer entitled to termination benefits as of February 18, 2016. Following his appointment 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 on February 18, 2016, his right to termination benefits. At its meeting on February 18, 2016, the Board of Directors duly noted his decision. As a result, no termination benefits are owed to him for 2016.

#### Non-competition payment

At its meeting on February 24, 2015, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to modify certain conditions of the non-competition clause decided by the Board of Directors on February 24, 2010, approved by the Shareholders' Meeting of June 3, 2010, in its eleventh resolution, and maintained by the Board of Directors of February 24, 2011 without any modification, on the recommendation of the Appointments, 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.

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 by taking the average compensation [fixed and variable] paid for the three fiscal years preceding the year of departure). 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 Jacques Aschenbroich in the form of a non-competition payment and/or termination benefits would be 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.

Since Jacques Aschenbroich's term of office has not ended in 2016, no non-competition payment is owed to him for 2016.



## Compensation paid to the Chairman and Chief Executive Officer, formerly 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. 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 became 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.

### ► SUMMARY OF COMPENSATION PAID AND STOCK PURCHASE OPTIONS AND PERFORMANCE SHARES ALLOTTED TO JACQUES ASCHENBROICH (AMF TABLE No. 1)

| (in euros)                                                             | 2015             | 2016             |
|------------------------------------------------------------------------|------------------|------------------|
| Compensation for 2016                                                  | 2,131,936        | 2,632,772        |
| Value of multi-annual variable compensation granted during the year    | -                | -                |
| Value of stock purchase options allotted during the year               | -                | -                |
| Value of performance shares allotted during the year <sup>(1)(2)</sup> | 1,215,000        | 2,699,850        |
| <b>TOTAL</b>                                                           | <b>3,346,936</b> | <b>5,332,622</b> |

(1) All performance shares allotted to the Chairman and Chief Executive Officer (formerly Chief Executive Officer) are subject to the achievement of performance criteria. The performance criteria linked to the performance shares allotted to the Chairman and Chief Executive Officer (formerly Chief Executive Officer) during 2015 and 2016 are described in this section on pages 147 to 149.

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

### ► SUMMARY OF COMPENSATION PAID TO JACQUES ASCHENBROICH (AMF TABLE No. 2)

| (in euros)                                         | 2015             |                          | 2016             |                          |
|----------------------------------------------------|------------------|--------------------------|------------------|--------------------------|
|                                                    | Amount owed      | Amount paid              | Amount owed      | Amount paid              |
| Fixed compensation                                 | 900,000          | 900,000                  | 986,508          | 986,508                  |
| Annual variable compensation                       | 1,215,000        | 1,215,000 <sup>(1)</sup> | 1,627,738        | 1,215,000 <sup>(1)</sup> |
| Multi-annual variable compensation                 | -                | -                        | -                | -                        |
| Exceptional compensation                           | -                | -                        | -                | -                        |
| Attendance fees                                    | -                | -                        | -                | -                        |
| ■ o/w attendance fees paid by Valeo                | -                | -                        | -                | -                        |
| ■ o/w attendance fees paid by controlled companies | -                | -                        | -                | -                        |
| Benefits in kind <sup>(2)</sup>                    | 16,936           | 16,936                   | 18,526           | 18,526                   |
| <b>TOTAL</b>                                       | <b>2,131,936</b> | <b>2,131,936</b>         | <b>2,632,772</b> | <b>2,220,034</b>         |

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

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

### ► STOCK PURCHASE OR SUBSCRIPTION OPTIONS ALLOTTED TO JACQUES ASCHENBROICH DURING THE YEAR (AMF TABLE No. 4)

| 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 | Exercise price | Exercise period | Performance criteria |
|-------------------|----------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------|----------------|-----------------|----------------------|
| None              | -                                      | -                                                                                   | -                                          | -              | -               | -                    |

### ► STOCK PURCHASE OR SUBSCRIPTION OPTIONS EXERCISED BY JACQUES ASCHENBROICH DURING THE YEAR (AMF TABLE No. 5)

| Plan no. and date | Number of options exercised during the year | Exercise price <sup>(1)</sup> |
|-------------------|---------------------------------------------|-------------------------------|
| 06/08/2011        | 54,540                                      | 14.13                         |
| 03/27/2012        | 105,900                                     | 13.59                         |

(1) The exercise price and the number of options were adjusted to reflect a three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date.

#### ► PERFORMANCE SHARES ALLOTTED TO JACQUES ASCHENBROICH DURING THE YEAR (AMF TABLE No. 6)

| 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 |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------------------------------|------------------------------------------------------------------------------------|--------------|---------------------------|----------------------|
|                                                                                                                                | 05/26/2016        | 70,974 <sup>(1)</sup>                     | €38.04                                                                             | 06/08/2019   | 06/08/2021 <sup>(2)</sup> | <sup>(3)</sup>       |

(1) Following the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date.

(2) Obligation to hold at least 50% of the vested shares as registered shares until the end of his term of office.

(3) All performance shares allotted to the Chairman and Chief Executive Officer are subject to the achievement of performance criteria. The performance criteria linked to the performance shares allotted to the Chairman and Chief Executive Officer during 2016 are described in this section, pages 147 to 149.

#### ► PERFORMANCE SHARE ALLOTMENTS THAT BECAME AVAILABLE FOR TRADING FOR JACQUES ASCHENBROICH (AMF TABLE No. 7)

| Plan no. and date | Number of shares that became available for trading during the year | Vesting requirements |
|-------------------|--------------------------------------------------------------------|----------------------|
| 06/08/2011        | 28,080 <sup>(1)</sup>                                              | -                    |

(1) Following an adjustment resulting from the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date.

#### ► HISTORY OF ALLOTMENTS OF STOCK PURCHASE OR SUBSCRIPTION OPTIONS INCLUDING TO JACQUES ASCHENBROICH – INFORMATION CONCERNING STOCK PURCHASE OR SUBSCRIPTION OPTIONS (AT DECEMBER 31, 2016) (AMF TABLE No. 8)

The table below showing the history of allotments of stock purchase or subscription options, including to Jacques Aschenbroich, takes into account the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date, as well as the related adjustment.

| Date of Board meeting                                                                              | 06/24/2010 | 06/08/2011 | 03/27/2012 | 03/27/2013 <sup>(3)</sup> | 03/27/2014 <sup>(4)</sup> |
|----------------------------------------------------------------------------------------------------|------------|------------|------------|---------------------------|---------------------------|
| 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                                                       | 3,000,000  | 878,520    | 1,101,480  | -                         | -                         |
| 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 <sup>(1)</sup>                                                                      | €8.02      | €14.13     | €13.59     | -                         | -                         |
| Number of options conditionally allotted to Jacques Aschenbroich <sup>(2)</sup>                    | 300,000    | 90,900     | 105,900    | -                         | -                         |
| Performance criteria – rate of achievement                                                         | 100%       | 60%        | 100%       | -                         | -                         |
| Total number of shares that can be purchased by Jacques Aschenbroich                               | 300,000    | 54,540     | 105,900    | -                         | -                         |
| Number of shares purchased                                                                         | 300,000    | 54,540     | 105,900    | -                         | -                         |
| Number of stock purchase options and stock subscription options canceled or forfeited (cumulative) | 454,386    | 379,650    | 114,150    | -                         | -                         |
| Stock purchase options and stock subscription options remaining at year-end                        | 331,913    | 117,905    | 376,855    | -                         | -                         |

(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, as adjusted.

(2) All stock purchase options allotted to the Chairman and 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 purchase options.

(4) At its meeting on March 27, 2014, the Board decided not to allot any stock purchase 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.

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

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► **HISTORY OF ALLOTMENTS OF FREE SHARES INCLUDING TO JACQUES ASCHENBROICH – INFORMATION CONCERNING FREE SHARES ALLOTTED (AT DECEMBER 31, 2016) (AMF TABLE NO. 10)**

The table below showing the history of allotments of free shares, including to Jacques Aschenbroich, takes into account the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date, as well as the related adjustment.

| Date of Board meeting                                                          | 06/24/2010 | 06/08/2011 | 03/27/2012 | 03/27/2013 | 03/27/2014 | 03/26/2015 | 05/26/2016 |
|--------------------------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Date of Shareholders' Meeting                                                  | 06/03/2010 | 06/08/2011 | 06/08/2011 | 06/04/2012 | 06/04/2012 | 05/21/2014 | 05/26/2016 |
| Total number of free shares allotted                                           | 1,200,000  | 980,580    | 639,420    | 1,421,442  | 970,440    | 957,027    | 1,267,022  |
| Vesting date of shares                                                         |            |            |            |            |            |            |            |
| ■ France                                                                       | 06/24/2012 | 06/08/2014 | 03/27/2015 | 03/27/2016 | 03/27/2017 | 03/26/2018 | 06/08/2019 |
| ■ Other countries <sup>(1)</sup>                                               | 06/24/2014 | 06/08/2016 | 03/27/2017 | 03/27/2018 | 03/27/2019 | 03/26/2020 | 06/08/2021 |
| End of holding period – France and other countries                             | 06/24/2014 | 06/08/2016 | 03/27/2017 | 03/27/2018 | 03/27/2019 | 03/26/2020 | 06/08/2021 |
| Number of shares conditionally allotted to Jacques Aschenbroich <sup>(2)</sup> | 150,000    | 46,800     | 34,200     | 76,902     | 31,515     | 30,696     | 70,974     |
| Performance criteria – rate of achievement                                     | 100%       | 60%        | 100%       | 100%       |            |            |            |
| Total number of shares purchased by Jacques Aschenbroich                       | 150,000    | 28,080     | 34,200     | 76,902     |            |            |            |
| Total number of shares canceled or forfeited (cumulative)                      | 207,723    | 352,050    | 76,041     | 186,387    | 123,945    | 108,528    | 5,739      |
| Free shares allotted remaining at year-end                                     | 0          | 0          | 104,256    | 464,946    | 846,468    | 848,481    | 910,662    |

(1) With the exception of free shares allotted under the Shares4U plan.

(2) All performance shares allotted to Jacques Aschenbroich are subject to the achievement of performance criteria. The performance criteria linked to the performance shares allotted to Jacques Aschenbroich during 2015 and 2016 are described in this section.

► **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                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | No                                                                                                                                                                                                                   | Yes                                                                                                             |
| Jacques Aschenbroich<br>Chairman and Chief Executive Officer since February 18, 2016<br>First appointed as a director: 03/20/2009<br>First appointed as Chairman and Chief Executive Officer: 05/26/2015<br>Start of term of office (director): 05/26/2015<br>End of current term of office (director and Chairman and Chief Executive Officer): Shareholders' Meeting called to approve the 2018 financial statements |                     | The pension plan covering Jacques Aschenbroich is detailed in "Pension plan" on pages 149 and 150.<br>At December 31, 2016, Jacques Aschenbroich's supplementary pension benefits represented 17% of his reference salary <sup>(1)</sup> and 3% of his variable reference compensation <sup>(2)</sup> , i.e., a yearly pension allowance of 194,352 euros (it being specified that social security contributions at a rate of 32% are payable by the Company on annuities paid). | Jacques Aschenbroich is no longer entitled to termination benefits as of February 18, 2016 <sup>(3)</sup> . For a description of these benefits, see "Termination benefits and non-competition payment" on page 150. | For a description of this benefit, see "Termination benefits and non-competition payment" on pages 149 and 150. |

(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 928,836 euros at December 31, 2016.

(2) Jacques Aschenbroich's variable reference compensation, which is the average of the last 36 months of variable compensation received, amounted to 1,215,000 euros at December 31, 2016.

(3) 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 on February 18, 2016, his right to termination benefits. At its meeting on February 18, 2016, the Board of Directors duly noted his decision.

### 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, the Internal Procedures and the internal procedures applicable to the Compensation Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017), the Board of Directors has powers to decide how attendance fees should be allocated. It bases its decision on the rules recommended by the Compensation 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.

Following the Shareholders' Meeting of May 26, 2016, the amount of the budget for attendance fees was set at 1,100,000 euros for 2016 and subsequent years until a new decision of the Shareholders' Meeting, compared to 700,000 euros at the Shareholders' Meeting of May 21, 2014. This decision was taken by the Shareholders' Meeting of May 26, 2016 after considering 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 was lower than the average reported for these companies, (ii) the number of directors eligible for attendance fees will increase following the appointment of the two new women directors decided by the Shareholders' Meeting, (iii) as from the end of his term of office as Chairman of the Board of Directors on February 18, 2016, Pascal Colombani received attendance fees as a director (which was not the case when he was an executive corporate officer), and (iv) the Lead Director will receive additional attendance fees for the performance of his duties.

The rules for allocating attendance fees among directors were approved and amended by the Board of Directors at its meetings on July 27, 2010, February 21, 2013, July 24, 2014 and January 21, 2016, on the recommendation of the Appointments, Compensation & Governance Committee. As part of the increase of the budget for attendance fees decided by the Shareholders' Meeting of May 26, 2016 to align the compensation of the Company's directors with the average compensation of directors of companies belonging to the CAC 40 index, the Board of Directors at its meeting on January 21, 2016 decided to

propose the increase of the amount of (i) the fixed and variable portions paid for attending Board of Directors' meetings (from 22,000 to 25,000 euros with respect to the fixed portion and from 2,700 to 3,000 euros per meeting attended with respect to the variable portion) and (ii) the variable portion paid to committee members (from 2,700 to 3,000 euros per meeting attended), the other amounts remaining unchanged. This change was subject to the approval of the new budget for attendance fees by the Shareholders' Meeting of May 26, 2016. The rules for allocating attendance fees to directors are now as follows: each director will receive a fixed annual fee of 25,000 euros per year and a variable fee of 3,000 euros per meeting attended; those who also sit on a Board Committee (including the committee chairmen) will be paid an additional variable fee of 3,000 euros per committee meeting attended. The Chairman of the Audit & Risks Committee will be paid an additional fixed fee of 15,000 euros per year and each committee chairman other than the Chairman of the Audit & Risks Committee will be paid an additional fixed fee of 12,000 euros per year. These payments are not capped; however, if the budget of 1,100,000 euros approved by the Shareholders' Meeting on May 26, 2016 in its eleventh resolution is exceeded, a rule of three is applied.

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.

The compensation of the Lead Director is 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.

Apart from Pascal Colombani and Jacques Aschenbroich, no Board member was paid any other compensation or benefits by the Company during the year other than attendance fees. No director was granted stock purchase or subscription options or performance shares. No director holds any stock purchase or subscription options.

The amount of attendance fees paid to each director in 2016 is outlined in the table below.

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

## ► SUMMARY OF ATTENDANCE FEES AND OTHER COMPENSATION PAID TO CORPORATE OFFICERS (AMF TABLE No. 3)

Attendance fees paid to Board members amounted to 916,231.68 euros in 2016, compared with 637,000 euros in 2015. Attendance fees were distributed as follows:

| (in euros)                                                                    | Attendance fees       |                           | Other compensation<br>(fixed, variable or exceptional<br>compensation, benefits in kind) |                  |
|-------------------------------------------------------------------------------|-----------------------|---------------------------|------------------------------------------------------------------------------------------|------------------|
|                                                                               | 2015                  | 2016                      | 2015                                                                                     | 2016             |
| <b>Executive corporate officers</b>                                           |                       |                           |                                                                                          |                  |
| Pascal Colombani (Chairman of the Board of Directors until February 18, 2016) | -                     | 104,583.33 <sup>(1)</sup> | 300,000                                                                                  | 50,000           |
| Jacques Aschenbroich                                                          | -                     | -                         | 2,131,936                                                                                | 2,220,034        |
| <b>Non-executive corporate officers</b>                                       |                       |                           |                                                                                          |                  |
| G rard Blanc                                                                  | 54,400                | 58,000.00                 | -                                                                                        | -                |
| Daniel Camus                                                                  | 74,800 <sup>(2)</sup> | 79,000.00 <sup>(2)</sup>  | -                                                                                        | -                |
| J r me Contamine                                                              | 61,000                | 48,769.23                 | -                                                                                        | -                |
| C. Maury Devine                                                               | 24,500 <sup>(3)</sup> | 61,000.00 <sup>(3)</sup>  | -                                                                                        | -                |
| Sophie Dutordoir                                                              | 57,100 <sup>(4)</sup> | 67,000.00 <sup>(4)</sup>  | -                                                                                        | -                |
| Michel de Fabiani                                                             | 76,000                | 85,000.00                 | -                                                                                        | -                |
| Mari-No lle J go-Laveiss re                                                   | -                     | 29,972.53                 | -                                                                                        | -                |
| No lle Lenoir                                                                 | 57,100                | 61,000.00                 | -                                                                                        | -                |
| Thierry Moulonguet                                                            | 65,200                | 70,000.00                 | -                                                                                        | -                |
| Georges Pauget                                                                | 82,600                | 136,703.29 <sup>(5)</sup> | -                                                                                        | -                |
| Ulrike Steinhorst                                                             | 59,800                | 88,230.77                 | -                                                                                        | -                |
| V ronique Weill                                                               | -                     | 26,972.53                 | -                                                                                        | -                |
| <b>TOTAL</b>                                                                  | <b>637,000</b>        | <b>916,231.68</b>         | <b>2,431,936</b>                                                                         | <b>2,270,034</b> |

(1) Including 59,750 euros (gross) for assistance to the Chairman and Chief Executive Officer and the Lead Director provided by Pascal Colombani after the end of his term of office as Chairman of the Board of Directors on February 18, 2016 to manage the governance transition and to prepare the Shareholders' Meeting of May 26, 2016.

(2) The amount corresponds to the gross amount of attendance fees subject to a 30% withholding tax, as Daniel Camus is not a French resident.

(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) The amount corresponds to the gross amount of attendance fees subject to a 30% withholding tax, as Georges Pauget is no longer 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, 2016 was made up of 14 members and the Chairman and Chief Executive Officer. The total gross compensation paid to the members of the Operations Committee (excluding the Chairman and Chief Executive Officer) came to 10,406,581 euros in 2016 (compared with 10,725,923 euros in 2015), of which 5,885,938 euros in fixed compensation, 4,130,044 euros in variable compensation, 69,897 euros in benefits in kind, 19,386 euros in profit-sharing and incentive compensation bonuses, and 301,316 euros in retirement benefits. The compensation policy for Group managers is described in Chapter 4, section 4.4.3 "Variable compensation", page 229.

At its meeting on May 26, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided not to allot stock purchase options in 2016 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 and disclosed to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on May 26, 2016 and in the press release dated May 4, 2016. Therefore, the Board of Directors decided to allot 1,267,022 free shares or existing performance shares to employees and corporate officers following a three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on that same date, including:

- 147,846 performance shares to the Operations Committee members (excluding Jacques Aschenbroich);
- 60,732 performance shares to the Liaison Committee members (other than the Operations Committee members);
- 293,970 performance shares to the main direct reports of the Liaison Committee members;

- 693,500 free shares (maximum), not subject to performance criteria, including (i) 650,000 free shares allotted to the Group's employees in France and in countries not participating in the Valeorizon/Shares4U employee share ownership plan and the international contribution as part of the Valeorizon/Shares4U employee share ownership plan, and (ii) 43,500 free shares to 290 high-potential managers.

In accordance with the principles adopted by the Board of Directors and disclosed to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on May 26, 2016 and in the press release dated May 4, 2016, all the performance shares allotted to the Operations Committee members (excluding Jacques Aschenbroich) by the Board of Directors, on the recommendation of the Appointments, Compensation & Governance Committee, are subject to the same performance criteria as those of the performance shares allotted to the Chairman and Chief Executive Officer by the Board of Directors on the same date (described in section 3.3.1 "Stock purchase options and performance shares", pages 147 to 149).

All the performance shares allotted to the members of the Operations Committee are conditional upon the achievement of performance criteria measured over the 2016, 2017 and 2018 fiscal years. These criteria are pre-tax return on assets (ROA) (excluding acquisitions), operating margin and return on capital employed (ROCE). These criteria are met if, for each of them, the arithmetic 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, it being specified that the target return set by the Board of Directors may not be modified subsequently.

The target returns set by the Board of Directors for 2016 are (i) 20% (excluding acquisitions) for ROA, (ii) 7.8% for operating margin, and (iii) 30% for ROCE.

The following scale then applies:

- if all three criteria for fiscal years 2016, 2017 and 2018 are met, all the performance shares allotted will vest;
- if two of the three criteria for fiscal years 2016, 2017 and 2018 are met, only 60% of the performance shares allotted will vest and the remainder will be forfeited;
- if only one of the three criteria for fiscal years 2016, 2017 and 2018 is met, only 30% of the performance shares allotted will vest and the remainder will be forfeited;
- if none of the three criteria for fiscal years 2016, 2017 and 2018 are met, no performance shares allotted will vest and all the performance shares will be canceled.

Furthermore, in accordance with the principles adopted by the Board of Directors and disclosed to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on May 26, 2016 and in the press release dated May 4, 2016, the performance shares allotted to the Liaison Committee members (other than the Operations Committee members) and the main direct reports of the Liaison Committee members by the Board of Directors, on the recommendation of the Appointments, Compensation & Governance Committee, are conditional upon the achievement of the following two performance criteria: operating margin and return on capital employed (ROCE). These criteria are met if, for each of them, the arithmetic 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, it being specified that the target return set by the Board of Directors may not be modified subsequently.

The target returns set by the Board of Directors for 2016 are (i) 7.8% for operating margin and (ii) 30% for ROCE.

The following scale then applies:

- if both criteria are met for fiscal years 2016, 2017 and 2018, all the performance shares initially allotted will vest;
- if only one of the two criteria is met for fiscal years 2016, 2017 and 2018, 50% of the performance shares initially allotted will vest and the remainder will be forfeited;
- if neither of the two criteria is met for fiscal years 2016, 2017 and 2018, 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 vesting period will be five years for beneficiaries who are non-French tax residents. 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 2016 had a limited dilutive impact and represented 0.38% of the Company's share capital at December 31, 2016. 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 2.08% and 2.96% of the Company's share capital at December 31, 2016.

At its meeting on October 20, 2009, the Board of Directors, acting on the recommendation of the Appointments, 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 Appointments, 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 AFEP-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 149 to 150).

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 is 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 Appointments, Compensation & Governance Committee, on February 18, 2016, was approved by the shareholders at the Shareholders' Meeting of May 26, 2016 (fifth resolution). At its meeting on February 15, 2017, the Board of Directors, acting on the recommendation of the Compensation Committee (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017), noted that this criterion was fully met for 2016 and in particular for the period from February 19, 2016 to December 31, 2016. The vesting of conditional supplementary pension benefits for the period from January 1, 2017 to December 31, 2017 is subject to the same performance criterion.

### 3.3.4 Information about stock purchase or subscription options and performance shares

The stock purchase or subscription option and performance share allotment policy is set out in section 3.2.5 “Stock purchase option, stock subscription option and performance share allotment policy for executive corporate officers”, pages 132 to 133, and in section 3.3.1 “Stock purchase options and performance shares”, pages 147 to 149 regarding the allotments to executive corporate officers, in section 3.3.3

“Overall compensation of other Group executive managers”, pages 155 to 157 and in this section regarding allotments to other beneficiaries, page 158.

The stock purchase options and allocation of free shares are also detailed in Chapter 6, section 6.6.3 “Other securities giving access to the share capital – Stock purchase option plans and allotment of free shares”, pages 420 and 421.

#### Stock purchase or subscription options allotted and exercised during the year (AMF Table No. 9)

| 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 <sup>(1)</sup> | Weighted average exercise price <sup>(1)</sup> | Expiration date                                      | Date of Board meeting                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Options allotted in 2016 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 2016 by the ten employees of the issuer or other Group companies holding the greatest number of options                                                                                                     | 175,820                                             | €12.56                                         | 03/19/2016<br>06/23/2018<br>06/07/2019<br>03/26/2020 | 03/20/2008<br>06/24/2010<br>06/08/2011<br>03/27/2012 |

(1) The exercise price and the number of options were adjusted to reflect a three-for-one stock split approved by the Shareholders’ Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date.

#### 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 <sup>(2)</sup> | 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 <sup>(1)</sup> | 128,344                                              | 05/26/2016            |

(1) Valued at 38.04 euros under IFRS, i.e., 114.13 euros a share before the three-for-one stock split.

(2) The number of shares was adjusted to take into account the three-for-one stock split approved by the Shareholders’ Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date.

#### Pensions and other post-employment benefits and related provisions

At December 31, 2016, 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 14 million euros, as opposed to 17 million euros at December 31, 2015.

At December 31, 2016, 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, 3 million euros (as opposed to 2.7 million euros at December 31, 2015) and 303,873 euros (as opposed to 316,064 euros at December 31, 2015).

# 4

## SUSTAINABLE DEVELOPMENT

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## INTERVIEW WITH **JACQUES ASCHENBROICH**

Chairman and Chief Executive Officer

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**Valeo has been named to the DJSI World and DJSI Europe indices for the first time.**

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### **How is the Group's sustainable development policy structured?**

J.A. At Valeo, sustainable development is built on four key axes: innovation, environmental eco-efficiency, employees and commitment to corporate citizenship. It can be perceived in all the areas where the Group interacts with stakeholders, both internally and outside the Group.

Since 2010, at my request, Valeo has had a function and a department dedicated to sustainable development. Its role within the Group is to coordinate initiatives. Outside the Group, it is tasked with ensuring the consistency of the messages shared with external stakeholders, be they our customers or the entities that analyze our performance in this area, all of which are becoming increasingly discerning. Other Group functions, including Research and Development, Risk Insurance Environment, Human Resources, Ethics and Compliance, and Purchasing, also make a direct contribution to work in the field of sustainable development, and have developed their own tools to assist them in this cross-functional work.

Our sustainable development policy also reflects our desire to assess and satisfy the demands of our employees, customers, suppliers and shareholders, as well as domestic and international regulators and supervisory bodies.

### **What makes sustainable development central to Valeo?**

J.A. A commitment to sustainable development is embedded in Valeo's DNA.

As a technology company, Valeo offers innovative products and systems that help reduce CO<sub>2</sub> emissions and promote the development of an intuitive, connected and more autonomous driving experience.

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<sup>(1)</sup> have accounted for more than 30% of the Group's order intake since 2013 – and 50% in 2016. In addition, products that directly or indirectly contribute to CO<sub>2</sub> emissions reduction accounted for more than 50% of Valeo's original equipment sales in 2016.

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<sup>(1)</sup> Products and technologies in series production for less than three years.

### What were the highlights of 2016?

J.A. In a process of continuity, we have extended and intensified our efforts and investments in Research and Development in order to develop ever more innovative products. In 2016, investments of this nature accounted for more than 11% of our original equipment sales.

For the environment, Valeo pursued its strategy and objectives in terms of reducing natural resource consumption and reining in CO<sub>2</sub> emissions. Since 2008, Valeo has significantly reduced consumption (as a proportion of sales) of water (by 50%), energy (by 31%) and packaging (by 25%). Direct and indirect CO<sub>2</sub> emissions (as a proportion of sales) have been cut by 5%.

As regards employees, health and safety at work remain a priority. In 2016, the Group launched its "Safety Talks", a series of safety discussions organized by managers in the field to detect, understand and correct unsafe behavior among employees. Valeo also continued to ramp up its safety training, notably by releasing e-learning modules in 18 Group languages on the priority themes that have led to accidents in the past.

Also in 2016, Valeo offered an extensive training program on sustainable development and CSR<sup>(1)</sup> to all site management teams and employee representatives as part of a related module in classroom format. This ambitious program of training and labor relations has been rolled out in 30 countries, bringing together the actors of the sites concerned for sessions covering one or several countries. In 2017, the Group plans to organize at least one session dedicated to these subjects within the works committees of each Valeo site worldwide.

In terms of corporate social responsibility, the Plants' Initiatives program, which has been in place in each of our sites since 2008, represents a wide range of social initiatives targeting both our employees and the neighboring local communities. In 2016, each plant organized at least one such event. Initiatives in this area are monitored closely by the Group, and are improving and flourishing.

Lastly, Valeo saw its non-financial performance recognized in 2016. It received the 2017 "RobecoSAM Gold Class" and "RobecoSAM Industry Mover" awards, and was named to the DJSI World and Europe indices<sup>(2)</sup> for the first time.

Valeo was also awarded the 2016 CAC Large 60<sup>(3)</sup> Grand Prix at the 2016 Financial Transparency Awards (*Grands Prix de la Transparence*), topping the ranking of the 60 biggest French companies by market capitalization (including all CAC 40 companies), primarily on the basis of the quality of the information presented in the 2015 Registration Document. This prize, awarded by the leading associations of the Paris financial market, rewards the importance placed by Valeo on the rigor, relevance, transparency and ease of access of financial and non-financial information made available to investors, shareholders and analysts.

Our stakeholders' attachment to these rankings encourages us to continue our commitment to sustainable development.

March 22, 2017

(1) Corporate social responsibility.

(2) Dow Jones Sustainability Index (DJSI World and DJSI Europe).

(3) CAC 40 extended.

## 4.1 Valeo and sustainable development: strategy, policy and organization

### 4.1.1 Sustainable development challenges

To determine its key sustainable development challenges, Valeo has conducted a materiality analysis to:

- enable stakeholders to better comprehend their interactions with Valeo;
- give its Research and Development, environmental, labor-related and social data sharper focus on key issues of significance for the Group and its stakeholders;
- reinforce the relevance and quality of information put forward by the Group.

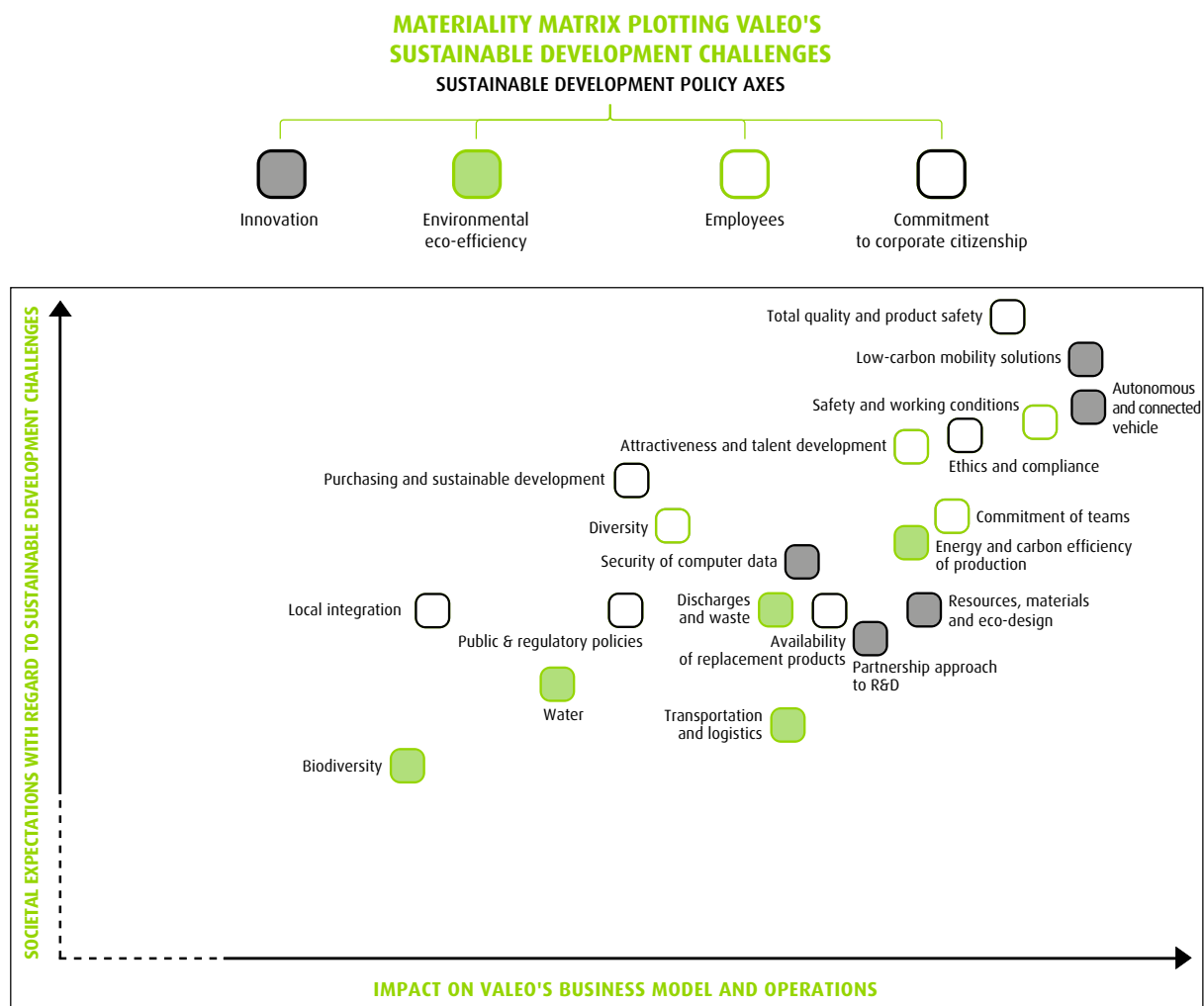
The materiality analysis aims to compare Valeo's internal ambitions in respect of sustainable development with its stakeholders' expectations. The analysis is based on:

- a series of interviews with Valeo's various departments (Purchasing, Risk Insurance Environment, Research and Development, Human Resources, Sales) and country management teams;
- a documentary review (non-financial questionnaires, survey results, etc.);

- specific interviews and requests from the Group's stakeholders in respect of sustainable development (automakers, civil society, specialist press, non-financial analysts, etc.).

The identification of relevant or so-called material challenges resulted in the preparation of a materiality matrix (below) built around the following four axes: **innovation, environmental eco-efficiency, employees and commitment to corporate citizenship**. A total of 20 challenges were identified. In this chapter, we describe the relevance, approach, performance, and achievements of the year and outlook for each of these challenges. The chapter provides a description of all key sustainable development performance indicators and the main tools used within the Group.

In 2016, Valeo shared its materiality matrix with various stakeholders in order to continue the process of comparing the challenges identified by the Group with the perception that external stakeholders have of them. This approach did not reveal any need to adapt the matrix in the past year.





## 4.1.2 Sustainable development governance and structure

### The organization of sustainable development at Valeo

Sustainable development policy spans all of the Group's functions and networks and is designed to dovetail with Valeo's business objectives and policies.

The Sustainable Development and External Relations Department plays the role of pilot and coordinator for the Group's various networks and departments. It ensures the appropriate level of interface between the Group and external stakeholders in order to satisfy their growing and increasingly detailed requirements. The Human Resources, Risk Insurance Environment, Ethics and Compliance, and Research and Development departments and the operational departments (Purchasing, Quality and Industrial) all contribute to the sustainable development policy.

### A new committee in charge of corporate social responsibility

In order to strengthen control of the Group's sustainable development performance, which by nature concerns all Group functions, the Board of Directors' Appointments, Compensation & Governance Committee held a joint interview with the Group Sustainable Development and External Relations Senior Vice-President and the Group Human Resources Senior Vice-President in January and February 2016.

The review was an opportunity to:

- validate the main lines of action adopted by the Sustainable Development and External Relations Department:
  - eco-responsible product design guaranteeing low carbon emissions, obtained thanks to an eco-efficient manufacturing footprint,

- health and safety at work, development of human capital, labor relations, development of a healthy, ethical and diversified professional environment respectful of individual and collective rights;
- review achievements during the year:
  - as regards the deployment of the principles of corporate social responsibility in the purchasing policy, and
  - in terms of integration and solidarity initiatives with the communities of our host cities and regions;
- assess the short- and medium-term outlook.

On January 26, 2017, the Appointments, Compensation & Governance Committee was split into two separate committees:

- a Compensation Committee;
- a Governance, Appointments & Corporate Social Responsibility Committee.

The split was aimed at achieving continuous improvement in governance.

The Governance, Appointments & Corporate Social Responsibility Committee has been given the following responsibilities:

- review the thrusts relating to the Group's corporate social responsibility policy;
- identify corporate social responsibility objectives and challenges;
- verify the achievement of previously defined objectives;
- oversee the gradual and increasing implementation of Valeo's corporate social responsibility policy;
- assess the contribution of the policy to the Group's sustainable development.

### 4.1.3 Sustainable development policy in the Group's business

#### General sustainable development policy

Valeo's sustainable development approach is based on the following commitments:

- the Valeo 5 Axes;
- the Code of Ethics;
- the Sustainable Development Charter;
- the Code of Conduct for Valeo partners.

Building on these commitments, Valeo's sustainable development policy has four key themes:

- innovation;
- environmental eco-efficiency of solutions and products;
- employees;
- commitment to corporate citizenship.

Specific policies and achievements in these areas are described throughout this chapter.

#### VALEO'S COMMITMENT TO THE CIRCULAR ECONOMY

The Group has made a commitment to the circular economy<sup>(1)</sup> in the following two dimensions:

- waste prevention and management, specific waste recycling campaigns related to the production process (see section 4.3.3 of this chapter, "Waste", pages 204 to 205), or reuse of packaging materials (see section 4.3.4 of this chapter, "Packaging", page 208), as well as product recovery initiatives, such as the Valeo starter-alternator recycling program (see section 4.2.3 of this chapter, "Tools for integrating eco-design", pages 177 to 178). Since Valeo is exclusively dedicated to the design, manufacture and sale of automotive parts, it does not discuss the fight against food waste in its environmental and corporate citizenship initiatives;
- sustainable use of resources, with key policies and actions on:
  - water consumption and water supply (see section 4.3.5 of this chapter, "Water", pages 209 to 210),
  - consumption of raw materials and measures taken to improve the efficiency of their use (see section 4.2.3 of this chapter, "Consumption of raw materials", page 180),
  - energy consumption, measures taken to improve energy efficiency and the use of renewable energies (see section 4.3.2 of this chapter, "Reducing energy consumption", pages 196 to 198).

#### 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.

<sup>(1)</sup> This information on the commitment to the circular economy is provided in accordance with Order No. 2016-1138 of August 19, 2016 issued for the application of Article L.225-102-1 of the French Commercial Code (Code de commerce) on environmental disclosures in companies' management reports.

► **PERFORMANCE CHART SHOWING THE CHIEF OBJECTIVES AND KEY PERFORMANCE INDICATORS OF THE GROUP'S SUSTAINABLE DEVELOPMENT POLICY**

| Axes                                | Themes                                                                                 | Challenges                                                                                                                                                                                                                                                                     | Objectives                                                                                                                                                                                                                                                                                                                                                         | Performance indicators                                                                                                                | Pages             |
|-------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Innovation                          | Low-carbon and autonomous mobility, <i>open innovation</i> <sup>(1)</sup> , eco-design | Build a growth strategy based on innovative technologies for:<br>■ CO <sub>2</sub> emissions reduction<br>■ intuitive driving (connectivity, automation and human-machine interfaces)                                                                                          | ■ Develop CO <sub>2</sub> emissions reduction and intuitive driving technologies<br>■ Promote open innovation <sup>(1)</sup>                                                                                                                                                                                                                                       | ■ Net Research and Development expenditure (as a % of sales)                                                                          | 174               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Research and Development headcount                                                                                                  | 174               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Number of customer projects managed                                                                                                 | 174               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Number of collaborative projects funded                                                                                             | 174               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Number of patents filed                                                                                                             | 174               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Proportion of innovation in the order intake                                                                                        | 174               |
| Environmental eco-efficiency        | Environmental eco-efficiency of 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, as a proportion of sales):<br>■ 6% reduction in water consumption<br>■ 8% reduction in energy consumption<br>■ 5% reduction in the production of hazardous and non-hazardous waste<br>■ 8% reduction in direct and indirect GHG emissions <sup>(1)</sup><br>■ ISO 50001 certification <sup>(1)</sup> of 20% of sites | ■ Water consumption                                                                                                                   | 193               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Energy consumption                                                                                                                  | 193               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Packaging materials consumption                                                                                                     | 193               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Reduction in the production of hazardous and non-hazardous waste                                                                    | 193               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Reduction of direct and indirect greenhouse gas emissions (Scope 1 and Scope 2)                                                     | 193               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ ISO 14001 and ISO 50001 certification                                                                                               | 191               |
| Employees                           | Safety and working conditions                                                          | ■ Ensure the health and safety of employees, from the design of new production equipment, and throughout their careers<br>■ 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                                                                                            | 222               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Severity rate of occupational accidents                                                                                             | 222               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Number of training hours devoted to health and safety                                                                               | 231               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Percentage of sites having implemented Well-Being at Work initiatives                                                               | 219               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Proportion of agreements signed with unions on local health and Well-Being at Work initiatives                                      | 220               |
|                                     | Commitment of teams                                                                    | ■ Promote the commitment and satisfaction of Valeo employees at work<br>■ Support the Group's growth                                                                                                                                                                           | ■ Foster talent retention                                                                                                                                                                                                                                                                                                                                          | ■ Rate of absenteeism<br>■ Breakdown of departures by cause and geographic area<br>■ Voluntary turnover of managers and professionals | 222<br>233<br>233 |
| Commitment to corporate citizenship | Purchasing and sustainable development                                                 | ■ 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  | 243               |
|                                     | 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                                                      | 239               |
|                                     | Local integration                                                                      | ■ Ensure positive development interaction between the Group and its local ecosystem                                                                                                                                                                                            | ■ Be a responsible industrial player with regard to labor and social issues<br>■ Ensure that sites have the appropriate interaction with their economic, labor and social environments                                                                                                                                                                             | ■ Quality of voluntary measures taken by industrial plants                                                                            | 247               |
|                                     |                                                                                        |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                    | ■ Quality of institutional relations with various national, European and international stakeholders                                   | 246               |

(1) See Sustainable Development Glossary, page 450.

## Risks and opportunities related to the impacts of climate change

In line with the new legal provisions relating to the Chairman of the Board of Directors' obligation to report on the financial risks related to the impacts of climate change<sup>(1)</sup>, and based on the tools developed by the international methodological guidelines for addressing this type of risk<sup>(2)</sup>, Valeo has elected to present the possible impacts of climate change on its activity in a low-carbon scenario.

In view of the growing demand for low-carbon mobility, which is mirrored in large part in changes in regulations on greenhouse gas emissions from vehicles, Valeo drew up a company technology strategy in 2009. Its key objectives are to position the Group on technologies that reduce CO<sub>2</sub> emissions and promote autonomous and connected mobility (see Chapter 1, section 1.1.3 "A new Valeo, more technologically focused, innovative, dynamic, and profitable", pages 14 to 17). This strategic choice aims to allow the Group to seize the opportunities offered by the massive market penetration of technologies promoting low-carbon mobility.

In this scenario, Valeo has identified three main risks, which may also prove to be opportunities:

1. charges in regulations governing reductions in greenhouse gas emissions;
2. change in consumer behavior;
3. intensification of natural events.

Risks 1 and 3, considered as risks to which Valeo could be exposed, are described under the heading "Risk factors" in the Registration Document (see Chapter 2, section 2.1.1 "Risks related to the development and launch of new products", pages 70 to 71, and section 2.1.2 "Risks related to the impacts of climate change and natural events", page 76).

### Changes in regulations regarding reductions in greenhouse gas emissions

Keeping up with such changes and developing products that meet increasingly demanding environmental standards can directly affect the Group's future sales, as can failure to do so.

To guide the Group's strategic choices, the Product Marketing teams seek to anticipate medium- and long-term market trends stemming from regulatory changes and changing consumer expectations.

In addition, Valeo long ago established dedicated teams by product and by country to monitor regulatory developments. This monitoring is integrated into product development tools, and allows R&D and Projects teams to anticipate and comply with new regulations.

The Group's ability to anticipate such changes has led it to build expertise in vehicle hybridization (micro-, mild-, full-, plug-in hybrid), which currently enable it to offer technological solutions essential for the development of hybrid and electric vehicles, notably in the field of powertrain electrification and battery thermal management (see Chapter 1, section 1.1.3 "A new Valeo, more technologically focused, innovative, dynamic, and profitable", pages 14 to 17). Thus, products that directly or indirectly contribute to CO<sub>2</sub> emissions reduction accounted for more than 50% of Valeo's original equipment sales in 2016.

### Change in consumer behavior

Climate change, increasing urbanization in many countries, the collective determination of consumers and the development of regulations to reduce CO<sub>2</sub> emissions are prompting greater demand for new types of vehicles (hybrid, electric, etc.) and new forms of vehicle ownership (shared mobility, on-demand mobility, etc.).

Emerging demand of this nature is one of the drivers of change in the automotive industry and the renewal of its traditional technical, business and financial models.

Valeo has placed new forms of mobility at the heart of its strategy of developing new products and mobility solutions (low-carbon, autonomous and connected). The Group relies on the identification of emerging demand by its Product Marketing Department, combined with a collaborative innovation strategy (partnerships with start-ups, new entrants in the automotive world, etc.).

A solution such as eCruise4U (section 4.2.2 of this chapter, "Valeo eCruise4U", pages 176 to 177) is an example of the Group's ability to turn emerging demand in the field of mobility into an opportunity.

Furthermore, the Projects and R&D management teams constantly monitor the Group's innovation capacity in this area.

Valeo believes that changes in end-consumer behavior are a positive driver of growth. The Group's positioning as an innovative automotive supplier enables it to meet end consumers' aspiration for affordable mobility that makes life easier, is in tune with personal needs and uses, and is available at all times.

### Intensification of natural events

Some of Valeo's operations are located in areas at risk of exceptional natural events. This has prompted the implementation of preventive measures described in Chapter 2, section 2.1.2 "Risks related to the impacts of climate change and natural events", page 76.

(1) Article L.225-37 of the French Commercial Code (Code de commerce).

(2) Task Force on Climate-related Financial Disclosure (an international working group bringing together experts from major sectors, banks and rating agencies, which has proposed a methodological framework for reporting risks and opportunities related to climate change. This methodological guide, broken down by sector, aims to strengthen the pertinence and transparency of financial information); CDP Climate Change (non-financial questionnaire assessing the transparency and performance of the sustainable development of enterprises, organizations, etc., integrating a methodology for monitoring risks and opportunities related to climate change).

## Recognition of Valeo's commitment to sustainable development

Valeo saw its non-financial performance acknowledged by various rating agencies in 2016<sup>(1)</sup>, reflecting the successful cross-functional deployment of sustainable development and communication that respects the principles of transparency, rigor and relevance.

| Organization                    | Rating                                                              |
|---------------------------------|---------------------------------------------------------------------|
| Carbon Disclosure Project (CDP) | B<br>(new rating methodology)                                       |
| MSCI ESG Rating                 | A<br>Ranked no. 2 among automotive suppliers                        |
| OEKOM                           | Prime C+<br>Ranked no. 3 among automotive parts suppliers           |
| RobecoSAM (DJSI)                | 80/100<br>Industry leader (ranked no. 1 among automotive suppliers) |
| Sustainalytics                  | 84/100<br>Leader                                                    |

The Carbon Disclosure Project (CDP<sup>(1)</sup>) assessed the transparency of Valeo's communication and performance in terms of carbon impact with a score of B for 2016 (based on its new methodology), which is 4 levels (out of 8) above the average score of participating companies.

RobecoSAM<sup>(1)</sup> assessed Valeo's sustainable development initiatives (governance, risks, R&D, environment, labor issues, and corporate citizenship, etc.), placing the Group at the forefront of the automotive suppliers sector, with a score of 80 out of 100 in 2016. This performance was confirmed by the 2017 RobecoSAM Gold Class and RobecoSAM Industry Mover awards, which enabled Valeo to join the Dow Jones Sustainability Index (DJSI World and DJSI Europe) for the first time.



Sustainalytics<sup>(1)</sup> awarded Valeo a score of 84 out of 100 for sustainability in 2016, giving it the status of leader among automotive suppliers and tire manufacturers.

Valeo also featured in several non-financial indices in 2016, in particular:

- DJSI (Dow Jones Sustainability Index) Europe
- DJSI World
- Ethibel Sustainability Index (ESI) Excellence Europe
- Euronext Vigeo Europe 120
- Euronext Vigeo Eurozone 120
- FTSE4Good Global Index
- Low Carbon 100 Europe
- MSCI ACWI Sustainable Impact Index
- STOXX® Global ESG Leaders.

(1) See Sustainable Development Glossary, page 450 for a description of each agency.

## 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. They range from design (research centers, universities and engineers) to production (suppliers and employees) and sales (automakers and distribution networks).

For 2016, Valeo offers a more comprehensive picture of its sustainable development policy on the basis of analysis of its relationships with stakeholders. The analysis states 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 changes in the automotive industry, demand from stakeholders and the Group's determination to meet the highest expectations laid down in the major international standards in this area.

#### ► TYPES OF DIALOG WITH STAKEHOLDERS

|                                                 | Stakeholders                                                                                                                                                                                                                                                                                                   | Objective of dialog                                                                                                                                                                                     | Sample answers and types of dialog undertaken                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Customers                                       | <ul style="list-style-type: none"> <li>■ Automakers</li> <li>■ Distributors</li> </ul>                                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>■ Design, develop, manufacture and market innovative products and systems for sustainable mobility</li> </ul>                                                    | <ul style="list-style-type: none"> <li>■ Technology steering committees</li> <li>■ Customer meetings</li> <li>■ Market trend studies</li> </ul>                                                                                                                                                                                                                           |
| Employees                                       | <ul style="list-style-type: none"> <li>■ Valeo employees</li> <li>■ Professional organizations</li> <li>■ Administrative and governmental authorities</li> <li>■ Employer representative bodies</li> <li>■ Employee representative bodies and labor unions</li> <li>■ Social security organizations</li> </ul> | <ul style="list-style-type: none"> <li>■ Ensure ongoing dialog with employees</li> <li>■ Ensure ongoing dialog with the leaders of various labor unions and professional organizations</li> </ul>       | <ul style="list-style-type: none"> <li>■ Annual survey of employee commitment</li> <li>■ Diversity program</li> <li>■ Well-Being at Work program</li> <li>■ Collective bargaining</li> <li>■ Dialog with labor unions and employers' associations</li> </ul>                                                                                                              |
| Research and Development partners               | <ul style="list-style-type: none"> <li>■ Research partners and subcontractors</li> <li>■ Start-ups and accelerators</li> <li>■ Venture capital firms</li> <li>■ Laboratories</li> <li>■ Universities</li> <li>■ Independent public bodies</li> <li>■ Certification and control bodies</li> </ul>               | <ul style="list-style-type: none"> <li>■ Establish cooperative and industry-oriented Research and Development</li> <li>■ Organize transfers and exchanges of skills, techniques and know-how</li> </ul> | <ul style="list-style-type: none"> <li>■ Scientific events (conferences and congresses)</li> <li>■ Collaborative research</li> <li>■ Partnerships with universities and competitiveness clusters</li> <li>■ Organization of technology days</li> <li>■ Participation in technology platforms</li> </ul>                                                                   |
| Partners and suppliers                          | <ul style="list-style-type: none"> <li>■ Lessors/tenants</li> <li>■ Suppliers</li> <li>■ Innovative SMEs</li> </ul>                                                                                                                                                                                            | <ul style="list-style-type: none"> <li>■ Cooperate and co-construct in compliance with competition law</li> </ul>                                                                                       | <ul style="list-style-type: none"> <li>■ Supplier integration</li> <li>■ Selection committees</li> <li>■ Calls for tender</li> <li>■ Working groups</li> </ul>                                                                                                                                                                                                            |
| Institutions                                    | <ul style="list-style-type: none"> <li>■ Public authorities (governments)</li> <li>■ European Commission</li> <li>■ International organizations (UN, ITF, IFC, OECD, etc.)</li> </ul>                                                                                                                          | <ul style="list-style-type: none"> <li>■ Conduct economic, industrial and labor dialog in compliance with national, European and international laws and regulations</li> </ul>                          | <ul style="list-style-type: none"> <li>■ Communication on Progress of the UN Global Compact (once annually)</li> <li>■ Dialog with national authorities</li> <li>■ Dialog with the European Commission</li> </ul>                                                                                                                                                         |
| Regions                                         | <ul style="list-style-type: none"> <li>■ Local authorities</li> <li>■ Local government</li> <li>■ Associations</li> <li>■ Civil society</li> </ul>                                                                                                                                                             | <ul style="list-style-type: none"> <li>■ Ensure positive development interaction between the Group and its local ecosystem</li> </ul>                                                                   | <ul style="list-style-type: none"> <li>■ Dialog with employment agencies</li> <li>■ Dialog with local authorities</li> <li>■ Dialog with local stakeholders (associations, NGOs, etc.)</li> </ul>                                                                                                                                                                         |
| Financial community and individual shareholders | <ul style="list-style-type: none"> <li>■ Shareholders/institutional investors</li> <li>■ Individual shareholders</li> <li>■ Credit and non-financial rating agencies</li> <li>■ Banks</li> <li>■ Insurers</li> <li>■ Statutory Auditors</li> </ul>                                                             | <ul style="list-style-type: none"> <li>■ Adopt a dialog-based approach building on the relevance, rigor and transparency of information relating to the Group's results</li> </ul>                      | <ul style="list-style-type: none"> <li>■ Meetings with investors and analysts (including SRI<sup>(1)</sup>)</li> <li>■ Financial results presentations</li> <li>■ Shareholders' Meeting</li> <li>■ Dialog with financial and non-financial rating agencies</li> <li>■ Website and digital resources (webzine, flash e-newsletter, shareholders' letters, etc.)</li> </ul> |

(1) SRI: socially responsible investment.



## Dialog with industry stakeholders

Within the Automotive Industry Platform (*Plateforme de la Filière Automobile* – PFA), Valeo was a force behind the establishment of dialog with stakeholders, the first two editions of which were held in 2015 and 2016. The goal is to register its commitment to dialog with stakeholders from an industry-wide perspective.

Alongside key members of the industry (Renault, PSA, Michelin, Plastic Omnium and Delphi France), Valeo took part in a multi-stage dialog for the 2016 edition, including a workshop at the Paris Motor Show (October 2016), a preparatory session at one of Valeo's sites, and a plenary session in January 2017. Building on a panel bringing together various French and European public bodies and international organizations, representatives of local authorities, private automotive companies, infrastructure managers and urban planning agencies, as well as representatives of civil society and environmental NGOs, the French automotive industry decided to extend this initiative launched in 2015.

This dialog gave the French automotive industry a forum for open discussion about the full range of issues currently raised in the field of automotive mobility in France (carbon impact and pollution of the automotive industry, new forms of mobility, role of the automotive industry in the regions, its social impact, relationship between contractors and subcontractors, etc.).

## Valeo, a key driver of a sustainable automotive industry

As a responsible player within the French automotive industry, Valeo has contributed to the Automotive Future Fund (*Fonds Avenir Automobile* – FAA), formerly the Tier 2 Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Equipementiers Automobiles Rang 2*) since its inception.

Along with other major industry suppliers, the Group supports tier-two suppliers and further, 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 seeks to maintain relationships with major cities as a provider of solutions for smarter, low-carbon mobility facilitating the emergence of smart cities.

## Valeo, a responsible partner

In 2013, Valeo surveyed its suppliers with a view to gaining a better understanding of their overall 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 of this chapter, "Application of sustainable development principles in purchasing processes", pages 240 to 244).

## 4.1.5 Methodology

In the interests of transparency, the methodology of environmental, labor and social reporting is set out in the methodology section of this chapter (see section 4.6.1 of this chapter, "Sustainable development reporting methodology", pages 250 to 252). The validity of this methodology, and the completeness and sincerity of the resulting data are audited by an independent third party<sup>(1)</sup>, whose report appears in section 4.8 of this chapter, "Independent verifier's report on consolidated social, environmental and societal information presented in the management report", pages 265 to 267.

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 2016 on the basis of the Core reporting option of the GRI 4 (Global Reporting Initiative<sup>(2)</sup>) guidelines. 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 in section 4.6.2 "Cross-reference with national and international guidelines", pages 253 to 260.

(1) Pursuant to Article R.225-105-2 of the French Commercial Code (Code de commerce).

(2) See Sustainable Development Glossary, page 450.

## 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 Group Research and Development policy

#### Challenges

#### The fundamental principles and challenges of the Group's Research and Development policy

##### Research and Development 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 the study and analysis of major social trends, Valeo is working on ten-year technology roadmaps, which anticipate future consumer demand and, as such, serve to establish the Group's key development thrusts;
- integrated: every Research and Development 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 significant 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.

#### From analysis of megatrends to the vehicle concept of tomorrow

Global trends indicate that the world population is set to grow, age and become more urban. 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, especially in Europe (CO<sub>2</sub> emissions capped at 95 g/km by 2021) (see Chapter 1, section 1.1.2 "Increasingly stringent regulations aimed at reducing air pollution", pages 11 to 12).

These analyses have allowed Valeo to identify the following three major shifts in the automotive industry:

- powertrain electrification, which stems in large part from the following trends:
  - technologies contributing the reduction of emissions of greenhouse gases and other pollutants are enjoying growing demand from automakers as a means of complying with future legislation and avoiding financial penalties for non-compliance. Moreover, standards governing emissions of CO<sub>2</sub> and other pollutants such as nitrogen oxides and particulate matter are being reinforced in the major industrialized economies, particularly in North America and the European Union. 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 targets. Thus, products that directly or indirectly contribute to CO<sub>2</sub> emissions reduction accounted for more than 50% of Valeo's original equipment sales in 2016,

- the optimization of internal combustion engines, primarily through transmission automation (dual clutch transmissions, etc.) and the development of new powertrain electrification solutions, helps to reduce fuel consumption. 48 V medium-power hybrid solutions offer powertrain electrification possibilities at a competitive cost. High-power (over 60 V) electrification with electric vehicles and plug-in hybrids offer a significant reduction in CO<sub>2</sub> emissions as well as the option of travelling in zero-emissions mode, especially in urban areas,
- reducing fuel consumption is not the only way to reduce a vehicle's overall environmental footprint. Control of energy and raw material consumption is currently the backbone of product development in the automotive industry, where vehicle eco-design is central to Research and Development. 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 aims in this respect are to achieve the CO<sub>2</sub> emissions reduction and environmental footprint objectives;
- autonomous, connected and intuitive driving:
  - like powertrain electrification, vehicle automation will spread gradually. (It already partially exists in the form of automated parking systems and advanced driver assistance features such as adaptive speed control, driving assistance in traffic jams, automatic emergency braking and lane departure warning systems.) Automation must evolve to address increasingly complex urban driving situations as well as the lack of internet coverage in certain areas to assist vehicles in their autonomous mobility,
  - automated driving requires vehicles to become increasingly connected to their environment (other vehicles, urban infrastructure, the cloud, etc.). As was the case with the rise of mobile telephony, connectivity will lead to the emergence of new services, such as remote maintenance and secure updates of onboard software. Vehicle connectivity is a key avenue of support for level 4 and level 5 autonomous vehicles,
  - to inform and reassure drivers, particularly when switching between automated and manual mode, automakers need to provide simple, fluid human-vehicle interfaces to make automation features easy to use. Such features enabling information and communication between the driver and

the vehicle (also known as human-machine interfaces) are also solutions enabling the use of the vehicle interface for other activities (reading emails, etc.) during phases of autonomous driving;

- new services around mobility:

- to meet growing mobility needs, especially in urban areas, consumers are increasingly turning towards the use of new mobility services. New uses of this nature stem from the spread of alternative transportation offers, car ownership and ease of use of the service. Car-pooling, for instance, is growing in popularity, and has become an integral part of the transportation offering. Car-sharing – an alternative to individual ownership – and ride-hailing services are seeing exponential growth,
- these new services are being rolled out on digital peer-to-peer platforms. Such technology and new service offerings offers the most efficient mobility possible by optimizing travel time, price and accessibility.

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.

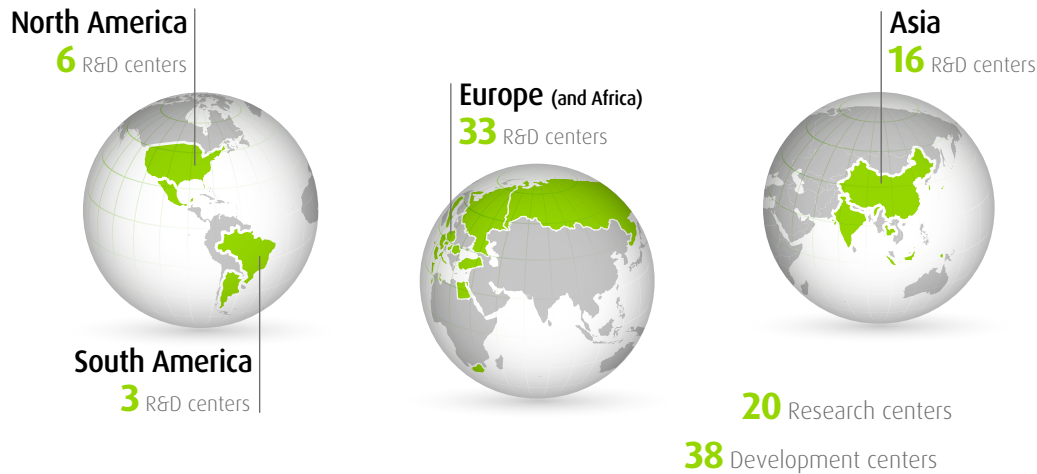
The Group's roadmap in this area is based on a detailed analysis of the need (limit manual driving in demanding situations) and the capacity of consumers to accept new solutions, with the desire to introduce technology in all vehicle segments. The main objectives are to allow the vehicle to take over 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 spotted 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 2016



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 20 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 38 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 competences, 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 by 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 2016, the Group prepared the opening of the Valeo Mobility Tech Center in San Mateo, California.

In 2016, Valeo's Research and Development teams managed 2,700 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 2016, the Group's gross Research and Development expenditure was 1.6 billion euros, more than 11% 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 18% from 11,620 in 2015 to 13,700 in 2016. Its longstanding presence in France, where a significant portion of its research centers are located, meant that there were 3,342 employees dedicated to Research and Development in France in 2016.

### 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. It has a total of 1,051 Experts (products and production processes). This corresponds to an increase of 12% compared with 2015 (938 Experts) and 26% compared with 2014 (835 Experts). 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 explaining them 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 2016.

► **CHANGE IN THE NUMBER OF HOURS OF TECHNICAL TRAINING FOR TECHNICIANS AND ENGINEERS IN TECHNICAL POSITIONS BETWEEN 2013 AND 2015**

|                                | 2014           | 2015           | 2016           | Change (2016/2015) |
|--------------------------------|----------------|----------------|----------------|--------------------|
| Hours of face-to-face training | 156,600        | 161,231        | 205,208        | +27%               |
| Hours of technical e-learning  | 4,250          | 9,902          | 21,336         | +115%              |
| <b>TOTAL TRAINING HOURS</b>    | <b>160,850</b> | <b>171,133</b> | <b>226,544</b> | <b>+32%</b>        |

Valeo has stepped up the technical training program for its technicians and engineers, with hours of training increasing by 32% from 171,133 in 2015 to 226,544 in 2016. The increase in the technical training effort in 2016 came in support of the massive and global deployment of new product life management (PLM) tools. It was made especially necessary by growth in the workforce, which requires constant integration to ensure that newly hired engineers are equipped with the R&D and industrial management standards and tools needed for Valeo projects. The extent of the increase reflects the key role of Research and Development training at 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. Training is now increasingly provided in e-learning format, as evidenced by the significant growth in training hours in such format. This development reflects the Group's global footprint and the need to share technical knowledge and expertise. Courses are run mainly through the Group's powerful network of Experts. They are designed to provide advanced training on Valeo products, technologies and manufacturing processes. Calling on internal and external experts, and offering a large spectrum of training to Valeo Research and Development teams, the Technical Institutes are now a major part of the Group's innovation strategy, in the same way as the network of Valeo Experts.

**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 of the Group's host countries, and particularly so in areas with high growth potential such 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 and their needs is a strong focus of its expansion.

Valeo focuses its Research and Development activity on competitively priced design solutions in countries with strong growth potential, 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

|                                                                  | 2014   | 2015   | 2016   | Change<br>(2016/2015) |
|------------------------------------------------------------------|--------|--------|--------|-----------------------|
| Net Research and Development expenditure<br>(as a % of sales)    | 5.4%   | 5.5%   | 5.8%   | +0.3 pts              |
| Research and Development headcount                               | 10,400 | 11,620 | 13,700 | +18%                  |
| Number of customer projects managed                              | 2,300  | 2,500  | 2,700  | +8%                   |
| Number of collaborative projects funded                          | >50    | >50    | >50    | N/A                   |
| Number of patents filed                                          | 1,108  | 1,406  | 1,840  | +31%                  |
| Proportion of innovative products <sup>(1)</sup> in order intake | 35%    | 37%    | 50%    | +13 pts               |

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

### 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 2016, the Group had 41,000 patents, of which 1,840 were filed during the year, a 31% increase on 2015, which was already a year of strong growth. This makes it the biggest patent filer in France and the top French company in terms of patents filed with the European Patent Office.

### Awards: two PACE awards in 2016

Valeo won two 2016 Automotive News PACE (Premier Automotive Suppliers' Contribution to Excellence) awards for its electric supercharger (Powertrain Systems Business Group) and its water-cooled condenser (Thermal Systems). In addition, Ichikoh, Valeo's Japanese partner in lighting systems, received a PACE Award for its innovative LED lighting module.

These awards extend the list of PACE awards won over the years, including the high-output alternator in 2015, the Innovative Back-Over Protection System in 2014, the Air Intake

Module in 2013, the AquaBlade® wiper systems in 2012, the Park4U™ autonomous parking system in 2008, the Multi-Beam Radar – MBR system in 2007, the StARS micro-hybrid module in 2006 and the LaneVue® lane departure warning system in 2005.

### 2016 highlights

Valeo presented its main innovations at several trade shows in 2016, including the Consumer Electronics Show (CES) in Las Vegas (United States), the Beijing Motor Show (China) and the Paris Motor Show (France). In its role as innovator, Valeo also attended various international Research and Development conferences, including the Transport Research Arena (TRA) in Warsaw (Poland) and the Automated Vehicles Symposium (United States), to name the best-known events. Valeo also took part in exhibitions dedicated to new technologies and new players, such as the Viva Technology show in Paris in June 2016.

For the second year running, Valeo was recognized with a place in the Clarivate Analytics (formerly Thomson Reuters) list of Top 100 Global Innovators.



## 4.2.2 Solutions that contribute to CO<sub>2</sub> 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 CO<sub>2</sub>/km in 2021, tougher safety regulations with Euro NCAP<sup>(1)</sup>), as well as market trends (see above), Valeo designs, develops, manufactures and markets products and solutions that help reduce CO<sub>2</sub> emissions and promote intuitive driving. These activities are split between the four Business Groups (see Chapter 1, section 1.3 “Businesses”, pages 45 to 66).

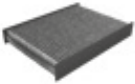
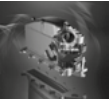
### Approach

Innovative products<sup>(2)</sup> accounted for 50% of Valeo’s order intake in 2016.

The innovations listed in the table below met this definition in 2016, and contribute to sustainable mobility:

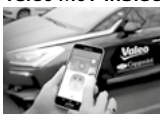
- reducing CO<sub>2</sub> and pollutant emissions (environmental dimension): products that directly or indirectly contribute to CO<sub>2</sub> emissions reduction accounted for more than 50% of Valeo’s original equipment sales in 2016;
- driving assistance for a safer, more connected and more autonomous vehicle (driving comfort and safety).

### ► SUMMARY OF THE MAIN INNOVATIONS AND THEIR IMPACTS

| Innovation and technical features                                                                                                              | Description                                                                                                                                                                                                                                                         | CO <sub>2</sub> impact or eco-design                                                                                                                                          | Driving assistance for a safer, more connected and more autonomous vehicle |
|------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| <b>Hybrid4All (including a 48V starter-alternator)</b><br>   | Hybridization of powertrains (gasoline and diesel). Energy is recovered when the driver reduces speed or brakes. Cost per gram of CO <sub>2</sub> 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.                                                                                    |                                                                            |
| <b>Electric supercharger</b><br>                            | 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.                                     |
| <b>Very high-efficiency filter</b><br>                      | High-efficiency filter combating fine particles (< 2.5 µm) and allergens (when impregnated with active polyphenol in its anti-allergen version).                                                                                                                    | Reduction in the concentration of toxic pollutants in the vehicle cabin by means of a high-efficiency PM2.5 filter that traps almost 100% of ultra-fine particles (< 2.5 µm). |                                                                            |
| <b>Air intake module of internal combustion engines</b><br> | Improved management of combustion through lower temperature, with variations better controlled.                                                                                                                                                                     | Potential reduction of 2% to 3% in NO <sub>x</sub> 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.     |
| <b>Battery thermal management modules</b><br>               | Optimization of thermal management solutions for batteries designed for hybrid and electric vehicles.                                                                                                                                                               | Increased vehicle travel range and battery life.                                                                                                                              |                                                                            |

(1) Euro NCAP provides consumers with a realistic and independent assessment of the safety performance of European cars.

(2) Products or technologies that have been in series production for less than three years.

| Innovation and technical features                                                                                                      | Description                                                                                                                                                                                                                                      | CO <sub>2</sub> impact or eco-design                                                                                                    | Driving assistance for a safer, more connected and more autonomous vehicle                                                  |
|----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| <b>BiLED® headlamps</b><br>                           | 100% LED headlamp technology with one lens used for both low- and high-beam headlamps.                                                                                                                                                           | Reduced electricity consumption.                                                                                                        | Enhanced visibility and driving safety.                                                                                     |
| <b>Remote Clean4U™</b><br>                            | Improved windshield washing by a remote-controlled system that de-ices the windshield in less than one 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 uses the AquaBlade® wiper system, which halves the volume of cleaning fluid required, resulting in a weight gain of 2 kg. | Improved visibility in rainy conditions, reduced braking distance. Automated function.                                      |
| <b>Valeo Mov'InBlue™</b><br>                          | Start-access system to lock, unlock and start the car, with remote control of applications (using Bluetooth®) combined with a car-sharing service for corporate fleets.                                                                          | Impact on vehicle use and ownership. Simplification of car-sharing solutions.                                                           | Remote control of functions, key sharing.                                                                                   |
| <b>Back-over Protection System</b><br>                | Rear-view vision and maneuver support system combining ultrasonic parking assistance sensors and a rear-view 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. |
| <b>Remote Park4U™ parking assistance system</b><br> | A parking assistant that can perform both perpendicular and parallel parking, or enter and exit garages. Drivers can initiate and supervise the maneuver using their smartphone.                                                                 | Reduction in traffic.                                                                                                                   | Parking assistance. Detection of obstacles. Automated parking.                                                              |

## Achievements

### Valeo 360AEB Nearshield

Valeo has developed a comprehensive system for emergency braking, drawing on the new possibilities offered by 360-degree vision around the vehicle. The system helps protect nearby pedestrians when vehicles are performing low-speed maneuvers.

Valeo 360AEB Nearshield delivers a 360-degree view around the vehicle thanks to a system of four miniature cameras and ultrasonic sensors fitted to the front and rear bumpers. Not only do the detectors alert the driver to any obstacles, they also – and more importantly – bring the vehicle to an automatic halt. By “eliminating” blind spots, this technology is especially useful for large vehicles such as SUVs and pick-up trucks, particularly for reversing.

Valeo 360AEB Nearshield leverages existing onboard features, such as warning tones and backup cameras. Should the driver fail to respond to such warnings, the solution steps in by applying the brakes. Algorithms enable the system to detect both stationary and moving objects. In this way, Valeo's innovation protects pedestrians, the vehicle and its occupants.

### Valeo eCruise4U

Valeo eCruise4U is an automated vehicle that can drive in electric mode at low speeds.

Valeo eCruise4U blends automated driving technology with a 48 V hybrid system to reduce fuel consumption and CO<sub>2</sub> emissions while enhancing driving comfort.

The Valeo eCruise4U innovation offers an automated hybrid driving experience based on five technological components developed by Valeo and assembled in vehicles currently in series production:

- Valeo sensors provide the vehicle with a full view of its surrounding environment. The combination of cameras and laser scanner provides the system with the most accurate information in all conditions. Valeo's LiDAR Cocoon is made up of six Valeo SCALA™ laser scanners installed around the car;
- the Valeo Perception solution defines the environment around the vehicle and provides the data needed for vehicle control;
- Valeo's lateral and longitudinal vehicle control technology takes account of the powertrain, combining electric power and an internal combustion engine, to ensure smoother braking and acceleration;

- the new Valeo advanced driver assistance system (ADAS) electronic control unit (ECU) is based on merge algorithms, which enable it to analyze all inputs from the sensors, anticipate events and control the vehicle.

### Kinetic rear light

Kinetic rear lights communicate with the surrounding environment by displaying pictograms and personalized messages. A car in automated driving mode equipped with the Kinetic system can inform the vehicle behind it whenever its sensors detect a hazardous situation, such as the need for emergency braking ahead or a pedestrian about to cross the road.

Kinetic technology can also be used to personalize vehicles. For example, users will be able to choose a scenario that plays out when they unlock their car (activation of rear light effects when they open the doors) by selecting a pictogram or predefined moving pattern.

### An innovative vision of the vehicle front-end module

At the 2016 Paris Motor Show, Valeo presented the world premiere of a range of products designed to enhance vehicle aerodynamics, thereby freeing up space at the front of the car and generating significant energy savings.

This comprehensive approach to the front of the vehicle is based on three related products that contribute to vehicle aerodynamics and weight reduction:

- **Light Weight Bolster:** Valeo has designed a bolster made from an innovative composite material using continuous fibers pre-impregnated with thermoplastic resin. The new technology provides a significant reduction in mass, without

compromising the performance of the components: for an equivalent tensile strength, glass fiber thermoplastic composites are roughly 30% to 40% lighter than steel and 25% to 30% lighter than aluminum;

- **Active Grille Shutters:** a system that closes the radiator grille shutters at the front of the vehicle when the air conditioning is not at the highest setting, thereby improving the aerodynamic drag coefficient by an average of 9% and halving engine warm-up times in very cold weather;
- **Compact engine cooling module:** a unit featuring latest-generation high- and low-temperature radiators as well as an innovative water-cooled condenser, which frees up space at the front of the vehicle without impacting comfort or air conditioning consumption.

### CO<sub>2</sub> EMISSIONS RELATED TO THE USE OF VALEO PRODUCTS (SCOPE 3)

Pursuant to the new recommendations on identifying indirect emissions related to its business, the Group considers that emissions related to the use of Valeo products are a significant part of its carbon footprint.

With a view to perfecting the emissions calculation methodology, which is complex to grasp, notably due to the breadth of Valeo's product portfolios, the number of calculation parameters to be considered and the absence of benchmark methodology, Valeo has elected to publish a first estimate of CO<sub>2</sub> emissions resulting from the use of the main product families in its four businesses in the 2017 Registration Document.

## 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 CO<sub>2</sub> 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

Valeo uses internal documents such as the EcoDesign Standard 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 during project development:

- 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 EcoDesign Standard 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 from 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 CO<sub>2</sub>;
- 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 (End-of-Life Vehicle) Directive<sup>(1)</sup>, 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 disposing by incineration. As a result, automakers have established increasingly stringent standards with their suppliers so as to gradually lift the recycling rate of their products. The R&D and Projects teams work in close collaboration with automakers to anticipate and design products and systems based on recycling and recovery infrastructure for the products developed (depending on markets, local needs, etc.).

As well as working closely with automakers, for many years Valeo has committed to identifying second life solutions for some of the Group's key products (see section 4.5.4 of this chapter, "Availability of replacement products", page 245).

#### 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%<sup>(2)</sup> (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 CO<sub>2</sub> impact analysis) as far upstream as possible in the product development phase.

An LCA was carried out on LED fog lights. The analysis assessed their environmental impacts throughout the life cycle: production phase (including LEDs and electronic controls), use phase (fuel consumption, CO<sub>2</sub> 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;

<sup>(1)</sup> See Sustainable Development Glossary, page 450.

<sup>(2)</sup> 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 obtain 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 Research and Development policy.

At the end of 2016, 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 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 in 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 Union 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.

It covers nearly 30,000 substances out of the 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. Their use has been progressively subject to authorization. They notably include solvents, primarily used during procedures involving materials and plasticizers, or to soften polymers and perform surface treatments.

For REACH purposes, Valeo is generally considered to be a downstream user of chemicals. This means that Valeo must list the substances used in manufacturing its products and those required to operate its industrial facilities to ensure the safety of its supply chain and its operations.

Valeo has introduced a special structure to comply with REACH regulations.

This organization works under the REACH manager and a team, made up of a representative from each division. Together, they decide on Group strategy, implement policy and determine how to eliminate hazardous substances contained in products. 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).

The Group issues 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 again in 2015 and 2016. 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.

Valeo has long conducted 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 systematically find alternatives to using SVHCs, and has a substitution plan in place for products containing DEHP<sup>(1)</sup>, a phthalate widely used as a plasticizer.

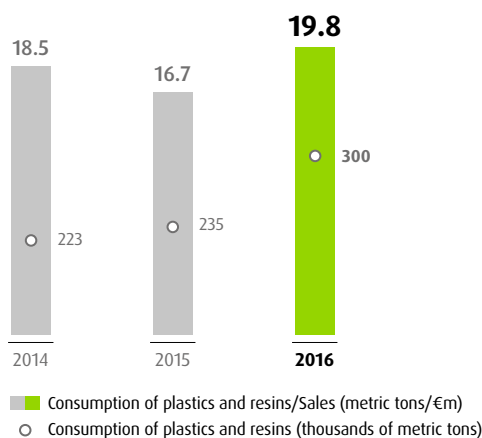
Valeo is working on gradually replacing these substances in response to consumer concerns about their presence in vehicles.

(1) 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.

## Performance

### Consumption of raw materials



In 2016, total consumption of metals as a proportion of sales increased by 4.8% compared with 2015. This is a fairly muted trend in view of the Group's strong growth. It can be attributed to growth in production volumes of metal consumer products.

However, relying notably on the eco-design tools rolled out throughout the Group, Valeo has gradually begun substituting lighter materials such as plastics and resins for metal. Consumption of such materials increased by 18.5% year on year in 2016 (as a proportion of sales). The use of these materials has a significant impact on the weight of components and the vehicle.

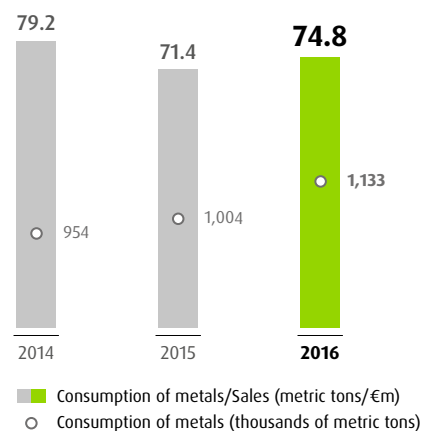
### Consumption of chemicals

The Group's consumption of heavy metals has been steadily declining for more than six years. It was 8.3 metric tons in 2016, down 56% since 2012.

Chlorinated solvent consumption fell by 7% from 205.2 metric tons in 2015 to 191.4 metric tons in 2016.

The purpose of this work is to help anticipate change and modify choices in respect of materials and/or substances upstream.

Pursuant to REACH, which requires all entities manufacturing or importing between 1 and 100 metric tons of substances per year to register them before May 31, 2018, and pursuant to the methodology applied by the ACEA and the CLEPA<sup>(1)</sup>, Valeo has asked its main suppliers to provide the Group with details of the steps taken in this respect. Valeo will assess the action plans implemented by the relevant suppliers in 2017.



Consumption of carcinogenic, mutagenic and reprotoxic (CMR) substances as a proportion of sales decreased by 6% from 25.7 kg/€m in 2015 to 24.1 kg/€m in 2016. The increase in absolute terms from 361.6 metric tons in 2015 to 365.1 metric tons in 2016 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 11,890 metric tons in 2016, an increase of 3% year on year.

(1) Joint ACEA-CLEPA position paper of June 28, 2016 – REACH registration deadline 2018.



## 4.2.4 A partnership approach to Research and Development

### Challenges

A global player in Research and Development, 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 2016 in an automotive industry where the scope of services and products is constantly expanding.

### Approach and achievements

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.

### Strategic industrial partnerships

Valeo is involved in this economic and industrial approach for the automotive industry alongside the sector's committed players.

In the field of autonomous and connected mobility, Valeo has been involved in a research partnership on driving assistance and autonomous vehicles with Safran since 2013. Through this research program, which is dedicated to human-machine-environment interfaces and automation, the two groups aim to pool their skills and expertise so as to speed up the development of innovative products and to open new markets. The program aims to involve research institutes and universities, as well as innovative SMEs. In 2016, Valeo and Safran worked jointly on the full range of projects identified within the framework of their cooperation, including the Aware project for the development of a vision sensor in difficult weather conditions, and the development of facial recognition software to detect the driver's face.

In March 2016, building on a successful partnership agreement, Valeo also acquired the German group peiker enabling it to strengthen its leadership in autonomous and connected vehicles, and thereby offer automakers new telematics systems equipped with high-speed connectivity and cybersecurity features.

In 2016, Valeo also acquired a 50% stake in CloudMade, a developer of smart and innovative automotive solutions. Valeo's expertise, combined with CloudMade's command of big data processing, artificial intelligence and predictive learning, will allow it to provide its automaker customers with radically innovative products and an updated user experience in the areas of intuitive driving and in-vehicle well-being.

Also in 2016, Valeo and Capgemini formed a partnership resulting in the commercial launch of Mov'InBlue™, a secure vehicle reservation and fleet management solution using Valeo's InBlue™ smart key technology, which allows users to lock and unlock their vehicle and start the engine from their smartphone. This cooperation was bolstered by cooperation between Valeo and Gemalto on the security aspects of Valeo InBlue™ in 2016. Gemalto's security solutions mean that virtual car keys can be sent securely to smartphones and stored with a high level of security comparable with the mobile payment solutions developed by banks around the world.

Valeo also acquired a stake in the capital of Navya in 2016. Navya is a French company specializing in the development of autonomous shuttles (in real traffic conditions and in dedicated lanes). This move was inspired by the complementary nature of the two groups' research on autonomous and connected mobility.

In the field of vehicle electrification, Valeo created a joint venture devoted to high-voltage powertrains with Siemens in 2016. The Valeo-Siemens joint venture creates a global leader for the supply of innovative and affordable high-voltage components and systems. The portfolio includes e-motors, range extenders, onboard chargers, inverters and DC/DC converters for the entire range of electric vehicles including hybrids, plug-in hybrids and full electric vehicles.

### The open innovation strategy<sup>(1)</sup> and links with start-ups

Valeo is adapting its way of innovating for greater agility and flexibility to keep abreast of social megatrends and continue tailoring products to its customers' needs.

To strengthen this shared innovation strategy with other players, including those with different research cycles, Valeo has sought to promote cooperation with start-ups, through channels ranging from simple cooperation with joint developments to acquisitions, as well as investments. An example is the Group's 2016 investment in CloudMade, a start-up specializing in big data processing, artificial intelligence and predictive learning. This trend is a key area of innovation for the Group, with the increasingly short development cycles now imposed on the automotive industry making agility vital.

To be connected with start-up ecosystems worldwide, the Group has strengthened its open innovation ecosystem by acquiring interests in venture capital funds including Cathay Innovation, which is particularly active in the San Francisco Bay Area, China and France. This initiative is boosting Valeo's visibility and appeal among up-and-coming entrepreneurs, and is already generating a deal flow of some 100 opportunities a month.

(1) See Sustainable Development Glossary, page 450.

## 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 ten 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 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 Valeo, and thereby allowing the European automotive industry to position itself on this issue. This is the first joint roadmap on vehicle automation for automakers, automotive suppliers, research suppliers, infrastructure providers, cities, users, EU member states and the Commission.

In 2016, ERTRAC published a roadmap for the future of powertrain systems for light and commercial vehicles in Europe. This work was the subject of joint thinking with the European Commission.

ERTRAC has continued to provide advice and guidance on calls for projects on the following themes within the framework of the multi-year plan of research topics for 2020<sup>(1)</sup>:

- internal combustion engines;
- road safety;
- global competitiveness;
- urban mobility;
- logistics;
- infrastructure;
- socio-economic and behavioral research.

In 2016, Valeo contributed further to the activities of ERTRAC's research platform, speaking and leading specific sessions at the 2016 Transport Research Arena (TRA) in Warsaw, the largest annual meeting of European research devoted to mobility.

### 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 CO<sub>2</sub> emissions) and automated driving.

Valeo had the opportunity to propose topics covering research issues related to decarbonization and connected and progressively autonomous transportation.

### Collaborative projects

Valeo takes part in collaborative research programs in the automotive industry in the various countries and regional groupings where it operates.

2016 was marked by the award of numerous public projects, particularly within the Comfort & Driving Assistance Systems Business Group:

- four projects backed by the European Commission: VI-DAS, Adas&Me, CARTRE and AutoPilot;
- a Franco-Korean project launched under the guidance of the Eureka European cluster (DANGUN);
- the grant of significant funding for the CAMPUS project by France's general investment commission (*Commissariat général à l'investissement*);
- the grant of funding for the *Vorreiter* project by Germany's Federal Ministry of Education and Research.

These projects cover all areas of research and innovation in the fields of automated driving, connectivity and intuitive cockpits. The teams contributing to these projects are based at sites in Bietigheim and Kronach (Germany), Bobigny and Créteil (France), and Seoul (South Korea).

Valeo also continued its involvement in the Vedecom Institute (Energy Transition Institute set up by the French government in the field of low-carbon, communicating vehicles), contributing to four projects: delegated-driving vehicles, robust system design, acceptability of delegated driving, and new physical spaces for eco-mobility. Deliveries of sensors continued in 2016, and their integration into Vedecom vehicles is fully operational. Synergies between Valeo and Vedecom were also reinforced by the funding obtained for the Adas&Me and AutoPilot European projects.

<sup>(1)</sup> FP8: 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.

### Campus

In the second round of the Investments for the Future program established by the French authorities to support R&D, Valeo obtained funding for the CAMPUS (Connected Automated Mobility Platform for Urban Sustainability) project aimed at designing the features of an efficient level 3 automated vehicle suitable for urban use with secure communications.

The project was launched as a partnership between Gemalto, a leader in secure solutions for vehicle connectivity, INRIA, a research laboratory specializing in robotics applied to intelligent transportation systems, Invia, an SME specializing in secure semiconductor solutions, Safran, bringing its expertise in vehicle security and driver identification, and Valeo for its automated and connected vehicle activity.

Its aim is to work on the key technological components needed for level 3 vehicle automation, such as safe and robust localization in a complex environment and calculators with algorithms, as well as new features for low-carbon mobility optimizing the vehicle's energy efficiency (combining anticipation of traffic levels and powertrain optimization).

The partners should all be able to position themselves in their respective sectors with enhanced skills thanks to this project.

### 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 2016 are in line with the comprehensive mobility challenges identified by the Group (CO<sub>2</sub> emissions reduction and intuitive driving).

In 2016, Valeo inaugurated a Research and Development lab dedicated to the latest battery technologies in partnership with Shanghai Jiao Tong University (China) with a view to anticipating future developments in the field and developing appropriate technology solutions for the Asian and global markets.

### 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

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 findings;
- endow public research institutions with the means to investigate strategic areas for industry.

Valeo has accordingly 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 systems (EMS), known as the ELS Chair, 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;
- an academic chair under the name "IoT" (Internet of Things), launched in 2016 by the ESCP Europe business school in partnership with Valeo and Schneider Electric. Its aim is to develop a better understanding of the business and managerial challenges associated with changes in digital technology and the development of connected objects. It aims to develop high-level teaching and research in line with business expectations. Through a partnership between ESCP Europe and a Chinese university, the chair's activities (teaching, projects, forums, etc.) will span both Europe and China. Having a presence in two areas provides the opportunity for multicultural comparisons of expectations, usages and conceptions of connected objects.

### VALEO INNOVATION CHALLENGE

2016 saw the third 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 65 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-four teams from 13 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 eight teams selected to present their project before an international panel in Paris. The shortlisted teams came from five countries on three different continents: Japan, France, Turkey, the United States and Germany.

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 of 100,000 euros was a tie between the Turkish team from the University of Anadolu, which put forward a new high-sensitivity infrared camera, and the French team from *École des Mines* for a system that triggers a warning when it is dangerous to open a vehicle's doors.

In October 2016, 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 fourth edition of the Valeo Innovation Challenge, which will award the best technological innovation as well as the project offering the best new way of using cars.

## 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 is required to 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.

To address these risks and threats, IT system security was strengthened by the recruitment of a Group Chief Information Security Officer in 2016 (see Chapter 2, section 2.1.1 "Cybersecurity and IT systems failure risk", page 72).

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 digitalization, Valeo intensified a comprehensive plan aimed at raising the IT security awareness of its employees worldwide. Since late 2015, all employees have received Valeo's new Charter for the Use of Information Technology and the Valeo Privacy, Image and Social Media Policy. The next step, in 2016, was the launch of online training in IT security.

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.

### Outlook

In 2017, Valeo will further intensify work on the issues of data and IT systems security, in line with the gradual automation and connectivity of its production lines ("Plant of the Future" or "Industry 4.0"), described in Chapter 1, section 1.2.3 "Automation and digitalization", page 41).

## 4.3 Environmental management and performance of Valeo's sites

### 4.3.1 Environmental policy

For nearly 30 years, Valeo has demonstrated its commitment to limiting the impact of its activities on the environment. The Group sets out its environmental commitments in its Environmental Charter drawn up 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
- 2016: Valeo has been named to the Dow Jones Sustainability Index (DJSI World and DJSI Europe)
- 2017: Creation of a Governance, Appointments & Corporate Social Responsibility Committee within the Board of Directors

### Mapping of the main environmental issues facing sites

The industrial activities of the Group's sites differ in nature. The risks they pose to the environment accordingly 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.

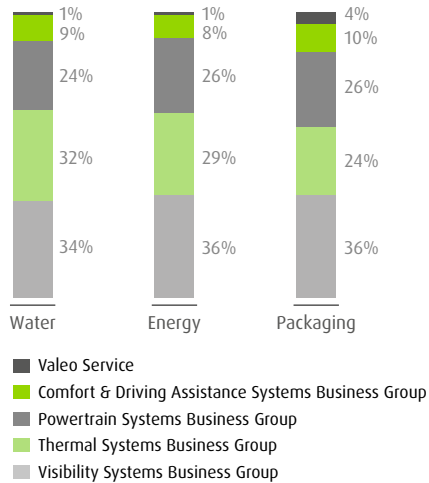
|                                                               | Number of sites | Comfort & Driving Assistance Systems | Powertrain Systems | Thermal Systems | Visibility Systems | Valeo Service |
|---------------------------------------------------------------|-----------------|--------------------------------------|--------------------|-----------------|--------------------|---------------|
| Industrial activities                                         | 120             | 19                                   | 27                 | 34              | 31                 | 9             |
| Assembly/installation                                         | 107             | 19                                   | 26                 | 32              | 29                 | 1             |
| Processing                                                    | 69              | 6                                    | 22                 | 19              | 20                 | 2             |
| Injection molding                                             | 54              | 12                                   | 3                  | 17              | 22                 | 0             |
| Heat treatment (ovens, furnaces)                              | 75              | 10                                   | 23                 | 20              | 21                 | 1             |
| Painting/varnishing                                           | 53              | 11                                   | 11                 | 9               | 22                 | 0             |
| Welding                                                       | 64              | 9                                    | 20                 | 16              | 18                 | 1             |
| Use of vanishing (VOC-emitting <sup>(1)</sup> ) oils          | 26              | 2                                    | 6                  | 15              | 3                  | 0             |
| Degreasing (surface cleaning)                                 | 48              | 5                                    | 13                 | 17              | 13                 | 0             |
| Surface treatment (altering the surface properties of a part) | 30              | 1                                    | 6                  | 4               | 19                 | 0             |

(1) See Sustainable Development Glossary, page 450.

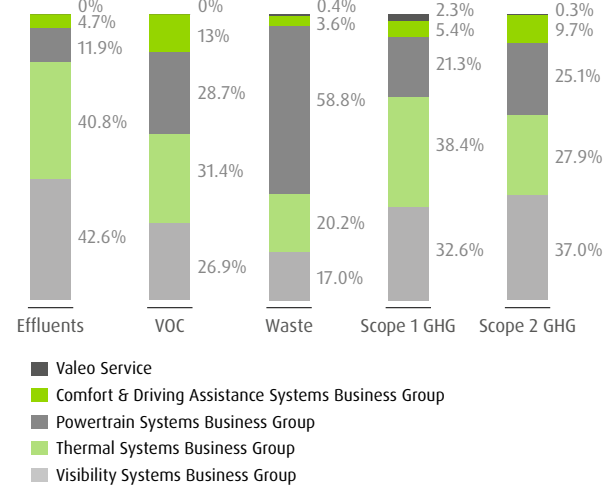


The following two charts show the breakdown of resource consumption and emissions by the Business Groups and Valeo Service, reflecting the analysis contained in industrial mapping.

### 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 Systems Assistance 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.

The two charts above show 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). 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<sup>(1)</sup> in the Group.

### 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/<br>Business Group                     | Comfort & Driving<br>Assistance Systems<br>Business Group                     | Powertrain Systems<br>Business Group                                                                                                                   | Thermal Systems<br>Business Group                                                                                             | Visibility Systems<br>Business Group                                                                                          | Valeo Service                                                                                                        |
|--------------------------------------------------|-------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| Energy and carbon<br>efficiency of<br>production |                                                                               | <ul style="list-style-type: none"> <li>Energy consumption</li> <li>Indirect GHG emissions<sup>(1)</sup></li> </ul>                                     | <ul style="list-style-type: none"> <li>Energy consumption</li> <li>Direct and indirect GHG emissions<sup>(1)</sup></li> </ul> | <ul style="list-style-type: none"> <li>Energy consumption</li> <li>Direct and indirect GHG emissions<sup>(1)</sup></li> </ul> | <ul style="list-style-type: none"> <li>GHG emissions<sup>(1)</sup> related to the transportation of goods</li> </ul> |
| Discharges and waste                             | <ul style="list-style-type: none"> <li>VOC emissions<sup>(1)</sup></li> </ul> | <ul style="list-style-type: none"> <li>VOC emissions<sup>(1)</sup></li> <li>Management of chlorinated solvents</li> <li>Production of waste</li> </ul> | <ul style="list-style-type: none"> <li>Management of refrigerants</li> </ul>                                                  | <ul style="list-style-type: none"> <li>VOC emissions<sup>(1)</sup></li> </ul>                                                 |                                                                                                                      |
| Transportation<br>and logistics                  |                                                                               |                                                                                                                                                        |                                                                                                                               | <ul style="list-style-type: none"> <li>Packaging consumption</li> </ul>                                                       | <ul style="list-style-type: none"> <li>Packaging consumption</li> </ul>                                              |
| Water                                            |                                                                               | <ul style="list-style-type: none"> <li>Water consumption</li> </ul>                                                                                    | <ul style="list-style-type: none"> <li>Water consumption</li> </ul>                                                           | <ul style="list-style-type: none"> <li>Water consumption</li> </ul>                                                           |                                                                                                                      |
| Biodiversity                                     |                                                                               |                                                                                                                                                        |                                                                                                                               |                                                                                                                               |                                                                                                                      |

(1) See Sustainable Development Glossary, page 450.

### 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 non-financial performance from national and international bodies.

Valeo's environmental performance is assessed by international non-financial rating agencies (see section 4.1.3 of this chapter, "Recognition of Valeo's commitment to sustainable development", page 167).

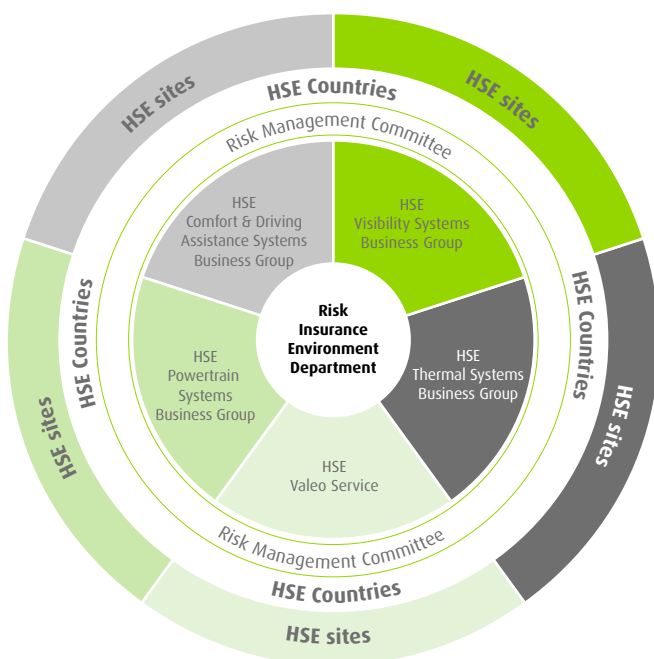
The Group pays close attention to shifts in its ratings from one year to the next, with a view to achieving continuous improvement in its environmental reporting. Valeo takes into account all the remarks of these agencies, and will pursue its efforts in respect of transparency further in 2017.

### Resources devoted to the prevention of environmental risks and pollution

The Group has developed human and material resources to ensure that sites comply with prevailing regulations and internal standards so as to 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 the 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 its objectives.



The head of the RIE Department is also a permanent member of the Risks Committee, the body responsible for establishing and monitoring the action plans derived from risk mapping, chaired by the Group's Chief Operating Officer (see Chapter 2, section 2.3.3 "Risk management assessment and procedures", page 88).

The **Risk Management Committee** is the central steering body of the RIE Department. Comprising the RIE Director, the Group HSE manager and the HSE managers of the four Business Groups and Valeo Service, it meets on average once a month to capitalize on the feedback from each of its members and to advance the Group's environmental and industrial risk management policy. In 2016, the Risk Management Committee notably worked on the new "Safety Talks" directive, which ushers in production workshop visits designed to detect hazardous behavior. The causes of such behavior can then be discussed with the people concerned and a concerted solution found.

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.

Within the RIE Department, a **Group Health, Safety and Environment manager** is responsible for developing and implementing the HSE policy, including the definition of Group-wide standards and tools in respect of workplace health and safety, the environment, 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<sup>(1)</sup>, ISO 50001<sup>(1)</sup> and OHSAS 18001<sup>(1)</sup> 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:

- dedicated articles in the Group's quarterly internal newsletter, "Valeo Info", translated into 15 languages;
- training to teach site management committees about the risk of accidents and the procedures and resources to be implemented to avoid them. In 2016, this training was provided in e-learning format, supplemented by a quiz to check the participants' understanding;
- information for site employees on environmental procedures and respect for the environment, particularly as part of the onboarding 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 2016, nearly 53,965 hours of environmental training were provided by the HSE network across all sites.

### High risk-control standards

Sites' compliance with the prevailing regulations is an essential requirement for the Group. As such, each site is required to **keep abreast of regulations** relating to HSE. 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 2016, the RIE Department continued publishing the Group's operational directives, including the "Safety Talks" directive designed to identify, understand and correct unsafe behavior among employees. The directive requires each site to set aside time devoted to such discussions. During these times, a member of the HSE team moves through a plant area accompanied by another operational manager. When unsafe behavior is identified, they meet with the person concerned to discuss the reasons for the behavior, find a solution to correct any problems and, last of all, obtain the employee's commitment to be more vigilant about his or her safety and that of others.

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 **crisis prevention and emergency response plans**. The Group requires each site to establish an emergency response and business recovery plan. Several years ago, Valeo established the Valeo Emergency and Recovery Management system (VERM) to assist in the design and implementation of emergency response, crisis management and business recovery plans. The tool sets mandatory drills for on-site events such as fire, explosions and accidental pollution, leaving each site scope to identify other relevant scenarios such as earthquakes or floods. Each site is then required to establish procedures, response sheets or lists of contacts to use in the event of a crisis, for each phase from the alert phase to business recovery, including the intervention phase and the phase devoted to securing people or the site.

### Maintaining a high level of operational safety

The Group's policy has always been able to assure the highest possible level of prevention and protection at its sites against **natural events** 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 commissions 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;

(1) See Sustainable Development Glossary, page 450.

- all sites in seismic risk zones have been built or upgraded to comply with the most recent seismic standards;
- Valeo sites are either located outside of flood zones or are equipped with flood protection systems and emergency response plans;
- new Valeo plants are located as far as possible from high-risk potential sites (Seveso sites<sup>(1)</sup> etc.) that could have a knock-on effect;
- 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.

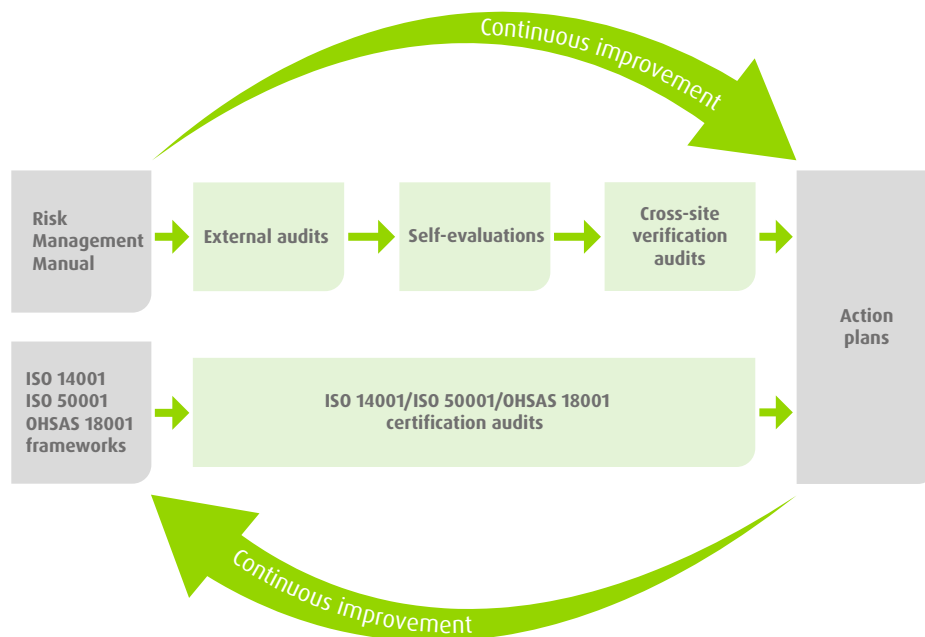
### Noise and other forms of pollution

Valeo strives to follow up all complaints addressed to its sites on environmental issues. In 2016, seven complaints were registered across the Group as a whole; they related to noise and odors, as well as liquid and air emissions. 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.



### ISO 14001, ISO 50001 and OHSAS 18001 certification audits

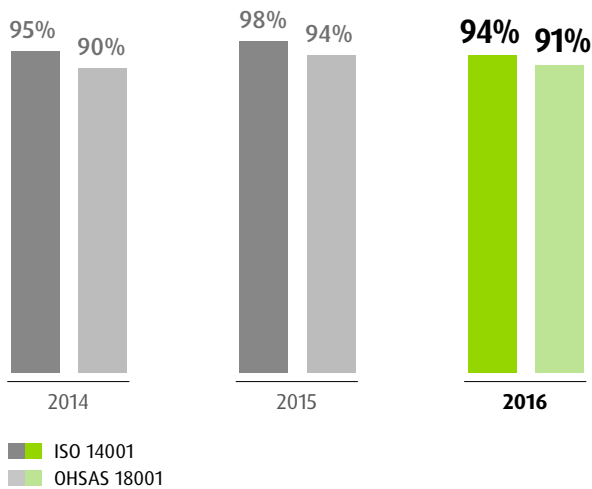
More than 20 years ago, the Group undertook a process of certification of management systems in order to meet its commitment to reduce its environmental impacts and improve health and safety conditions for its employees. ISO 14001 environmental certification, OHSAS 18001 workplace health and safety certification 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.

**By the end of 2016, 94% of Valeo sites had obtained ISO 14001 certification, and 91% OHSAS 18001 certification.**

(1) See Sustainable Development Glossary, page 450.

### 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 2016, initial ISO 14001 and OHSAS 18001 certification was obtained by the following sites that recently joined the Group:

- Sanand (Thermal Systems, India);
- Foshan Sanshui (Thermal Systems, China);
- Togliatti (Thermal Systems, Russia).

The percentages of sites with ISO 14001 and OHSAS 18001 certification are down due to the inclusion in the 2016 scope of new sites that have not yet obtained certification:

- Batam (Visibility Systems, Indonesia);
- Purwakarta (Thermal Systems, Indonesia);
- Trezbinia (Visibility Systems, Poland);
- Uitenhage (Thermal Systems, South Africa).

### ISO 50001 certification

In line with its objectives on improving environmental performance during the 2016-2020 period, Valeo expects 20% of its sites to obtain ISO 50001 energy management certification by the end of 2020.

#### Five additional sites received ISO 50001 certification in 2016:

- Angers (Visibility Systems, France);
- Châtelleraut (Visibility Systems, France);
- Mazamet (Visibility Systems, France);
- Sainte Florine (Powertrain Systems, France);
- Zebra (Thermal Systems, Czech Republic).

This brings the percentage of ISO 50001 certified sites to 12% at the end of 2016 (compared with 8% a year earlier).

### 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. Bi-monthly reviews of all action plans in place on Valeo sites are performed 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.

### 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

Valeo uses a centralized reporting tool, Valeo Risk Indicators (VRI), via an Internet platform, to measure environmental performance across all of its sites. 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 of this chapter, "Environmental reporting methodology", pages 250 to 252.

### 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:

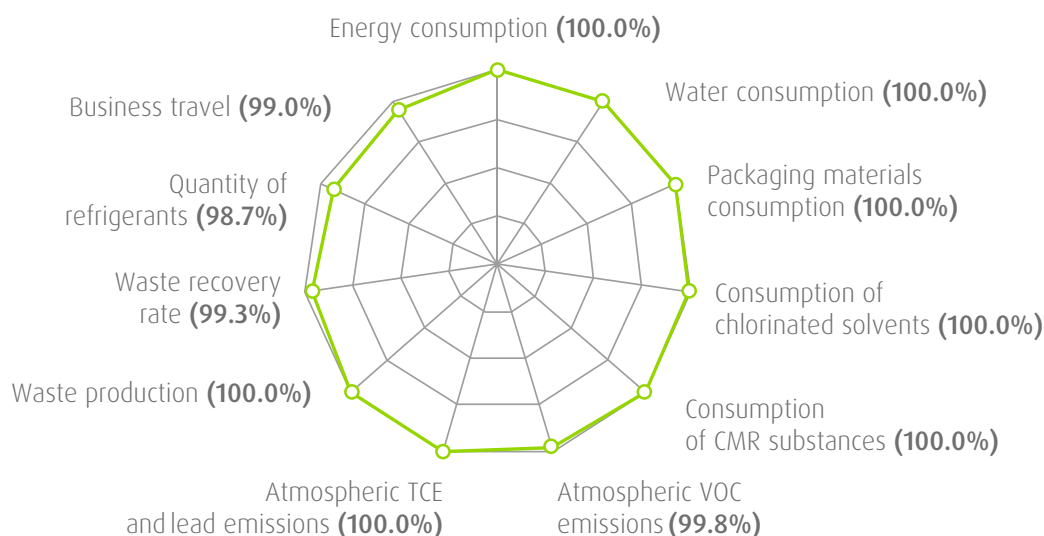
- in the first stage, the reporting process (scope, definitions of indicators, methods of calculation, consolidation process and controls) was reviewed;
- in the second stage, site audits were performed to verify the proper implementation of reporting procedures and the relevance of the information reported. 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 2016. The report can be found in section 4.8 of this chapter, "Independent verifier's report on consolidated social, environmental and societal information presented in the Management Report", pages 265 to 267.

In 2016, six sites were audited in Germany, Brazil, the United States and Japan. In addition, two sites audited in 2015 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 2016, 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 2016





## Achievements

To meet the continuous improvement challenges of its sustainable development policy, the RIE Department sets goals for improving environmental performance. 2016 was the first year of the new 2016-2020 plan aimed at improving environmental performance.

### Review of the 2016-2020 performance

| Objectives                                                                           | Unit                         | 2020 target<br>(base = 2015) | 2015 results | 2016 results | 2016 results<br>(base = 2015) |
|--------------------------------------------------------------------------------------|------------------------------|------------------------------|--------------|--------------|-------------------------------|
| <b>Sustainable use of resources</b>                                                  |                              |                              |              |              |                               |
| Water consumption                                                                    | cu.m./€m                     | -6%                          | 198          | 184          | -7%                           |
| Energy consumption                                                                   | MWh/€m                       | -8%                          | 143          | 137          | -4%                           |
| <b>Waste production</b>                                                              |                              |                              |              |              |                               |
| Production of hazardous and non-hazardous waste                                      | metric t/€m                  | -5%                          | 16.4         | 17.0         | +3.6%                         |
| <b>Carbon emissions</b>                                                              |                              |                              |              |              |                               |
| Direct and indirect greenhouse gas emissions<br>(Scope 1 and Scope 2) <sup>(1)</sup> | metric t CO <sub>2</sub> /€m | -8%                          | 56.3         | 56.6         | +0.5%                         |
| <b>Management systems</b>                                                            |                              |                              |              |              |                               |
| ISO 50001 certification (energy management)                                          | % of sites                   | 20%                          | 8%           | 12%          | +4 pts                        |

(1) See section 4.3.2 of this chapter, "Reducing greenhouse gas emissions", pages 198 to 201 for a description of the scope of the objective.

Valeo continued to reduce its total consumption of water as a proportion of sales in 2016, beating the target 6% reduction that it had set for 2020.

Energy consumption as a proportion of sales was down 4% compared with 2015, on a reduction target of 8% by 2020.

In 2016, the total amount of waste as a proportion of sales increased by 3.7% compared with 2015.

The increase had two main causes:

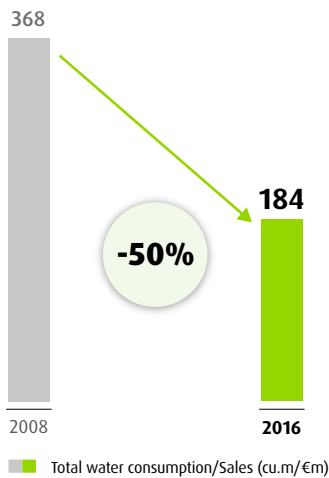
- first, the opening of new sites, which generate more waste during the start-up phase, and the development of new products at existing sites, which also generate more waste during the launch phase due to a higher reject rate than during a period of stabilized production;
- second, more accurate reporting this year, which resulted in more thorough results for this item, in the identification and counting of waste for instance.

Direct and indirect emissions of greenhouse gases were stable as a proportion of sales.

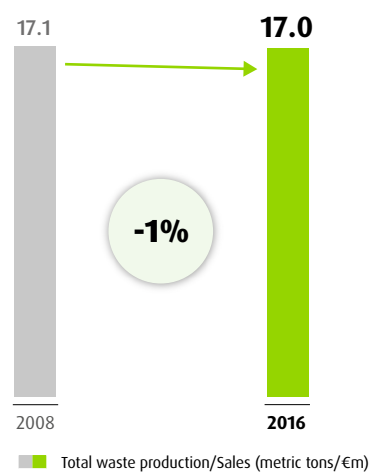
In line with its commitments, the Group pursued its ISO 50001 energy management certification target, bringing the number of ISO 50001 certified sites to 12% of the total at the end of 2016.

## Review of the 2008-2016 performance

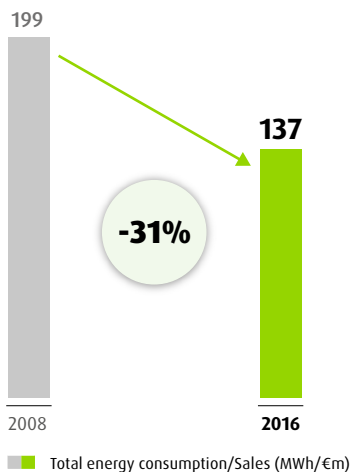
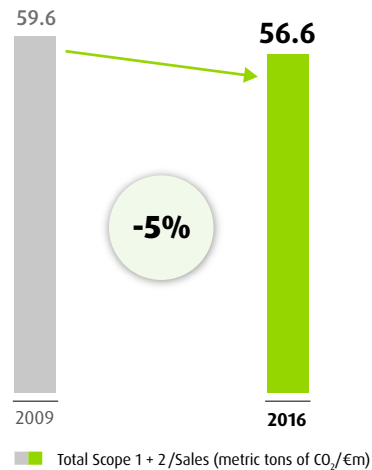
## ► WATER CONSUMPTION



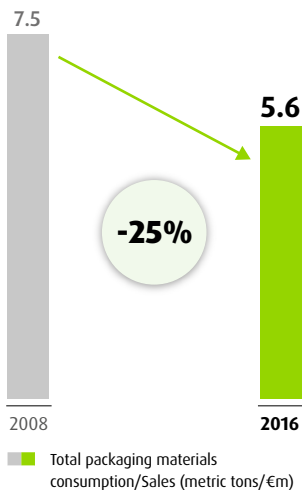
## ► WASTE PRODUCTION



## ► ENERGY CONSUMPTION

► DIRECT AND INDIRECT CO<sub>2</sub> EMISSIONS

## ► PACKAGING CONSUMPTION



The charts on this page show the very significant reductions achieved by Valeo since 2008 in its water, energy and packaging consumption in proportion to its sales (reduced by 50%, 31% and 26% respectively). Waste production has been steady as a proportion of sales since 2008.

Since 2009, Valeo has reduced its direct and indirect CO<sub>2</sub> emissions as a proportion of sales by 5%.

## Environmental expenditure and investment

### Total environmental protection expenditure and investment

Operating expenses relating to the environment amounted to 17.2 million euros in 2016. They include the cost of waste treatment, analysis of effluents, operation of internal treatment plants and environmental studies. In addition to these expenses, 560,000 euros was spent on clean-up costs on active sites.

In 2016, Valeo invested 3.3 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

In 2016, a Group site received a significant administrative penalty, with the Seymour site (Visibility Systems, United States) fined 130,679 US dollars for failing to update a permit for air emissions after changing a chemical used in the production process.

### Amount of provisions and guarantees for environmental risks

Provisions set aside for site remediation or for the environment amounted to 13.7 million euros at December 31, 2016.

## 4.3.2 Reducing energy consumption and greenhouse gas emissions

### Reducing energy consumption

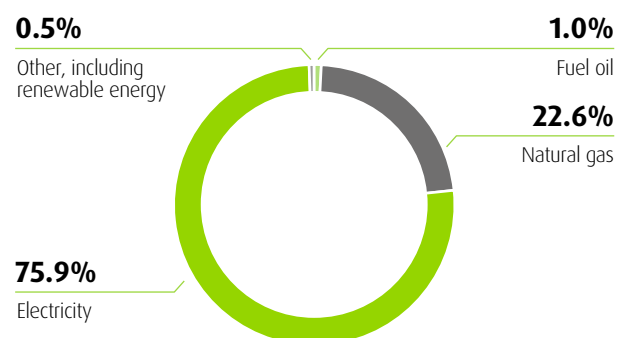
#### Challenges

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

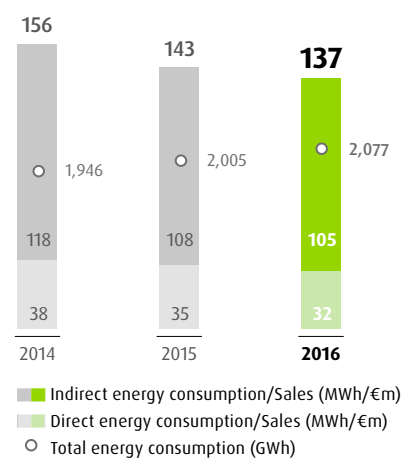
Valeo is working to reduce its energy consumption by implementing measures such as those described below in "Achievements during the year".

#### Performance

Total energy consumption as a proportion of sales was down 4.2% compared with 2015. The decrease was evenly split between direct and indirect energy, and continued a downward trend dating back to 2013.

Total energy consumption was up 3.6% compared with the prior year.

#### ► TOTAL DIRECT AND INDIRECT ENERGY CONSUMPTION

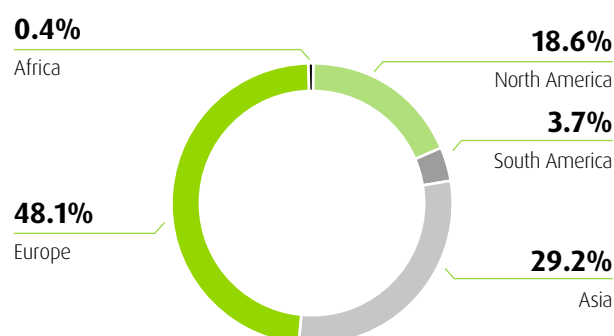


#### Analysis of the geographic breakdown of energy consumption

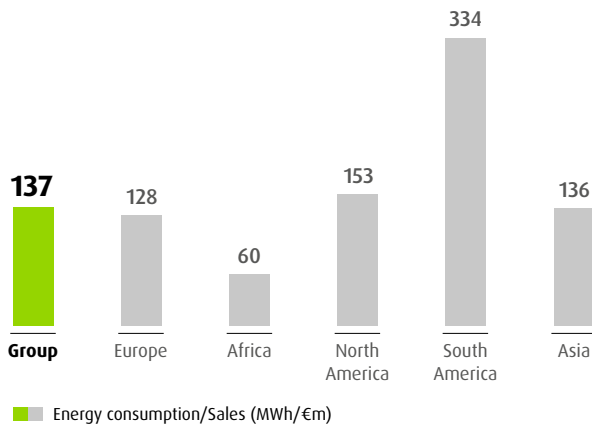
The Group's sites in Europe, Asia and North America account for 96% of total energy consumption. Energy consumption at Asian sites continued to increase in 2016, rising from 28% to 29% of sales.

Energy consumption as a proportion of sales is markedly higher at the Group's South American sites than in Africa, Europe, North America or Asia. This trend intensified in 2016.

#### ► GEOGRAPHIC BREAKDOWN OF TOTAL ENERGY CONSUMPTION



► **ENERGY CONSUMPTION AS A PROPORTION OF SALES BY GEOGRAPHIC AREA**



### Achievements during the year

The indicator used by Valeo for quantifying savings is the energy intensity ratio (MWh/€m), which decreased by 4.2% between 2015 and 2016.

This outcome was achieved thanks to numerous initiatives at individual sites, including:

- replacement of lighting systems using conventional fluorescent or metal-halide lights by more energy-efficient LEDs. This initiative was taken up widely in 2016, with 26 sites reporting having performed such replacements;
- automation of lighting and air conditioning systems by installing timers or motion detectors. Initiatives of this nature were implemented in Chennai (Powertrain Systems, India), Getafe (Valeo Service, Spain), Saint Denis (Valeo Service, France) and Shenzhen (Comfort & Driving Assistance Systems, China);

- installation of systems to recover heat from compressors or furnaces for reuse in other plant areas (showers, production hall, etc.). The sites in Amiens (Powertrain Systems, France), Wemding (Comfort & Driving Assistance Systems, Germany), Rakovník (Thermal Systems, Czech Republic) and Wuhan (Visibility Systems, China) took this action in 2016;
- optimization of compressed air systems by reducing pressure in the air network or establishing an organization for switching on and off the compressors supplying the compressed air network. Sites that took this action this year include La Suze (Thermal Systems, France), Sanand (Thermal Systems, India), Chonburi (Thermal Systems, Thailand) and Limoges (Powertrain Systems, France);
- replacement of constant-speed engines with variable-speed engines, which consume less energy. The sites in Seymour (Visibility Systems, United States), Chennai (Powertrain Systems, India) and Limoges (Powertrain Systems, France) launched projects of this nature in 2016;
- building insulation: the Bobigny site (Visibility Systems, France) continued its efforts begun in 2015 to replace all of its windows so as to minimize heat loss;
- lastly, awareness campaigns on the responsible use of energy run on the majority of sites, especially during Sustainable Development Week in early June.

**A total of 74 sites declared the start of new energy efficiency projects in 2016.** Their aim is to achieve combined energy savings amounting to 3.7% of the Group's total energy consumption in 2016, i.e., approximately 76 GWh.

**In 2016, Valeo continued the rollout of the ISO 50001 energy management standard at its sites. By the end of 2016, 15 sites, or 12% of the total number, had obtained this certification.**

## Outlook

### PILOT ON THE ANGERS SITE

The Group is determined to reduce its total energy consumption even further. To this end, and with the aim of identifying new areas for improvement, Valeo has chosen to conduct a pilot project on a site that has already achieved significant reductions in energy consumption. The Angers site (Visibility Systems, France), identified as a Center of Excellence for the conservation of energy, was selected as the pilot site in 2015.

The first step was to install equipment to measure the main sources of electricity consumption on the site, such as on each of the injection presses, which consume particularly large amounts of energy. The measurements were analyzed, notably by cross-referencing energy consumption with the number of produced parts per machine during a given period. The objective is to optimize the energy consumption of each machine with respect to the level of production based on a "kWh per parts produced" indicator.

In 2017, production managers will be required to use this indicator, which will be displayed on each machine, to manage stops and restarts.

The results obtained allow conclusions to be drawn as to the effectiveness of the approach and its possible mainstreaming on other Group sites.

In conjunction with this pilot, Valeo plans to map the various initiatives that have helped to achieve energy savings at each site. This will enable the Group to identify sites that have not yet committed to action and to encourage them to implement such initiatives.

**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 2016, 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<sup>(1)</sup>, 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.

<sup>(1)</sup> See Sustainable Development Glossary, page 450.



## Performance

### Scope 1

Direct GHG emissions as a proportion of sales fell by 5% between 2015 and 2016.

| Direct GHG emissions (kMt CO <sub>2</sub> eq)                                        | 2014         | 2015         | 2016         |
|--------------------------------------------------------------------------------------|--------------|--------------|--------------|
| Emissions generated by fuel oil and gas combustion at sites (kMt CO <sub>2</sub> eq) | 115.9        | 118.0        | 119.3        |
| Direct emissions from non-energy processes <sup>(1)</sup> (kMt CO <sub>2</sub> eq)   | 19.3         | 1.9          | 2.8          |
| Emissions caused by Valeo's vehicle fleet (kMt CO <sub>2</sub> eq)                   | 12.0         | 7.4          | 8.9          |
| Fugitive emissions (refrigerant leakage) (kMt CO <sub>2</sub> eq)                    | 17.5         | 14.5         | 14.9         |
| <b>TOTAL DIRECT EMISSIONS (kMt CO<sub>2</sub> eq)</b>                                | <b>164.7</b> | <b>141.8</b> | <b>145.8</b> |
| <b>TOTAL DIRECT EMISSIONS/SALES (Mt CO<sub>2</sub> eq/€m)</b>                        | <b>13.2</b>  | <b>10.1</b>  | <b>9.6</b>   |

(1) Data on direct emissions from non-energy processes were audited in 2015, bringing to light the overestimation of these data in 2014.

### Scope 2

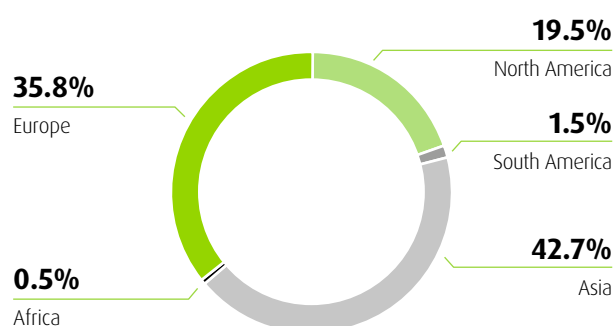
Indirect GHG emissions as a proportion of sales were virtually flat, with a 1.7% increase between 2015 and 2016.

| Indirect emissions from consumption of electricity <sup>(1)</sup> and other energy such as steam, compressed air, etc.) | 2014         | 2015                       | 2016         |
|-------------------------------------------------------------------------------------------------------------------------|--------------|----------------------------|--------------|
| <b>TOTAL INDIRECT EMISSIONS (kMt CO<sub>2</sub> eq)</b>                                                                 | <b>627.7</b> | <b>649.8<sup>(2)</sup></b> | <b>710.9</b> |
| <b>TOTAL INDIRECT EMISSIONS/SALES (Mt CO<sub>2</sub> eq/€m)</b>                                                         | <b>50.25</b> | <b>46.20<sup>(2)</sup></b> | <b>46.97</b> |

(1) The calculation takes into account the primary energy sources used to generate electricity in each country.

(2) The 2015 data have been updated using the new 2015 emission factors issued by the International Energy Agency in mid-2016.

### ► GEOGRAPHIC BREAKDOWN OF DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS (SCOPES 1 AND 2) ASSOCIATED WITH ENERGY CONSUMPTION IN 2016



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 "Analysis of the geographic breakdown of energy consumption", pages 196 to 197 of this section) shows that while Valeo's European sites consume around 48% of the Group's total energy, the associated GHG emissions account for just under 36% of the Group total. By contrast, sites in Asia consume nearly 29% of the Group's total energy but emit approximately 43% 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

In 2016, Valeo estimated all other indirect emissions sources (Scope 3) linked to its activity.

Indirect GHG emissions (Scope 3) regarded by Valeo as material are:

- emissions linked to purchases of materials entering into industrial processes (steel, aluminum, copper, zinc, plastics, electronic components, chemicals and packaging);
- emissions from product use. Valeo is working to establish a method to accurately estimate these emissions.

Indirect GHG emissions (Scope 3) regarded as not material are:

- emissions related to waste management in the relevant channels;
- emissions from Valeo's assets used by third parties (e.g., loans of molds to suppliers);
- emissions from energy production (e.g., extraction of gas or fuel oil);
- emissions from the installation of our products in vehicles by our customers;
- emissions related to the treatment of end-of-life products;
- emissions from downstream product transportation. Our customers handle most transportation of this nature.

Although they are not considered material, Valeo has elected to publish the following emissions related to its activity:

- emissions related to the upstream transportation of goods and raw materials;
- emissions from the transportation of personnel (commuting and business trips).

| Other relevant indirect GHG emissions<br>(kMt CO <sub>2</sub> eq)                                         | 2014         | 2015         | 2016                       |
|-----------------------------------------------------------------------------------------------------------|--------------|--------------|----------------------------|
| <b>Emissions generated by the production of the main materials used in industrial processes of which:</b> | <b>5,122</b> | <b>5,614</b> | <b>6,904<sup>(1)</sup></b> |
| Materials (metals)                                                                                        | 3,250        | 3,416        | 4,274 <sup>(1)</sup>       |
| Materials (other)                                                                                         | 1,872        | 2,198        | 2,630 <sup>(1)</sup>       |
| <b>Emissions generated by upstream logistics:</b>                                                         | <b>242</b>   | <b>237</b>   | <b>223</b>                 |
| Road/rail/maritime transportation                                                                         | 157          | 174          | 106                        |
| Air/express transportation                                                                                | 85           | 63           | 117                        |
| <b>Emissions generated by employee travel of which:</b>                                                   | <b>125</b>   | <b>139</b>   | <b>169</b>                 |
| Work commutes                                                                                             | 97           | 108          | 136                        |
| Business trips                                                                                            | 28           | 31           | 33                         |
| <b>TOTAL OTHER INDIRECT EMISSIONS (kMt CO<sub>2</sub> eq)</b>                                             | <b>5,489</b> | <b>5,990</b> | <b>7,296</b>               |
| <b>TOTAL OTHER INDIRECT EMISSIONS/SALES (Mt CO<sub>2</sub> eq/€m)</b>                                     | <b>439</b>   | <b>426</b>   | <b>482</b>                 |

(1) Emission factors for aluminum, plastics and steel were updated in 2016.

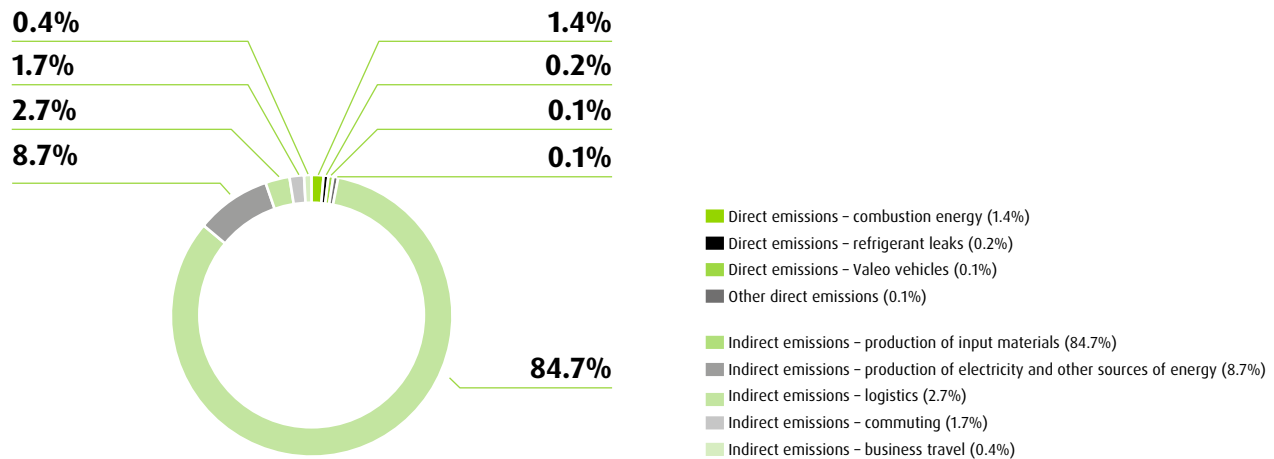
Scope 3 emissions as a proportion of sales increased by 13% between 2015 and 2016.

### The Group's carbon footprint

In 2016, the Group's overall carbon footprint (Scopes 1, 2 and 3, excluding emissions from product use) was 8.15 million metric tons of CO<sub>2</sub> equivalent. Valeo will next year incorporate emissions from product use when calculating its overall carbon footprint.

The chart below shows the preeminent contribution of materials used in industrial processes to the Group's overall carbon footprint (approximately 85%, of which two-thirds for metals), whereas direct emissions represent only 2% of the overall footprint.

#### ► 2016 BREAKDOWN OF 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 production processes);
- quantifying emissions in order to determine the need to obtain operating permits in accordance with applicable regulations.

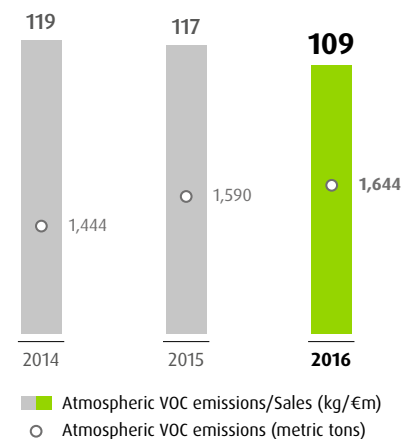
Each Valeo site assesses, particularly whenever any production processes are changed, potential ways of reducing atmospheric emissions of pollutants at source, focusing primarily on processes that do not require the installation of treatment facilities.

#### Performance

Valeo monitors emissions into the air of volatile organic compounds (VOCs), nitrogen oxides (NO<sub>x</sub>), lead (Pb) and trichlorethylene (TCE) resulting from its activities.

Emissions of sulfur oxides (SO<sub>x</sub>) are not monitored, as combustion equipment mainly uses natural gas, which does not emit sulfur oxides during combustion.

#### Atmospheric VOC emissions

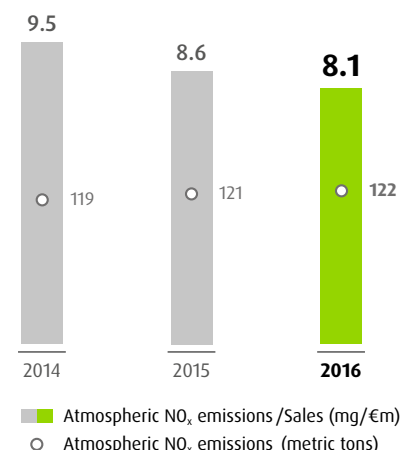


VOC emissions fell by a further 6.8% as a proportion of sales in 2016.

The decline was attributable chiefly to the Thermal Systems Business Group after the oil used in the manufacturing process was changed.

The Group is constantly improving the methodology used to obtain a consistent estimate of VOC emissions at each site, thereby increasing confidence in the figures reported each year.

#### Atmospheric NO<sub>x</sub> emissions



NO<sub>x</sub> emissions are estimated on the basis of consumption of oil and gas, mainly used for heating, heat treatment processes and VOC incinerators.

NO<sub>x</sub> emissions as a proportion of sales fell by 6.3% between 2015 and 2016.

### 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: 13 kg in 2016, down nearly 19% compared with 2015.

Consumption of TCE, still used by a single Group site in Taegu (Powertrain Systems, South Korea), totaled 21.1 metric tons in 2016.

### Emissions of ozone-depleting substances

In the interests of transparency, the Group again performed an overall estimate of CFC and HCFC emissions in 2016: 489 kg of CFC-11 equivalent (the reference component for measuring the potential to deplete the ozone layer), a decline of nearly 20% compared with 2015.

### Achievements during the year

Several sites took action to reduce their air emissions. They include:

- the sites in Gyeongju (Powertrain Systems, South Korea), Breuilpont (Valeo Service, France), Akita (Comfort & Driving Assistance Systems, Japan) and Santena (Valeo Service, Italy) replaced their old air conditioning systems with new systems using more environmentally friendly fluids;
- the Seymour site (Visibility Systems, United States) installed a thermal oxidizer for the treatment of emissions of volatile organic compounds. The system burns pollutant emissions at high temperature.

### 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 a vehicle circulation plan, a 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 accidental 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;
- 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**, all waste, raw materials, products and equipment are removed and site maintenance continues prior to sale.

### Performance

No significant spills were recorded in 2016.

The total volume of industrial effluents discharged from the Group's sites in 2016 was 820,000 cu.m., compared with 724,000 cu.m. in 2015, and the amount of heavy metals discharged from internal treatment stations was 28 kg in 2016, compared with 24 kg in 2015.

These figures are directly in line with the increase in the Group's activities.

## Achievements during the year

The Pune site (Powertrain Systems, India) has set up a new water treatment facility for water used by the plant, thereby ensuring the quality of discharged water.

## 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, recycling;
- if this is not possible, recovery;
- failing recycling and recovery, disposal.

In the absence of a reliable sector in the country in question, 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

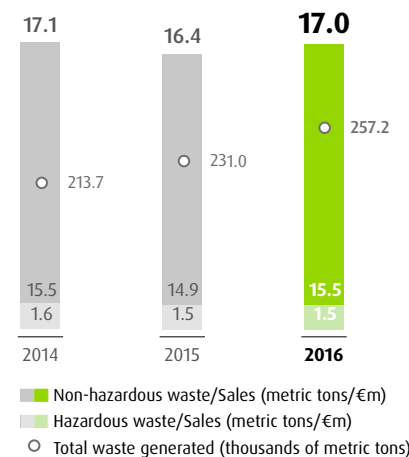
In 2016, the total amount of waste as a proportion of sales increased by 3.7% compared with 2015.

The increase had two main causes:

- first, the opening of new sites, which generate more waste during the start-up phase, and the development of new products at existing sites, which also generate more waste during the launch phase due to a higher reject rate than during a period of stabilized production;
- second, more accurate reporting this year, which resulted in more thorough results for this item, in the identification and counting of waste for instance.

The Powertrain Systems Business Group alone generates almost 60% of the total amount of the Group's waste. This Business Group accounts for 49% of the absolute increase in the Group's waste in 2016. New sites such as Chennai (Oragadam plant, Powertrain Systems, India) or rapidly growing sites such as Nanjing (Powertrain Systems, China) and Taegu (Powertrain Systems, South Korea) contributed strongly to the increase. After the launch period, the level of waste as a proportion of sales can be expected to decline, helping to achieve Valeo's objective of a 5% reduction in 2020.

### ► PRODUCTION OF HAZARDOUS AND NON-HAZARDOUS WASTE

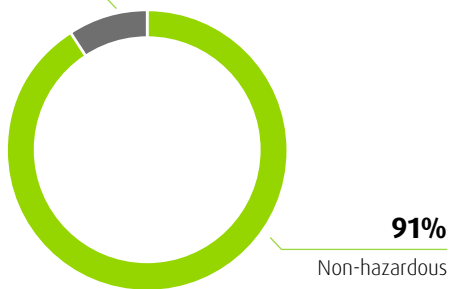




### Characteristics of waste produced

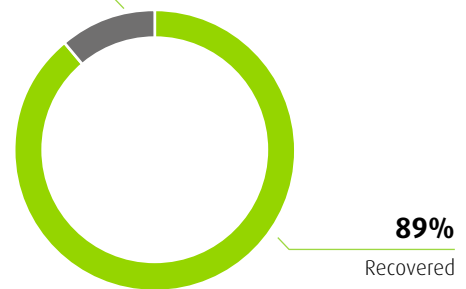
9%

Hazardous



11%

Not recovered



The share of recycled waste compared with non-recycled waste was stable, as was the share of hazardous waste compared with non-hazardous waste.

### Exported waste

In 2011, the Group began monitoring the amount of hazardous and non-hazardous waste exported by its sites.

The sites reporting waste exports were:

- Juarez (Visibility Systems, Mexico), which exports the majority of its waste to the United States;
- Rio Bravo (Comfort & Driving Assistance Systems, Mexico), which also exports some of its waste to the United States;
- La Suze-sur-Sarthe site (Thermal Systems, France), which exports a small amount of waste to a company specializing in solvent regeneration in Germany;
- Tuam (Comfort & Driving Assistance Systems, Ireland). There is currently only one waste incinerator in Ireland. Waste is therefore collected by companies operating nationally and then incinerated in either Belgium or Germany.

Exports totaled 1,986 metric tons in 2016.

### Achievements during the year

In 2016, the Timisoara site (Visibility Systems, Romania) distinguished itself by taking two measures to reduce its total waste production:

- setting up an area dedicated to parts with production defects, which were previously simply discarded. These so-called "bad" parts are now disassembled to recover components in good condition (printed circuit boards and elliptical reflectors, for instance). The site expects to save 300,000 euros per year;
- recycling varnish "lost" in varnishing systems. The site has implemented a process to recover varnish spatter remaining in varnishing systems. The recovered varnish is again mixed with solvent, then its chemical characteristics are tested and validated before it is reintroduced into varnishing systems. The site expects to save up to 200,000 euros by recycling this varnish.

### 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 2016, Valeo continued to strengthen its requirements as regards the organization of transportation and the positioning of external storage facilities owned by suppliers, as well as in terms of packaging suitable for transportation so as 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 2016, emissions related to air transportation for the delivery of parts from suppliers amounted to 116,992 metric tons of CO<sub>2</sub>. Emissions related to air transportation for the delivery of Valeo products to customers amounted to 1,513 metric tons of CO<sub>2</sub>.

In **road transportation**, optimization work performed in previous years continued in 2016:

- greater consolidation of road transportation in all countries: instead of dedicated trucks, transporters use parts collection circuits in supplier plants wherever possible. Transportation of this type is regularly reviewed in accordance with changes in volumes and the frequency of deliveries;

- improvement of the average truck fill rate from 73% in 2015 to 75% in 2016 with the introduction of new collection routes.

Overall, the Group improved the ratio of volumes of items transported to transportation-related CO<sub>2</sub> emissions. Emissions related to road transportation for the delivery of parts from suppliers amounted to 63,450 metric tons of CO<sub>2</sub>. Emissions related to road transportation for the delivery of Valeo products to customers amounted to 12,391 metric tons of CO<sub>2</sub>.

In **maritime transportation**, the Group also continued its long-standing approach (see the case study below) of:

- improving the consolidation of all maritime flows in Europe, Asia, North America and South America. The Group has adopted a single supplier for each sea route; 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.

In 2016, emissions related to maritime transportation for the delivery of parts from suppliers amounted to 42,628 metric tons of CO<sub>2</sub>. Emissions related to maritime transportation for the delivery of Valeo products to customers amounted to 214 metric tons of CO<sub>2</sub>.

In **rail transportation**, Valeo continued the work carried out in previous years in North America to organize deliveries from its North American suppliers in the Chicago area to Mexico and flows from China to Europe.

In 2016, emissions related to rail transportation for the delivery of parts from suppliers amounted to 120 metric tons of CO<sub>2</sub>. Emissions related to rail transportation for the delivery of Valeo products to customers amounted to two metric tons of CO<sub>2</sub>.

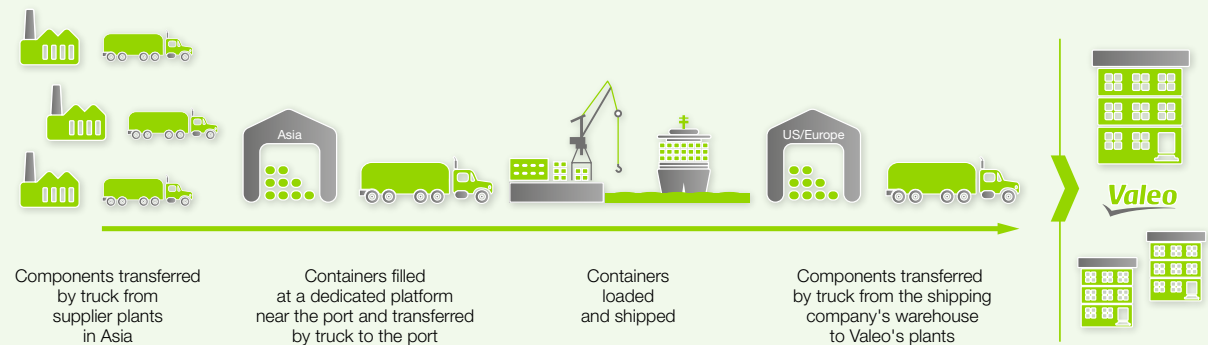
## Achievements during the year

### CASE STUDY: AUTOMOTIVE COMPONENTS SHIPMENTS FROM ASIA TO EUROPE AND THE US

Containers are filled on a platform near the port of departure for customers in the United States and Europe.

This solution accordingly enables Valeo to:

- optimize container fill rates;
- reduce the number of containers transported by sea;
- reduce transportation-related CO<sub>2</sub> emissions.



## Outlook

In 2017, the Group will continue its work to consolidate road flows for all sites in China, while at the same time optimizing the load factors of its various means of transportation.

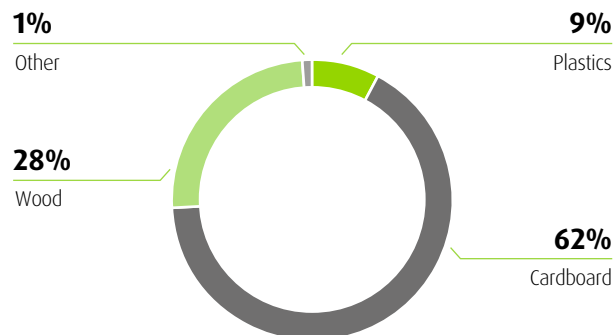
For maritime transportation, the logistics teams of the different production sites will continue to pool their shipments. Valeo also plans to continue its efforts to transport its goods by rail wherever possible.

## 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

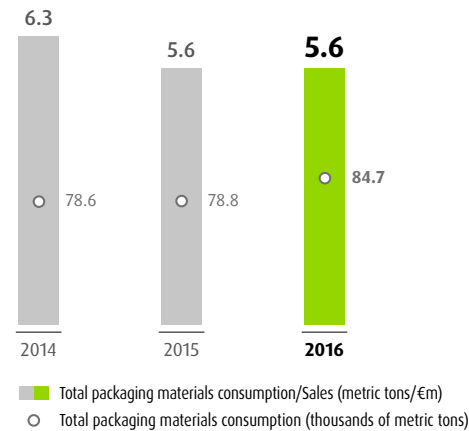
For several years, Valeo has worked to reduce its consumption of packaging materials in two main ways:

- 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 2016, total consumption of packaging materials as a proportion of sales was stable compared with 2015.

To reduce its environmental footprint, Valeo pays particular attention to the use of recycled materials. In 2016, 459 metric tons of packaging materials were recovered internally and reused.

### Achievements during the year

The following initiatives are worthy of mention:

- Chennai (Powertrain Systems, India): the site previously used cardboard boxes weighing 200 g each for its products. It now uses fully reusable plastic containers that it leases from third parties. This change has allowed the site to save 30 metric tons of packaging material per month.
- Wuhu (Visibility Systems, China): the site has changed the configuration of its final packaging to allow it to contain a greater number of finished products. It has also introduced reusable plastic packaging for the storage of semi-finished products.
- Wuhan (Visibility Systems, China): instead of the customary wood pallets, the site has developed reusable plastic pallets for all movements of parts within 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:

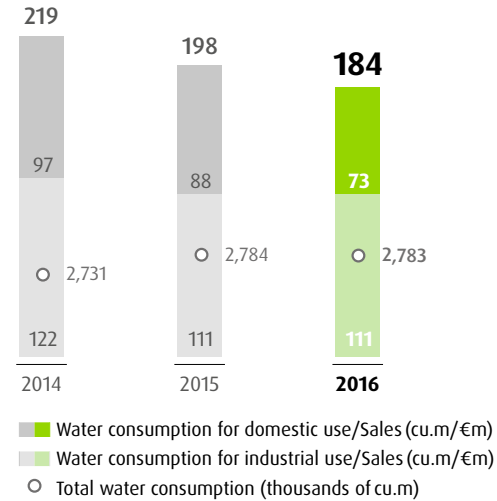
- drinking water,
- domestic use (if distinct from drinking water),
- industrial uses,
- fire uses;
- external drinking water supply wherever possible (preferably the public network);
- drinking water networks protected from contamination by other networks;
- the site performs monitoring of its water 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 2016, Valeo reduced its water consumption as a proportion of sales by 7.1% compared with 2015, and stabilized its total water consumption.

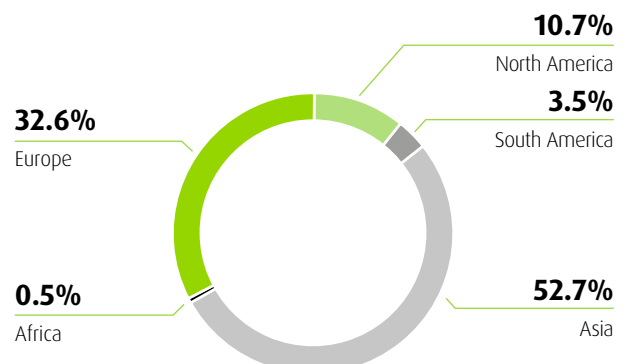
Consumption of water for industrial purposes accounted for 60% of total water consumption. The proportion increased in 2016 due to the significant reduction in the use of domestic water.

#### Geographic breakdown of water consumption in 2016

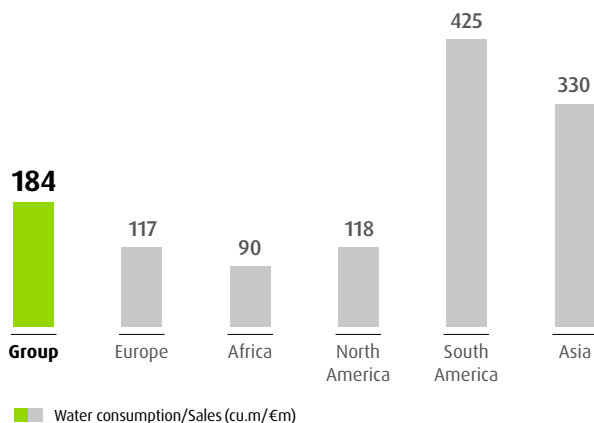
The Group's sites in Europe and Asia account for approximately 85% of its total water consumption. Water consumption as a proportion of sales at the Group's Asian and South American sites is markedly higher than in Africa, Europe and North America.

Progress was nevertheless made on optimizing water consumption at the Asian sites, especially by detecting and repairing leaks, which are a major source of water wastage.

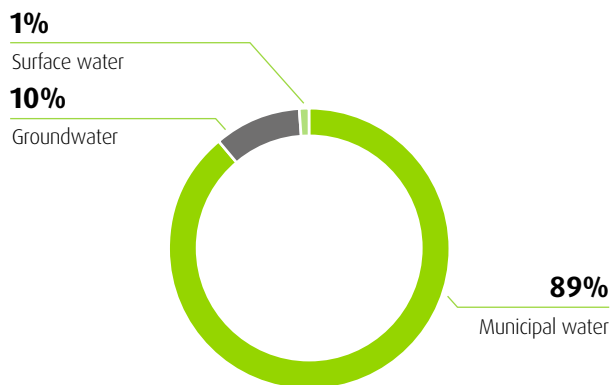
#### ► GEOGRAPHIC BREAKDOWN OF OVERALL WATER CONSUMPTION



► **WATER CONSUMPTION AS A PROPORTION OF SALES BY GEOGRAPHIC AREA**



**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 decreased from 14% in 2015 to 10% in 2016. The decline was attributable chiefly to the Shashi site (Thermal Systems, China), which ended its extraction of groundwater.

**Water restrictions**

In 2016, three sites were affected by water restrictions: Ben Arous (Comfort & Driving Assistance Systems, Tunisia), Purwakarta (Thermal Systems, Indonesia) and São Paulo (Visibility Systems, Brazil).

The sites at Rio Bravo (Comfort & Driving Assistance Systems, Mexico), São Paulo (Visibility Systems, Brazil) and Wenling (Visibility Systems, China) were affected by public water network outages.

Such outages have occurred repeatedly in Wenling and Ben Arous since 2014; this was the second consecutive year at São Paulo. No compensatory measures were necessary, except at the São Paulo site, where drinking water was delivered by truck.

**Water reuse**

In 2016, as in 2015, three sites reported collecting rainwater for reuse, namely Reilly (Visibility Systems, France), Breuilpont (Valeo Service, France) and Tianjin (Thermal Systems, China). Moreover, as in 2015, 14 sites reported recycling and reusing their industrial water internally.

**Achievements during the year**

In 2016, more than 20 sites reported having taken action to reduce their water consumption. Among them, the following sites stand out particularly for their innovative initiatives:

- in response to the water crisis in Brazil, the Itatiba site (Thermal Systems, Brazil) has chosen to reuse rain water in its industrial processes. Once collected in a reservoir connected to roof gutters, the water is sent to a treatment facility before being used in the production process;
- the Rayong site (Thermal Systems, Thailand) has installed a reverse osmosis filtration system. The water obtained is much purer than water from the public networks. This facility has reduced the water renewal rate in machinery, thereby reducing the site's overall water consumption;
- the sites in Chennai (Powertrain Systems, India), Chonburi (Thermal Systems, Thailand) and Foshan (Visibility Systems, China) have chosen to modify the characteristics of their industrial processes by installing water quality measurement devices to make sure it is replaced as infrequently possible while maintaining optimum machine efficiency.

Other sites have taken action to improve the maintenance of networks (leak detection, pipe replacement, etc.) and to educate users so that they reduce their consumption themselves.

**Outlook**

Valeo has set itself the goal of reducing its total water consumption as a proportion of sales by 6% between 2016 and 2020. This goal has already been achieved.



### 4.3.6 Biodiversity

#### Challenges

The 120 sites in the reporting scope occupy a total area of approximately 698 hectares, of which a little less than 8% 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 identified in 2015: one in Asia, one in Africa, five in South America and thirteen in Europe. They include nine plants in France, chiefly in the vicinity of Natura 2000<sup>(1)</sup> areas or natural areas of ecological, flora and fauna interest (ZNIEFF<sup>(1)</sup>).

#### 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.

In 2016, Valeo carried out security work on the buildings on the Caligny site in the Orne department and started work on the remaining two sites.

Many sites are running biodiversity projects:

- as part of the plan to build a new warehouse, and with a view to avoiding having to fell several protected trees, 20 employees at the Veszprem site (Comfort & Driving Assistance Systems, Hungary) volunteered to move the trees to a protected area;
- the Tuam site (Comfort & Driving Assistance Systems, Ireland) chose to join forces with local group "Tuam Tidy Town" to plant flowers in the city's flowerbeds;
- employees of the Pune site (Powertrain Systems, India) planted 35 trees around the site;
- the Santena site (Valeo Service, Italy) launched a collection of used electronic devices (cells/batteries, household appliances, 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.

(1) See Sustainable Development Glossary, page 450.

## 4.4 Valeo and its employees

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 comprehensive 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 fight for talent to building and sharpening advanced skills and sustaining employability. **The Group aims to add 10,000 employees to its global workforce each year over the next five years.**

The Human Resources Department's priorities are shown in the materiality matrix (see section 4.1.1 of this chapter, "Sustainable development challenges", page 162). They form the foundations of the Group's actions in respect of:

- **safety and working conditions** (see section 4.4.2 of this chapter, "Personal safety", pages 221 to 224);
- **employee engagement, attractiveness and talent development** (see section 4.4.3 of this chapter, "Attracting and engaging talent", pages 225 to 235);
- **diversity** (see section 4.4.1 of this chapter, "Health, safety and working conditions", pages 212 to 220).

In addition to developing the value of the human factor (well-being at work, diversity, motivation and commitment of all employees), the Human Resources Department promotes and ensures compliance with the following five Valeo Values:

- ethics;
- transparency;
- autonomy;
- professionalism;
- teamwork.

### 4.4.1 Health, safety and working conditions

#### Workforce

##### Challenges

Valeo's gradual transformation raises four major challenges for the Group:

- **acquisition and strengthening of skills:** Valeo's activity requires a variety of skills for the development and production of its products and systems. These skills are constantly evolving in line with changes in the automotive industry, and to meet the challenges of automation and digitalization;

- **workforce flexibility:** the automotive market is cyclical, and considerable flexibility is required to ensure that capacity constantly matches fluctuating demand from clients around the world;
- **geographic balance and spread of growth areas:** the organization of the workforce must dovetail with the Group's growth strategy worldwide, especially as regards industrial development in high-growth countries, particularly in North America and Asia;
- **employee diversity:** 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.

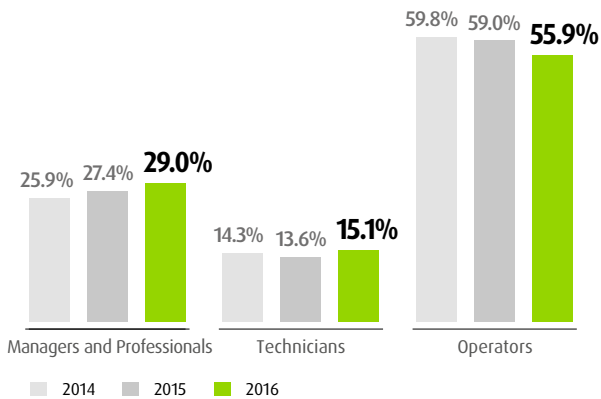
##### Approach and achievements during the year

| Headcount at December 31                              | 2014          | 2015          | 2016          | Change<br>(2016/2015) |
|-------------------------------------------------------|---------------|---------------|---------------|-----------------------|
| Managers and professionals                            | 18,458        | 20,410        | 23,960        | +17.2%                |
| Technicians                                           | 10,189        | 10,141        | 12,518        | +23.4%                |
| Operators                                             | 42,518        | 43,956        | 46,183        | +5.0%                 |
| <b>REGISTERED HEADCOUNT</b>                           | <b>71,165</b> | <b>74,507</b> | <b>82,661</b> | <b>+10.9%</b>         |
| Temporary staff (full-time equivalent at December 31) | 7,254         | 8,293         | 9,139         | +10.2%                |
| <b>TOTAL HEADCOUNT</b>                                | <b>78,419</b> | <b>82,800</b> | <b>91,800</b> | <b>+10.9%</b>         |
| Of which:                                             |               |               |               |                       |
| Permanent staff                                       | 56,208        | 59,884        | 67,383        | +12.5%                |
| Non-permanent staff (fixed-term and temporary)        | 22,211        | 22,916        | 24,417        | +6.6%                 |

At December 31, 2016, the Valeo Group had 91,800 employees (compared with 82,800 in 2015). Acquisitions, including peiker and Spheros, increased the workforce by 2,110 employees.

## The acquisition and strengthening of skills

### ► BREAKDOWN OF REGISTERED HEADCOUNT BY PROFESSIONAL CATEGORY (2014-2016)

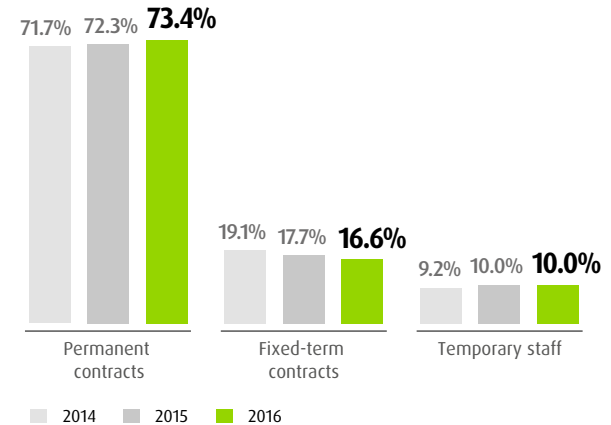


The increase in the proportion of managers and professionals in the Group's workforce to 29% at December 31, 2016 reflects Valeo's innovation efforts aimed at bringing new products and innovative solutions to market. This increase is chiefly attributable to the number of professionals working in Research and Development, whose ranks swelled from 11,620 in 2015 to 13,700 in 2016. In 2016, this category represented 13,700 people, compared with 11,620 in 2015, an increase of 12.5%.

At the same time, highly skilled production operators working in manufacturing and assembly accounted for 55.9% of the workforce.

## Workforce flexibility

### ► BREAKDOWN OF REGISTERED HEADCOUNT BY CONTRACT TYPE (2014-2016)



To address the volatility of some of its markets and continuously adapt its production capacity, Valeo employs temporary staff representing 26.6% of the total workforce. This figure has fallen steadily since 2014, when the temporary workforce accounted for 28.3% of headcount.

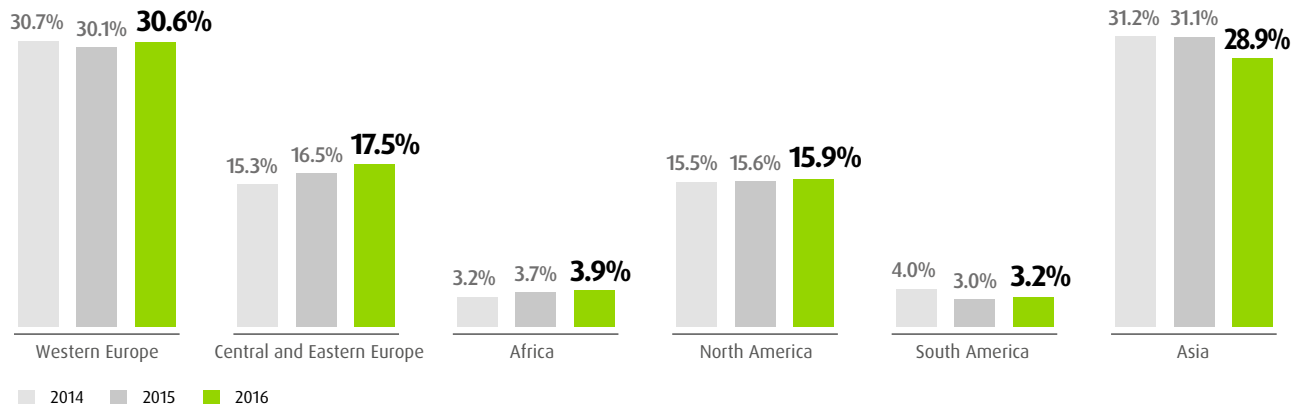
China accounts for two-thirds of the Group's workforce on fixed-term contracts, in line with the local practice of beginning careers with a renewable fixed-term contract before being offered a permanent contract.

It should be noted however that the proportion of temporary staff is tending to fall in favor of permanent contracts, which are up nearly 1.7 percentage points since 2014. This reflects Valeo's determination to invest for the long term and to capitalize on its expertise.

## Geographic balance and spread of growth areas

The Group's marketing and manufacturing efforts allow it to attract new customers and win market share in high-growth regions. New production capacities and workforces are being established locally to meet demand in these markets.

## ► BREAKDOWN OF REGISTERED HEADCOUNT BY GEOGRAPHIC AREA (2014-2016)



Between 2014 and 2016, the share of the local workforce relative to the Group's total workforce increased in Central and Eastern Europe, Africa and North America. Moreover, Valeo's headcount has grown in absolute terms in all regions of the world:

- in Africa, growth of 18.1% thanks to expansion in Egypt and Morocco;
- in North America, growth of 14.4% spanning the United States, Mexico and Canada;
- in South America, growth of 17.8% driven by Brazil;
- in Asia, growth of 3.9% thanks to expansion in China and India;
- in Central and Eastern Europe, growth of 18.8% thanks to expansion in Poland, Hungary, the Czech Republic and Romania;
- in Western Europe, growth of 13.7% driven chiefly by Spain and Germany (with the consolidation of peiker and Spheros).

### Diversity

Considered a key factor for sustainable growth, diversity is an integral part of the Valeo culture. It contributes to the Group's attractiveness, both with clients and among partners or employees wishing to work in a responsible and innovative company (see below, "Employee diversity").

### Outlook

To better meet the four major challenges for the Group's development, the Human Resources Department has transformed its organization around three pillars:

- bring Human Resources closer to operations to make them true Business Partners serving managers and employees;
- enhance the effectiveness of the HR function by promoting the value of four key skills: talent development, labor relations, compensation and benefits, and HR information systems;

- develop efficiency in the HR function so as to focus on high value added operational activities, notably through the establishment of shared services in recruitment, payroll and personnel administration in each country.

### Employee 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.

#### Approach and achievements during the year

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. These committees, whose membership was completely renewed in 2016, comprise employees from different countries and different functions, and are led by four managers with diverse backgrounds. Building on this organization, the Group has been committed to the following objectives since 2012:

- 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.

Aware of the need to formalize and regulate its Diversity policy, Valeo implemented an internal procedure for promoting employee diversity in 2016. This initiative allowed the Group to clarify its policy by setting out its commitments and goals, and by establishing internal control processes to ensure the policy's effective implementation.

## Gender diversity

As part of its continuous improvement approach, the Group promotes the skills and development of women and men, both internally and during the hiring process. Valeo is committed to respecting equality between men and women in terms of career development, training and compensation in comparable situations.

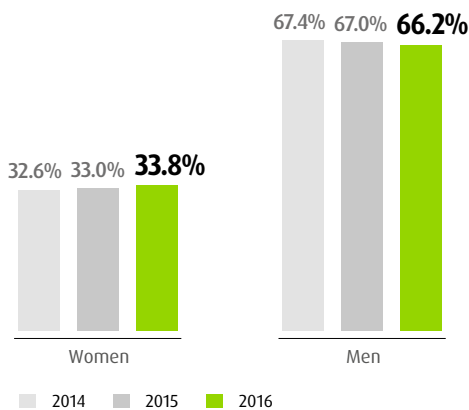
Valeo's Board of Directors has six women out of 14 members: Caroline Maury Devine, Sophie Dutordoir, Noëlle Lenoir, Ulrike Steinhorst, Mari-Noëlle Jégo-Laveissière and Véronique Weill. With women making up nearly 43% of its Board of Directors, Valeo has voluntarily chosen to go beyond statutory requirements.

In 2016, Valeo implemented a number of measures:

- 33 Valeo sites have entered into partnerships to promote gender diversity with a variety of external organizations and stakeholders, including associations (*Elles Bougent*, France), professional bodies (Brazil, United States, Mexico, Tunisia, etc.) and universities (China, France, etc.);
- 73% of sites held at least one event locally to promote gender diversity to mark International Women's Day on March 8. Such events ranged from conference-debates and the publication of articles to the organization of sports tournaments;
- 67% of sites have taken specific measures for pregnant women, such as adapting workstations, reducing or adapting working time or providing rest areas.

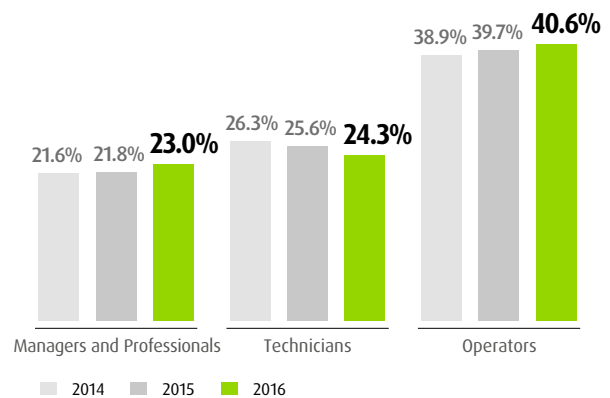
Thanks to the various on-site initiatives during the year, the proportion of women in Valeo's workforce increased in 2016.

### ► BREAKDOWN OF REGISTERED HEADCOUNT BY GENDER (2014-2016)



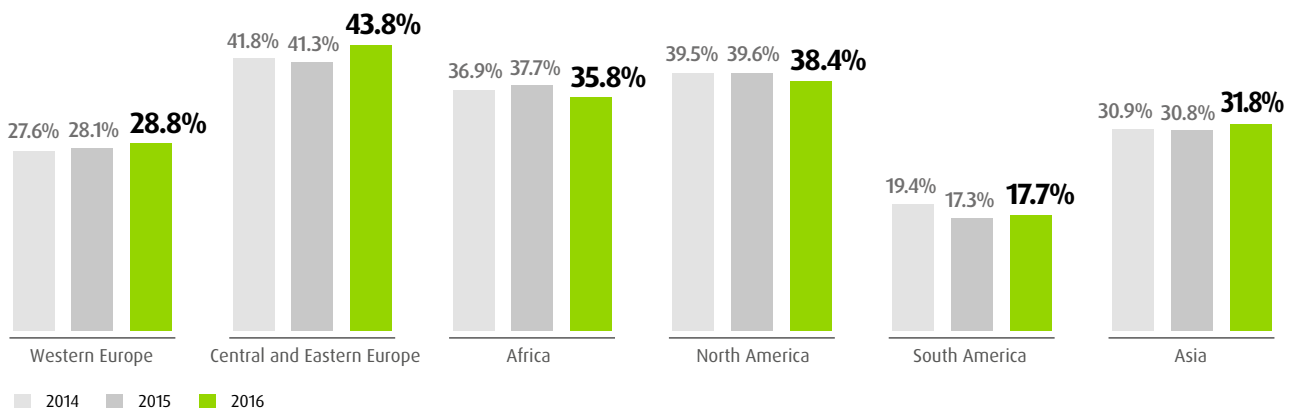
Between 2014 and 2016, the involvement of different institutions and the impetus given by the Group itself enabled Valeo to increase the number of women in its workforce (1.2 percentage point increase between 2014 and 2016).

### ► BREAKDOWN OF WOMEN BY SOCIO-PROFESSIONAL CATEGORY – REGISTERED HEADCOUNT (2014-2016)



The proportion of women among managers and professionals and among operators increased by 1.4 percentage points and 1.7 percentage points, respectively, between 2014 and 2016.

### ► BREAKDOWN OF WOMEN BY GEOGRAPHIC AREA – REGISTERED HEADCOUNT (2014-2016)



In Europe and Asia, the proportion of women increased between 2014 and 2016, whereas it has declined slightly in Africa and North America.

### Disability diversity

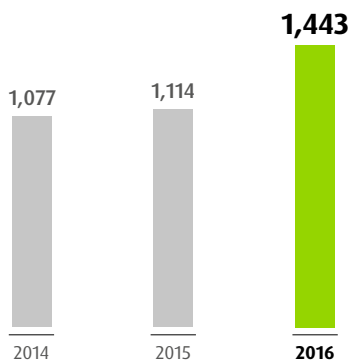
Promoting the employment of people with disabilities is a principle and a priority for the Group, as part of a process of equal access to employment and an approach designed to spur economic efficiency.

In 2016, Valeo implemented a number of measures in favor of disability:

- 72 Valeo sites partnered with external organizations to promote disability diversity. Partnerships were formed with NGOs ("Voice of the Deaf" in Tunisia, the "Guangzhou English Training Center for the Handicapped" (GETCH) in China and "Youth 4Job" in India), as well as with associations, training centers and institutions operating in the protected and sheltered sector;
- 78 sites held at least one event locally to promote disability diversity to mark the International Day of Persons with Disabilities on December 3. Such events ranged from school visits for people with disabilities, conference-debates and the publication of articles to the organization of sports tournaments;
- an awareness-raising video was shown to employees and on social networks to emphasize Valeo's objectives and commitments to disability and to showcase some of the significant initiatives undertaken by sites across the world.

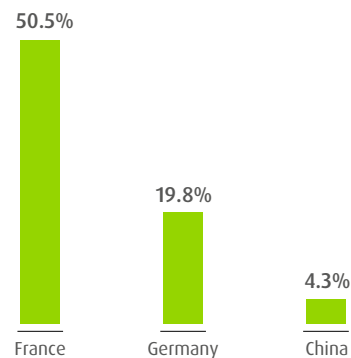
Through these actions, the number of people with disabilities employed by Valeo in its workforce worldwide has increased significantly:

#### ► NUMBER OF EMPLOYEES WITH DISABILITIES WORLDWIDE (DIRECT EMPLOYMENT) (2014-2016)



Between 2014 and 2016, the number of employees with disabilities at Valeo increased by 33.9%. In 2016, more than one in two employees with disabilities were working in France, and nearly one in five was working in Germany.

#### ► COUNTRIES WITH THE LARGEST PROPORTION OF WORKERS WITH DISABILITIES EMPLOYED BY THE GROUP (2016)



### Cultural and social diversity within the Group

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 global objectives:

- succeed in naturally unifying 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.

In 2016, Valeo implemented a number of measures in favor of social and cultural diversity:

- 24 Valeo sites partnered with external organizations to promote cultural and social diversity. Partnerships were formed with NGOs ("Support for life" in Romania), associations (*Nos Quartiers ont des Talents* in France), schools (*L'École de la Deuxième Chance* in France) and training centers (in China);
- 86 sites held at least one event locally to promote cultural diversity to mark World Day for Cultural Diversity for Dialogue and Development on May 21. Such events ranged from charity collections and conference-debates to the publication of articles.

In 2016, Valeo had 384 expatriates within its ranks in 31 countries. The countries with the largest number of expatriates are the United States (67 expatriates), China (59), France (54), Japan (31), Thailand (29), Mexico (24), Germany (17), South Korea (15) and the Czech Republic (13). These nine countries account for 80% of the Group's expatriates.

58.8% of these internationally mobile employees (i.e., 226 individuals) originated from France. They come mainly from the Research and Development network (23% of expatriates), followed by the Industrial (19%), Finance (17%), Projects (12%) and Purchasing (10%) networks.



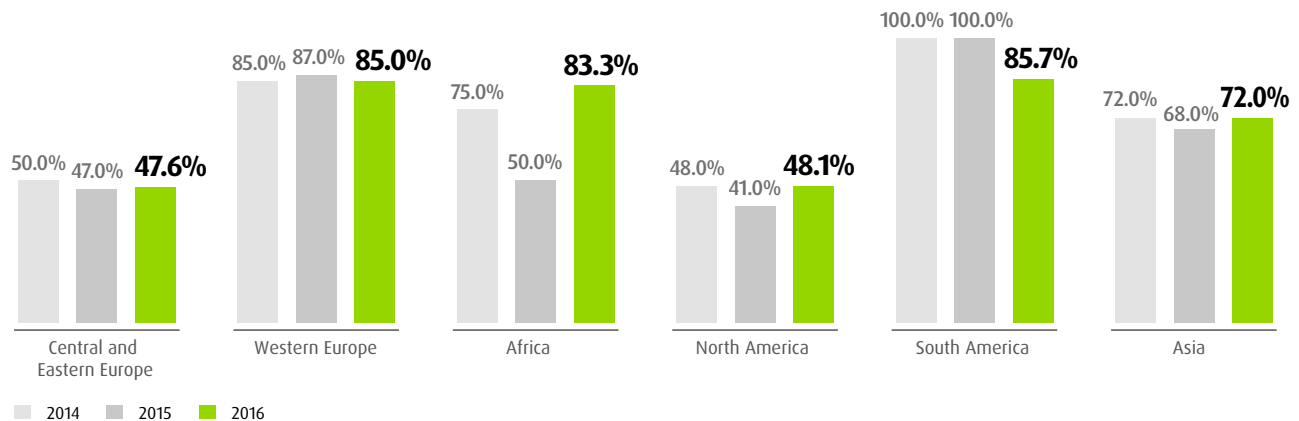
Valeo employees on international mobility have been employed in almost equal proportions by the Group for one to five years (25% of expatriates), six to ten years (24%) and 11 to 15 years (27%). They are followed by employees whose seniority is 16 to 20 years (16%), 21 to 25 years (6%) and over 25 years (2%).

In 2016, 70% of Valeo sites had a local director. This figure is higher in Africa, South America and Western Europe.

The breakdown by region of sites run by a local director has remained relatively stable in recent years, with the notable exception of Africa, which recorded an increase of over 30 percentage points.

In most parts of the world, the majority of sites have a local director, with the exception of North America and Central and Eastern Europe, where fewer than one site in two has a local manager.

#### ► BREAKDOWN OF SITES RUN BY LOCAL DIRECTORS (2014-2016)



#### Generational diversity

The Group strives to attract young talent, before providing training and fostering motivation through tutoring and mentoring. At the same time, it takes care to create an environment in which four generations can work together as the retirement age increases and members of generation Z arrive on the labor market. Between the youngest generation and seniors, the challenge is to transfer know-how, which must be safeguarded to support the Group's growth ambitions and ensure its sustainability.

In 2016, Valeo implemented a number of measures in favor of generational diversity:

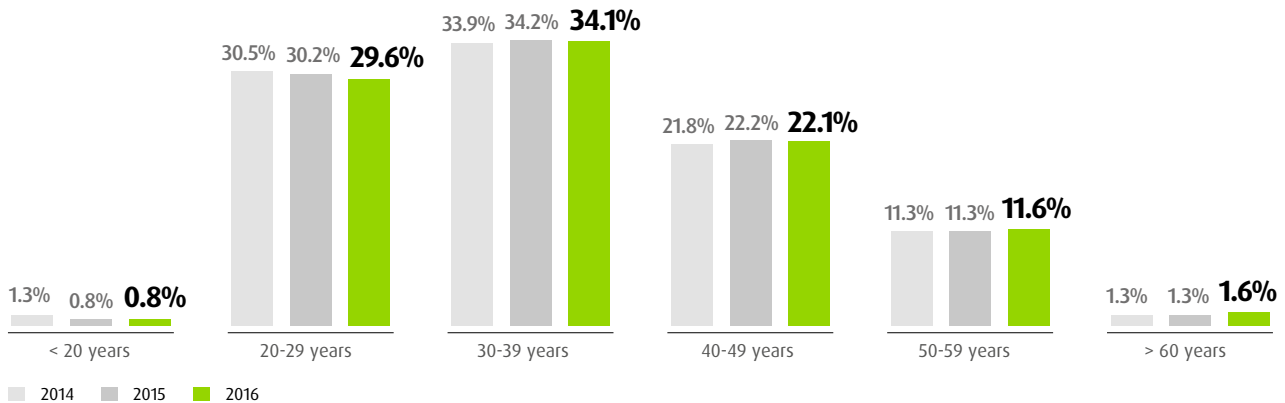
- 21 Valeo sites partnered with external organizations to promote generational diversity. Partnerships were formed with associations, schools and training centers;
- 93 sites held at least one event locally to promote generational diversity to mark the day of solidarity between generations in September. Such events ranged from school visits, photo contests and conference-debates to the publication of articles.

Valeo also maintained its close relations with higher education establishments, notably by nurturing selective partnerships with world-renowned schools and universities, while at the same time fostering diversity within its workforce. These initiatives in favor of youth employment and the integration of young people in the workplace allowed the Group to welcome: 1,834 interns, 1,051 apprentices and trainees, and 151 VIE (*Volontariat international en entreprise*) program applicants.

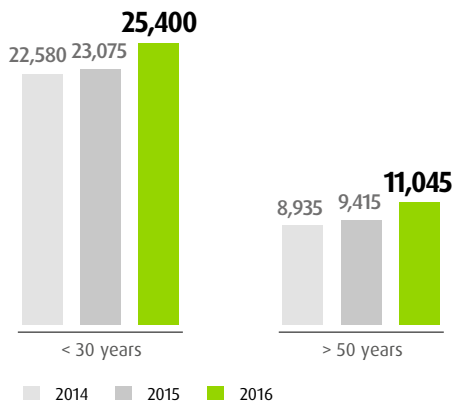
Valeo has 11,045 employees aged over 50 in its ranks worldwide, representing 13.2% of the workforce in 2016. This increase resulted from a favorable hiring policy that saw the Group hire 1,204 employees aged 50 and over in 2016.

Valeo also has 25,400 employees aged under 30, an increase of 12.5% since 2014.

## ► BREAKDOWN OF REGISTERED HEADCOUNT BY AGE GROUP (2014-2016)



## ► BREAKDOWN OF JUNIOR AND SENIOR EMPLOYEES – REGISTERED HEADCOUNT (2014-2016)



## Outlook

Under the new internal procedure on the promotion of diversity adopted in 2016, Valeo has set a goal for 2017 for each of the Group's sites to improve its performance on each of the following six key indicators:

- breakdown of registered headcount by gender;
- breakdown of registered headcount by age group;
- number of expatriate employees;
- number of sites run by a local director;
- number of interns, graduates on apprenticeships or training contracts, and VIE program applicants;
- number of employees with disabilities.

## Well-Being at Work

## Challenges

Well-Being at Work is an integral part of Valeo's Human Resources strategy to attract, develop and retain talent. Valeo firmly believes that well-being at work is essential to employees' development, as well as being a major factor in commitment and team performance.

As part of its Well-Being at Work policy, Valeo has identified five levers to improve employee quality of life in the workplace:

- a positive working environment: Valeo ensures the health and the safety of employees, offers ergonomic workstations and prevents psychosocial risks;
- work-life balance: Valeo promotes the right to disconnect and to work from home;
- recognition and fulfillment of employees: the need for recognition, consideration of work done, fair pay and career prospects are essential to promoting the well-being and commitment of Valeo employees;
- prevention of harassment and discrimination: Valeo defends the right of employees to work in a positive environment, and fights against harassment and discrimination;
- employee autonomy: Valeo believes that autonomy in decision-making fosters employee recognition and enhances individual performance.

## Approach and achievements during the year

Well-Being at Work Committees have been established at all Valeo sites worldwide. They are composed of a multidisciplinary team (site manager, staff representatives, and members of the HR network, Quality Safety Environment network and the site's medical team).

They are tasked with setting a Well-Being at Work policy that is tailored to the site's challenges and ensuring that it is communicated to employees. The policy must comply with guidelines established by Valeo and reflect the results of the engagement survey and analysis of employees' annual appraisals.

Aware of the need to formalize and regulate its Well-Being at Work policy, Valeo implemented an internal procedure for promoting well-being in 2016. This initiative allowed the Group to clarify its commitments and goals, and by establishing internal control processes to ensure the policy's effective implementation. The policy applies to all of the Group's employees worldwide.

Valeo uses two distinct processes to monitor its Well-Being at Work policy and evaluate actions implemented locally:

- the "Well-Being at Work" Involvement of Personnel roadmap is based on 13 indicators to monitor the achievement of the Group's well-being objectives. By 2016, Valeo sites had achieved 32% compliance with the roadmap. Every year, Valeo's internal auditors verify the smooth implementation of the action plans drawn up as part of the roadmap and in 2016, 75 sites were audited;
- in addition to these audits, the Well-Being at Work policy set up at each site is assessed through annual labor-related CSR reporting. In 2016, 126 sites implemented Well-Being at Work initiatives that took the following forms:
  - 841 employees work from home, representing nearly 3.5% of managers and professionals,
  - 5,086 employees followed Well-Being at Work training/awareness modules,
  - 53% of sites have set up a fund to assist employees experiencing financial hardship,
  - 66% of sites have established support services for employees and their families (holidays for children, sports and cultural activities),
  - 68% of sites have implemented transportation and assistance for commuting (shuttles and subsidies).

## Outlook

In 2017, Valeo will run its global "Employee Feedback Survey" with all of its employees to listen to and better meet their expectations.

The survey offers Valeo employees the opportunity to share their comments and their perceptions of the Group's Well-Being at Work policy in the form of an anonymous questionnaire.

## Organization of labor relations

### Challenges

Valeo is convinced that sound labor relations are vital if the Company is to adapt to the increasingly vast, swift and deep-seated changes affecting the automotive industry.

It further believes that the unions are a key extension of management for explaining, discussing and adjusting the Company's action plans. With this in mind, various representative bodies and trade unions have been established within the Group. Procedures in respect of information, consultation and/or negotiation have been implemented within these bodies, to foster labor relations giving employees the best information possible.

### Approach and achievements during the year

#### European level

In 1999, Valeo concluded an agreement to set up a European Works Council. The agreement was renegotiated and signed unanimously by the unions in 2016.

The Works Council provides a forum for exchanging views and establishing dialog between management and the 16 employee representatives from each European country where Valeo has over 150 employees. A nine-member committee meets quarterly at a European site.

The European Works Council represented 48.1% of the Group's registered headcount in 2016, or 40,098 employees.

#### International level

Each country sets up specific bodies in line with local laws and regulations.

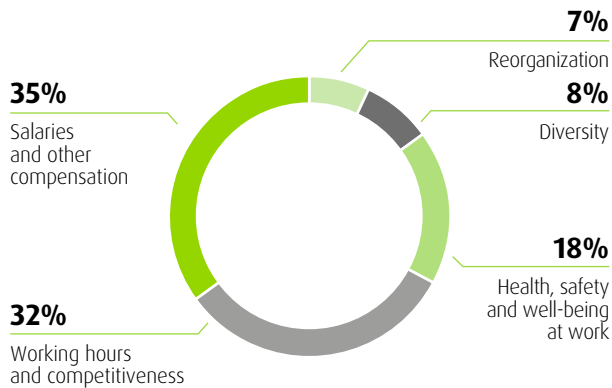
In 2016, 91% of Valeo sites had formal bodies representing employees and unions.

This representation at different levels of the organization has allowed Valeo to develop an active bargaining policy with the unions. 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.

## Valeo and its employees

A total of 269 collective bargaining agreements were signed at local level at Valeo's various sites worldwide in 2016. The topics covered by these agreements are as follows:

► **BREAKDOWN OF AGREEMENTS SIGNED IN 2016 BY CATEGORY**



The vast majority (78%) of agreements were signed in Europe and Asia. Europe, by virtue of its historical tradition of labor relations, was home to nearly one agreement out of every two in 2016. The high proportion of agreements signed in Asia demonstrates the Group's determination to promote this type of discussion with labor representatives.

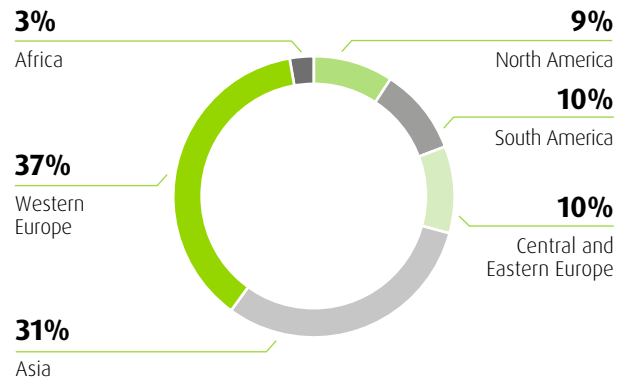
The topics covered by the highest number of agreements are wages and other compensation (35%), site working hours and competitiveness (32%) and health, safety and well-being at work (18%).

**The Corporate Social Responsibility (CSR) agreement**

A Corporate Social Responsibility (CSR) agreement was signed on July 10, 2012 and revised on November 4, 2016 between the Group's Management and labor representatives. The purpose of this global 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 competences 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.

► **BREAKDOWN OF AGREEMENTS SIGNED IN 2016 BY GEOGRAPHIC AREA**



Valeo introduced an extensive training program on sustainable development and CSR for all site management teams and employee representatives in 2016. This ambitious program of training and labor relations has been rolled out in 30 countries, bringing together the actors of the sites concerned for sessions covering one or several countries.

Thanks to this CSR training program, labor relations have been improved and encouraged at a country level and national initiatives have been implemented.

**Outlook**

Valeo is committed to promoting labor relations in 2017, maintaining a high level of agreements, notably on the following topics: "Working hours and competitiveness" and "Salary and other components of compensation".

The Group also aims to complement these initiatives by promoting agreements on issues related to health, safety, well-being and employee diversity.

Encouraged by the success of its training program on sustainable development and CSR, Valeo will roll out site-level training in 2017 to continue to improve labor relations.

## 4.4.2 Personal safety

### Workplace health and safety

#### 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. It is consistent with the Valeo Values and with the aim shared by employees and management to continuously improve the Group's safety performance.

#### Approach and achievements during the year

Valeo is responsible for ensuring an accident-free environment for its employees. This requires the commitment of the Group's General Management and local directors 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.

Two new health and safety directives were published in 2016 on the following topics:

- a "Safety Talks" directive designed to detect dangerous behavior during plant visits, discuss its causes with the people concerned and agree a solution;
- a "Safety Briefings for Logistics and Maintenance teams" directive, which requires the team managers to address safety issues at least once a week during team meetings.

These two directives have been integrated into the Valeo Risk Management Manual that contains all health and safety guidelines. Each member of the site management committees receives e-learning training and each module ends with a quiz to ensure that the directive has been properly understood.

The Group provides sites with a self-assessment tool to evaluate compliance with directive requirements.

In addition, Valeo continued its program of external audits in 2016, with a view to ensuring the proper implementation of Group guidelines and its target of seeing all of its sites achieve OHSAS 18001 certification.

Continuous improvement is managed in accordance with the Quick Response Quality Control (QRQC) approach adapted to safety issues at work. This approach ensures that counter measures are implemented to avoid further accidents, and that a thorough analysis of the cause of the accident is carried out to prevent it happening again.

In accordance with Valeo's transparency policy, each site manager must inform the head of his or her Business Group or activity within four hours of the occurrence of a lost-time occupational accident.

Prevention is also managed in accordance with the internal rules and procedures related to the involvement of personnel, which contains a section devoted entirely to prevention and the management of safety issues and ergonomics (Roadmap IP01). This section is the most important aspect (by number of themes and issues) of the "Involvement of Personnel" axis.

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 (through 27 questions). The teams responsible for quality audits assess the progress of 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.

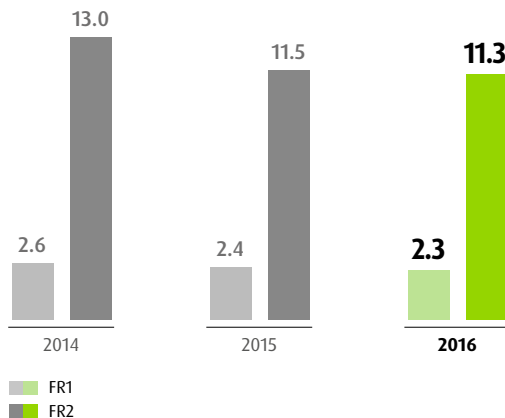
Three of the 20 key performance indicators reviewed periodically at all levels of the organization (Group, Business Group/Activity, site) relate to safety:

- 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 1 (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).

Since 2008, the frequency rate 1 (FR1) has improved every year at Group level except in 2014, when it deteriorated slightly. An improvement was recorded in 2015, with an FR1 of 2.35 and was confirmed in 2016, with an FR1 of 2.32.

► **FREQUENCY RATE (FR1<sup>(1)</sup>) AND FR2<sup>(2)</sup>) OF OCCUPATIONAL ACCIDENTS (2014-2016)**

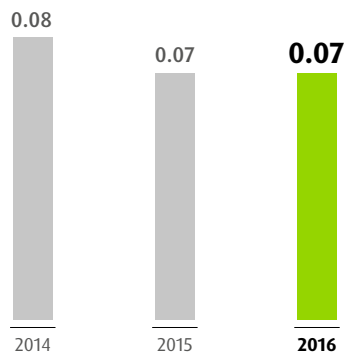


(1) Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year.

(2) Calculation of FR2: number of occupational accidents, with or without lost time x 1,000,000/number of hours worked during the year.

In 2016, FR1 performance varied between countries, from zero in Thailand for example, to 9.9 in France and 11.9 in Argentina. In 2016, the number of accidents with or without lost time also fell slightly, as reflected in the FR2 ratio of 11.3, compared with 11.5 in 2015 and 22.6 in 2009.

► **SEVERITY RATE<sup>(1)</sup> OF OCCUPATIONAL ACCIDENTS (2014-2016)**



(1) Severity rate calculation: number of calendar days lost during the year x 1,000/number of hours worked during the year.

The severity rate has been very stable over the past three years.

Analysis of accidents by type shows that most were related to behavior. Following these results, a new training program entitled "Safety First" was created to improve the behavior of employees at work. A total of 29,872 employees received training in 2016, bringing the number to 39,245 since the program began in 2015.

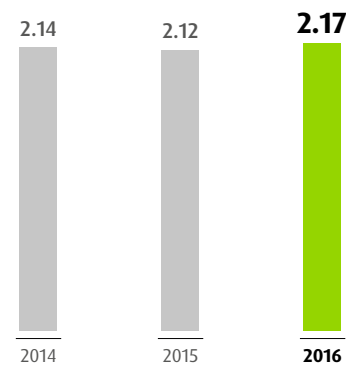
To improve prevention, new tools have been made available to reduce accidents. In addition to the guidelines mentioned above, e-learning modules are available in 18 languages on the three types of operations that cause the most serious accidents – lifting, electrical hazards and lockout procedures – so that work can be performed safely.

The Group reported satisfactory results in respect of absenteeism, which should be maintained going forward. Action plans are 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 2014 and 2016, Valeo's actions resulted in a stabilization of the overall absenteeism rate at around 2%.

The global absenteeism rate was stable between 2014 and 2016.

► **ABSENTEEISM RATE<sup>(1)</sup> (2014-2016)**



(1) Calculation of absenteeism: 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.

Although Valeo applies a consistent policy for tracking absenteeism, the level of social security coverage and cultural differences has a strong bearing on national rates.

**Outlook**

The improvement in results observed in 2016 should gather pace through the practical implementation of all the new initiatives rolled out during the year and the continued deployment of the "Safety First" training module. The goal is to bring the FR1 ratio below 2.

A new classroom training module on ergonomics is being created for deployment in the second quarter of 2017.



## Promoting and respecting human rights

### Challenges

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 labor rights.

It is also consistent with Valeo's Code of Ethics and Corporate Social Responsibility (CSR) agreement that reflects the Group's culture of professional, individual and collective integrity.

### Approach and achievements during the year

#### Core values upheld by international organizations

Valeo has participated in the UN Global Compact since 2004. The Group also confirms its compliance with the International Labour Organization (ILO) conventions on fundamental principles and rights at work:

- elimination of discrimination in employment and occupation (Conventions 100 and 111);
- prohibition of child labor (Conventions 138 and 182);
- elimination of forced and compulsory 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.

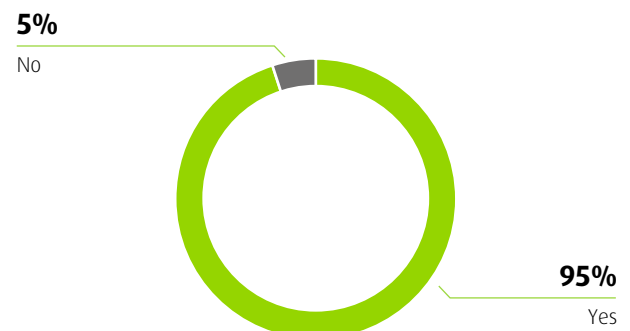
#### Valeo's commitment to promoting and respecting human rights

These commitments were enshrined in a Code of Ethics drafted in 2005 and revised in 2015, and 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.

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, and 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 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.

#### ► EMPLOYEES WHO ACKNOWLEDGED RECEIPT OF THE CODE OF ETHICS (2016)



To ensure that all employees understand the commitments made by Valeo in its Code of Ethics, the document is given to all employees, who are required to sign a statement acknowledging receipt and pledging to uphold it. 95% of employees have signed a declaration acknowledging receipt of a copy of the Code of Ethics. In addition, each employee must receive training on its content.

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 at Group level. It accordingly publishes an annual document entitled "Communication on Progress" on the Global Compact website (available at the following address: <https://www.unglobalcompact.org>). 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.

### Valeo's policy on promoting and respecting human rights

Valeo has introduced a raft of procedures, training modules and internal control processes to ensure that the commitments made by the Group are rigorously respected and that its policy on promoting and respecting human rights is properly applied.

In 2016, the Valeo Group set out the contents of five HR procedures and policies on the respect for and promotion of human rights:

- Well-Being at Work (see section 4.4.1 of this chapter, "Well-Being at Work", pages 218 to 219);
- the promotion of diversity (see section 4.4.1 of this chapter, "Employee diversity", pages 214 to 218);
- the prevention of harassment and discrimination;
- the fight against child labor;
- the fight against forced labor;
- the advancement of labor relations.

These procedures apply to all of the Group's employees.

Each of them sets out Valeo's approach and commitments, specifies the roles of the various stakeholders, and determines the follow-up methods implemented by the Group, which are based on specific, quantifiable and auditable criteria.

In 2016, Valeo developed an awareness-raising module on the prevention of harassment and discrimination at work for managers. This specific module aims to help managers identify and respond to situations of harassment and discrimination. It also provides elements aimed at ensuring good communication and tools to assist them in carrying out annual appraisals.

It was made available in all countries in 2016, and will be made mandatory for all Group managers in 2017.

In order to ensure the effective implementation of these procedures across all Valeo's sites, the Group performs audits, as part of the V5000 standard, and rolls out internal control initiatives through the Human Resources network.

Inappropriate behavior or breaches of the provisions of the Code of Ethics or Human Resource procedures are taken very seriously, and are grounds for disciplinary action, including dismissal. Moreover, Valeo does not tolerate any form of retaliation against people who blow the whistle in good faith, or who take part in investigations, proceedings or hearings.

### Outlook

To promote and ensure respect for human rights, Valeo's goal in 2017 is to ensure that all of its employees have received the Code of Ethics and signed the relevant statements, and that they receive training on its content. Moreover, Valeo's objective is that all of the sites audited on the five HR procedures and policies on respect for human rights will have a compliance rate of 100%.

Having implemented the first human rights-related risk control and assessment tools in 2016, in 2017 Valeo will focus on reviewing them and broadening their scope based on the requirements identified.

### 4.4.3 Attracting and engaging talent

Valeo has developed a talent management policy to ensure the continuity and growth of its business, while constantly adapting to the needs of its customers worldwide. It allows the Group to drive its innovation efforts by supporting technological developments and bring new products and innovative solutions to market. It also allows Valeo to facilitate the development of industrial activities, by promoting the creation and evolution of the Group's industrial sites.

The Group aims to add 10,000 employees to its global workforce each year over the next five years. As such, if it is 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 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 10 companies worldwide) following its certification as a "Top Employer" in 23 countries on four continents (Africa, America, Asia and Europe), is testimony to the quality of its Human Resources policies and practices.

The Business Groups, Valeo Service 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 23 key countries, using this analysis as the basis for their 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.

## Attracting talent

### Challenges

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, backed up by its Values and Corporate Culture.

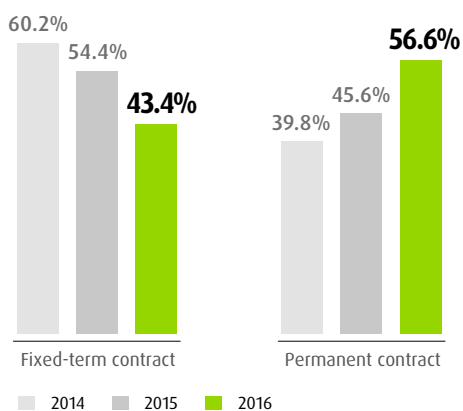
Valeo's success hinges on attracting top international talent in fast-growing markets and emerging countries, and in fields of advanced technology, such as CO<sub>2</sub> emissions reduction and intuitive driving technologies. Competent teams ensure that Valeo can offer its customers added-value support 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 competences evaluation system. 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.

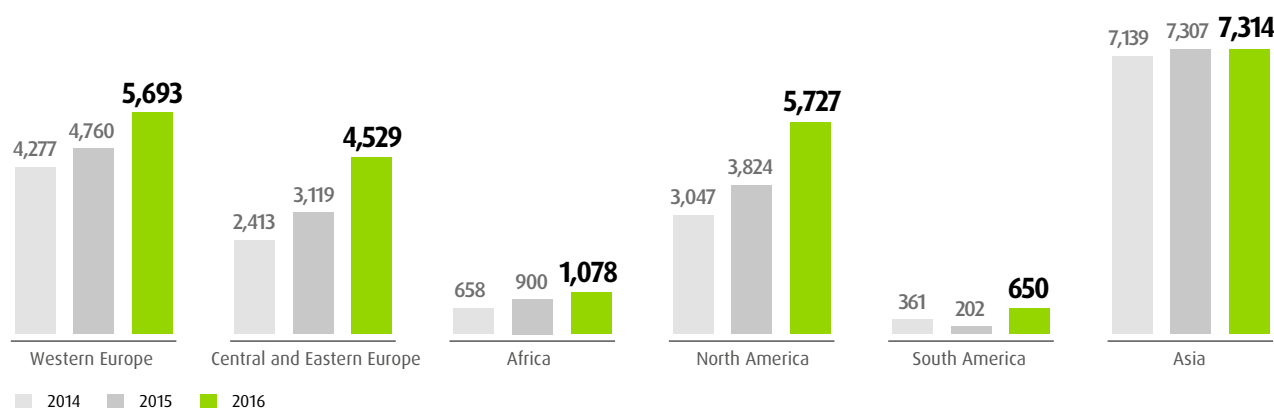
### Approach and achievements during the year

In 2016, Valeo hired 24,991 people worldwide, 14,150 of whom on permanent contracts, including 6,016 managers and professionals. Valeo is firmly committed to strategic workforce planning.

#### ► BREAKDOWN OF NEW HIRES BY CONTRACT TYPE (2014-2016)



## ► BREAKDOWN OF NEW HIRES BY GEOGRAPHIC AREA (2014-2016)



## Outlook

Valeo is currently developing a comprehensive IT solution to manage the hiring process. It will be rolled out in all Group entities from the second quarter of 2017. Its main objective is to enhance the effectiveness of hiring (hiring time and cost reduction), but also to improve the quality of hiring (based on a powerful database of candidates), to anticipate needs and above all to give greater visibility to employment opportunities available.

To meet strong growth in a highly volatile market and in the quest for scarce skills, the Human Resources teams are being reorganized to bring together recruitment specialists in every country. These teams will be fully dedicated to hiring and the promotion of the employer brand.

## Employer brand

### Challenges

To support its rapid growth, Valeo aims to add 10,000 employees to its global workforce each year over the next five years.

Valeo bolsters its appeal by conveying an image and employer promise in keeping with its corporate values and culture.

To strengthen its "Top Employer" reputation, Valeo regularly communicates on employment and career opportunities, as well as on its activities and professions.

### Approach and achievements during the year

Valeo targets different avenues and communication tools to promote its employer brand.

It maintains a constant and consistent presence on social networks, making posts several times a week on LinkedIn, Twitter and Facebook, and regularly on YouTube, Xing in Germany and WeChat in China.

Throughout the academic year, the Group takes part in events held by engineering and business schools, as well as selected universities. Such events include job fairs, school visits, technical presentations and testimonials from graduates, and collaborative projects. Encounters of this kind are opportunities to increase awareness of Valeo's role and innovative positioning in the automotive market. The Group continues to develop special partnerships with schools and universities offering training programs in line with the skills needed by teams (among others, the Engineer-Managers program at Audencia Nantes and Shanghai Jiaotong University in China).

For the third consecutive year, the Group also held its innovation competition aimed at young talents. The Valeo Innovation Challenge rewards teams offering the best innovation or the best proposal for the innovative use of cars in 2030.

At the 2016 Paris Motor Show, Valeo launched an employer branding campaign under the slogan "Smarter cars need smart people" targeting engineers in six countries (France, Germany, China, India, Japan and United States) to encourage talent to apply.

In a direct link to its commitment to diversity, the Group has partnered with several associations working to educate young people and to encourage them to consider possible careers in the automotive industry: *Elles Bougent*, which targets young girls in secondary school or at university, *JNDJ - Journée Nationale Des Jeunes* aimed at secondary school students, and the *CGénial* foundation, which involves teachers and career counselors in the approach.

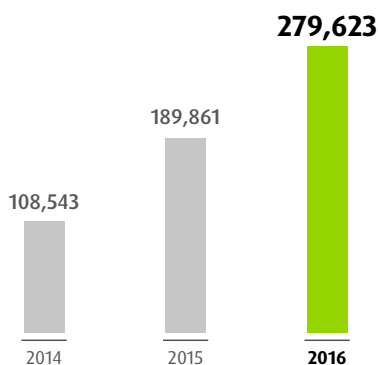
Similarly, the Group participates in various support programs aimed at integrating young people into the labor market, such as the YES program in China and the *Engagement-Jeunes* platform in France. The Group has also partnered with ShARE, an association that brings together students from the most prestigious universities in the world (particularly in Asia).

Valeo's sites around the world also organize local initiatives to invite future job applicants to discover Valeo's industrial and research environment. They include laboratory and production facility visits, open days, business meetings and the offer of internships or jobs on combined work-study contracts.

On social networks, the Group's Communication and Human Resources teams, supported by external experts, refresh the editorial line each month with such themes as Valeo's news, autonomous and connected vehicles and the automotive market, the Group's history, job vacancies, and events or meetings organized with our ambassadors.

Valeo's LinkedIn footprint continued to grow in 2016, reaching almost 280,000 followers at the end of the year. More than 140 managers and professionals were recruited through Valeo's presence on social networks. Between October and December 2016, more than 3,200 people submitted job applications after seeing the "Smarter cars need smart people" recruitment campaign.

#### ► CHANGE IN THE NUMBER LINKEDIN FOLLOWERS (2014-2016)



For example, Valeo's Chinese teams came out in force in five major regions, 18 cities and 37 universities to facilitate meetings, testimonials, feedback sessions and the presentation of the R&D, Quality, Purchasing, Finance, Operations and Human Resources functions.

Meetings took place with more than 700 girls in 2016 through events organized by the *Elles Bougent* association, including 150 at the special day held during the Paris Motor Show.

Eleven sites in France hosted middle and senior school visits on *Journée Nationale des Jeunes* (JNDJ), and nine sites in France met with teachers through the *CGénial* foundation. The Group also invited more than 300 young people to register on the *Engagements-Jeunes* platform to give them support when they enter the job market.

In addition, the Valeo Innovation Challenge enabled 11,321 young people in 1,344 teams from 65 countries to compete to present their innovative projects.

## Outlook

To support its growth, Valeo implements various initiatives designed to enhance the visibility of its job vacancies through:

- an overhaul of the job applicants page on the valeo.com website;
- the implementation of a recruitment tool allowing closer management of applications received;
- the extension of Valeo's presence on social networks and prominent job sites.

Through its academic partnerships, the Group takes numerous initiatives to develop its reputation with the talent of the future. The next edition of the Valeo Innovation Challenge will further expand awareness of Valeo. Developing new partnerships will accompany change in certain professions (digitalization and automation for instance). It is vital to identify the skills of the future and to anticipate prospective needs in terms of competences while developing close relations with appropriate players in the field of training.

The Human Resources network is strengthening its presence in the countries where Valeo is growing swiftly, with the establishment of dedicated recruitment teams that will enhance Valeo's appeal, support its diversity policy in the field and facilitate links between job hunters and operational teams (China, Egypt, France, India, Mexico, Poland, United States, etc.). Communication on recruitment will be intensified to increase the volume of targeted applications and to attract the new profiles the Group will need to support its future development.

## 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, and respectful of 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, the Human Resources Directors in each country and the Group Human Resources Department.

Valeo favors individually tailored compensation packages to bolster motivation through the individual recognition of all of the Group's employees. The more senior the position, the more tailored the package.

## Achievements during the year

### ► PAYROLL COSTS AND PERSONNEL EXPENSES

| (in millions of euros)                                                        | 2014  | 2015  | 2016  | Change (2016/2015) |
|-------------------------------------------------------------------------------|-------|-------|-------|--------------------|
| Payroll costs excluding social security contributions and temporary staff (A) | 1,839 | 2,019 | 2,290 | +13.4%             |
| Social security contributions (B)                                             | 459   | 492   | 531   | +7.9%              |
| Pension costs under defined benefit plans (C)                                 | 43    | 48    | 37    | -22.9%             |
| Pension expenses under defined contribution plans (D)                         | 91    | 78    | 83    | +6.4%              |
| Total payroll costs (excluding temporary staff) (E)                           | 2,432 | 2,637 | 2,941 | +11.5%             |
| Contribution rate ((B+D)/A)                                                   | 29.9% | 28.2% | 26.8% | -                  |

| (in millions of euros)                            | 2014  | 2015  | 2016  | Change (2016/2015) |
|---------------------------------------------------|-------|-------|-------|--------------------|
| Total personnel costs (including temporary staff) | 2,730 | 3,017 | 3,341 | +10.7%             |
| As a % of sales                                   | 21.5% | 20.7% | 20.2% | -                  |

### ► BREAKDOWN OF PAYROLL BY GEOGRAPHIC AREA IN 2016

| (in millions of euros)                                                        | France | Europe (excl. France) | Outside Europe |
|-------------------------------------------------------------------------------|--------|-----------------------|----------------|
| Payroll costs excluding social security contributions and temporary staff (F) | 680    | 757                   | 853            |
| Social security contributions (G)                                             | 237    | 161                   | 133            |
| Total payroll costs (excluding pension costs) (H)                             | 917    | 918                   | 986            |
| Contribution rate (G/F)                                                       | 34.9%  | 21.3%                 | 15.6%          |

The payroll increased by 11.5% in 2016, due to the increase of the Group's registered headcount over the period (up 11%) 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 decreased by 4.8% over the year, with defined contribution plans accounting for nearly 69% of these expenses. The contribution rate eased slightly to 26.8%, thereby impacting personnel expenses as a percentage of sales (down 0.5% to 20.2%). It is nevertheless important to note that the social security contributions paid in France represent 44.6% of total personnel expenses paid across the Group as a whole (on 16% of the Group's workforce).

### Variable compensation

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% (in mature markets) and 10% (in growth markets) of the payroll of each site.

In keeping with the Group's philosophy of rewarding performance, the compensation structure for senior executives and certain managers may include short- and long-term variable compensation subject to global collective and financial performance criteria in order to encourage collaboration and the achievement of objectives.



**MANAGEMENT COMPENSATION POLICY**

Valeo aims to incentivize and retain managers through a competitive compensation policy. Overall compensation generally depends on the individual's level of responsibility, and comprises a fixed portion, a short- and long-term variable portion, as well as certain employee benefits.

The fixed portion is determined based on external market pricing and internal equity. Progression depends on objective market factors, the individual's experience, skills, and performance in line with the Group's wage policy.

Valeo's compensation policy also includes short-term variable compensation, for which the amount and performance criteria depend on the individual's level of responsibility. Variable compensation for senior managers and executives is based on half-year and annual financial results and may represent a substantial proportion of their fixed compensation. Any employees not mentioned above, in particular other high-potential managers and specialists, may also be eligible for variable compensation based on quantitative criteria.

Valeo has also implemented long-term incentive plans in order to encourage executives and key/high-potential employees to take a long-term approach to their duties, and to retain them and align their interests with those of the Company's shareholders. Such plans take the form of performance shares, free shares or long-term monetary compensation, depending on the type of beneficiary, and are subject to long-term performance criteria (currently arithmetic average of operating margin<sup>(1)</sup>, ROCE<sup>(1)</sup> and, in certain cases, ROA<sup>(1)</sup> over three years), except in the case of exceptional free share grants to key players and fast trackers, when no performance conditions are applicable. The vesting period is between three and five years, depending on the applicable plan regulations and the country in which the beneficiary carries out his or her duties.

With regard to employee benefits, specific plans exist at local level (e.g., company car, pension plan, health insurance). Such plans are compliant with local market practices, rules and culture.

**Employee share ownership**

Since 2010, Valeo has had a policy of awarding free shares to promote the development of employee share ownership over time. Such awards have seen the allocation of 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.

In 2016, the Group decided to give new impetus to its employee share ownership policy by setting up Shares4U, a share subscription plan reserved for employees. Through this offer, Valeo's management team sought to acknowledge the personal involvement of employees and give them a greater share in the rewards of the Group's performance. Around 75,000 Group employees were eligible for the offer, which was rolled out in 20 of the major countries where Valeo operates. At the end of the subscription period, which began on September 21 and ended on October 4, 2016, 755,511 new shares were subscribed at a price of 38.12 euros each. Employees received a discount of 20% on the reference share price. Employees purchasing their shares within the scope of the Group Employee Savings Plan

(*Plan d'Épargne de Groupe* – PEG) benefited from an employer contribution. Outside France, employees were granted free shares subject to certain conditions.

On the recommendation of the Group's Management, Valeo's Board of Directors, at its meeting of May 26, 2016, decided to grant eligible employees in France and countries not participating in the share subscription offer (i.e., 18 countries) five free shares each. The operation took place during the second quarter of 2016. A total of 15,222 employees benefited.

**Outlook**

To support the Group's international development strategy, Valeo must be able to attract and retain the best talent. To this end, it has decided to strengthen its expertise in terms of compensation and benefits, matching needs in individual countries as closely as possible.

Valeo intends to continue to promote employee share ownership in order to involve employees more closely in the Group's performance.

(1) See Financial Glossary, page 449.

## Development of competences

### Challenges

Throughout the world, the Group seeks to develop the competences of its employees in order to promote engagement and develop more innovative products, and thereby stimulate growth. Moreover, developing the competences of its employees is a socially responsible approach for Valeo to bolster their employability.

### Approach and achievements during the year

To prepare employees for success in their future careers, Valeo has established standard Individual Development Plans and career interviews for managers and professionals.

The Group has set up a repository of competences by network and function, describing each skill and the level expected for each function. Each year, employees meet with their manager to assess their cross-functional (general), managerial and professional competences, and to draw up an action plan to reduce the skills gap.

Complementing this approach, the Group has defined career paths for all positions existing within its organization. These paths can be viewed by all employees using a Google application, and are also available to external job applicants. The goal is to empower each employee in his or her own career development. This approach allows employees, their managers and Human Resources teams to identify development opportunities for each employee within the Group, and to be able to direct employees wishing to change jobs into positions more intune with their skills.

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. It is implemented by each Group entity via a committee responsible for making decisions on the internal candidates for vacant positions. The process has been strengthened by the drafting of succession plans 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 managers and professionals are made aware of succession plans and the possible next steps in their career paths identified by management and Human Resources teams, taking into account the employee's aspirations. Managers receive special "SDP feedback" training to help them communicate this information clearly.

To ensure consistency between identified career paths and vacant positions, a meeting designed to review talent and competences, known as the "People Review", is arranged by entities and networks at different levels of the organization. This meeting helps encourage transfers between entities, countries and networks. This, along with the active internal

mobility policy, allows the Group's employees to develop throughout their career by working in different functions in other networks or entities.

Furthermore, each year Valeo offers international career opportunities in the form of assignments or expatriations to ensure the transfer of competences to new locations, the strengthening of some essential skills to support the growth of our activities internationally, and the individual development of the employees concerned.

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 transfers. To this end, the Group has devoted a shared services center to the management of international mobility, which delivers a high level of support to expatriates and their families.

This dynamic policy and these tools have allowed Valeo to create a pool of internal talent to fill vacant positions. Nearly 3,600 managers and professionals benefited from career opportunities in this way in 2016, the average length of service of Valeo managers and professionals in each position being 4.4 years.

In addition, 98.5% of managers and professionals benefited from a competences assessment during the annual appraisal process.

### Outlook

To support the Group's growth, the Human Resources teams in charge of talent development pay particularly close attention to ensuring support for managers in the management of competences in their teams (as indicated in the 2017 Involvement of Personnel guidelines), thereby ensuring that the skills development plan is initiated in line with the needs of the teams and the entity, and the employee's career development aspirations.

## Training

### Challenges

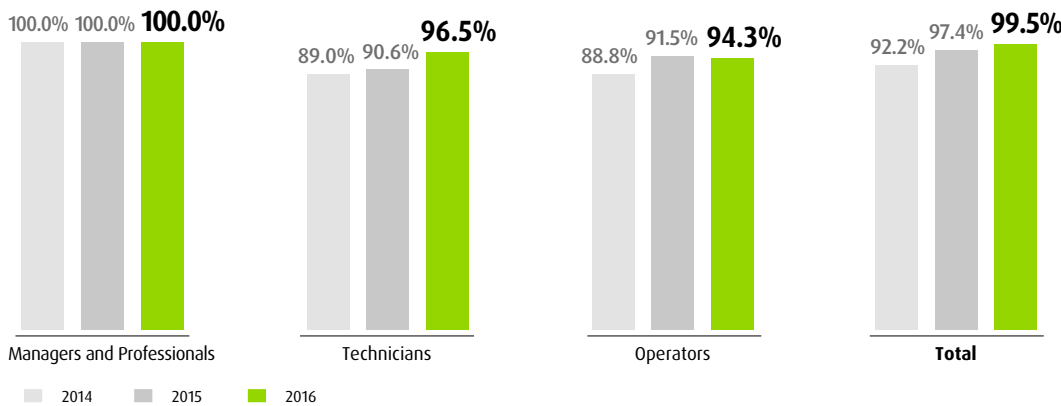
The Group has set out the following strategic objectives:

- strengthen the professionalism and commitment of employees;
- support the Group's Research and Development efforts and expand industrial capacity;
- reinforce the 5 Axes culture throughout the Group;
- raise awareness among teams about security, well-being at work and ergonomics;
- raise awareness and prepare teams, especially managers, to meet the challenges associated with diversity;

- provide training in compliance and ethics to all managers and professionals;
- encourage the adaptation of training programs and actions to local needs.

The Group aims to ensure that 100% of employees take part in at least one training course each year. In 2016, 99.5% of employees attended at least one training course; 82,962 employees received training, an increase of 14.3% compared with 2015.

#### ► BREAKDOWN OF EMPLOYEES TRAINED BY SOCIO-PROFESSIONAL CATEGORY<sup>(1)</sup> (2014-2016)

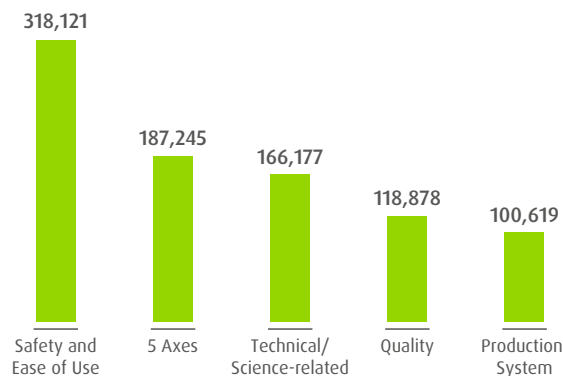


(1) Calculation of the ratio: all employees trained during the year (including those no longer in the Group)/Total headcount at end-December. This explains why the actual training rate for managers and professionals exceeds 100%, as certain managers and professionals trained during the year left in 2016.

It is also essential for all new employees joining the Group to have the opportunity to discover the corporate culture, tools and methodologies that characterize Valeo's operational excellence. The Business Group Academies and the Technical Institutes help with the onboarding of new employees and facilitate internal mobility.

### Approach and achievements during the year

#### ► BREAKDOWN BY HOURS OF TRAINING OF THE FIVE MOST POPULAR TRAINING COURSES (2016)



### Safety

Safety and ergonomics are essential levers of commitment and motivation among our employees. This is why the Group has developed specific training modules to foster awareness of these issues, in classroom settings (Safety First) and digital formats (23 e-learning modules setting out Health Safety and Environment guidelines).

This approach has served to train very different populations within the Group, from managers to operators.

A series of modules outlining the main lifting operations was offered to a population of nearly 4,000 employees in France occupying the jobs most exposed to the risks associated with such activities. The volume of training hours devoted to safety was up more than 30% to 318,121 compared with 2015.

### Induction of new employees

The induction of new employees is a key element of the training process at Valeo. Training allows employees joining the Group to understand working methods and tools, and to be rapidly operational. Almost all sites have a training room devoted to preparing new employees when they start work or to retraining employees when requested.

The 5 Axes course was offered to over 24,000 employees in 2016, representing 187,245 hours of training. These training initiatives are presented by regional representatives certified by national trainers.

New employees also receive training in ethics and compliance, through e-learning modules available in 13 different languages.

### Management training

Management training is designed as a long-term development path, helping employees to progressively develop the competences needed in their area of responsibility. The modularity of the programs (structured by themes) and teaching methods (blended, business case, etc.) enables the acquisition of skills based on the needs of each employee involved in the process. Training programs developed in

cooperation with CEDEP serve to prepare future executives in the Group's main growth areas (Asia, North America and Eastern Europe).

A total of 90,284 hours of training was delivered in the field of management development.

## Outlook

### Program digitization

The digitization of training programs will continue in 2017, mainly with the planned overhaul of the 5 Axes course and the creation of new learning activities within the Business Group Academies and the Technical Institutes.

The use of new technologies for facilitating training sessions and greater use of video in training courses will be essential levers behind this transformation.

New e-learning modules will be produced in 2017 (on themes related to ethics and compliance and technological topics such as 3D printing) to round out the training offer.

### Integration of newly acquired companies

The Group again grew strongly in 2016, both organically and through the acquisition of new companies. During the year, the Group integrated two German companies, Spheros and peiker, representing 2,110 new employees, based mostly in Germany. Valeo meets the challenge of integrating new employees by enhancing its ability to swiftly and efficiently roll out training that underpins our corporate culture, and in particular the 5 Axes training. Sharing the corporate culture is a good means of integration, because it not only develops skills but also promotes encounters between Group employees.

To this end, a dedicated team of trainers was established in Germany in October 2016 to specifically address the change in the Group's scope.

### Regionalization of the training offer

For many years, Valeo has rolled out training (on management, for instance) where the content and teaching partners were the same across all countries. Over the last three years, the ability to deploy standard programs internationally through local educational partners has been extensively reinforced. This initiative has been primarily driven by the needs and expectations of our internal customers.

Experience shows that the real impact of individual training courses (measured by competence development) depends strongly on the trainer's ability to capture and hold the attention of participants. The teaching style, educational activities or language directly influence the effectiveness of training. Moreover, managers are increasingly looking for greater flexibility and time savings in the rollout of training, while ensuring that training procurement is increasingly competitive.

### Safety training

A global campaign to prevent the risks associated with certain industrial activities (lifting, lockout, electricity) is also being prepared to train over 10,000 employees most exposed to these risks.

The continued deployment of the "Safety First" program across all sites and the Group's host countries will be another priority.

## Transfer of competences

### 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.

### Approach and achievements during the year

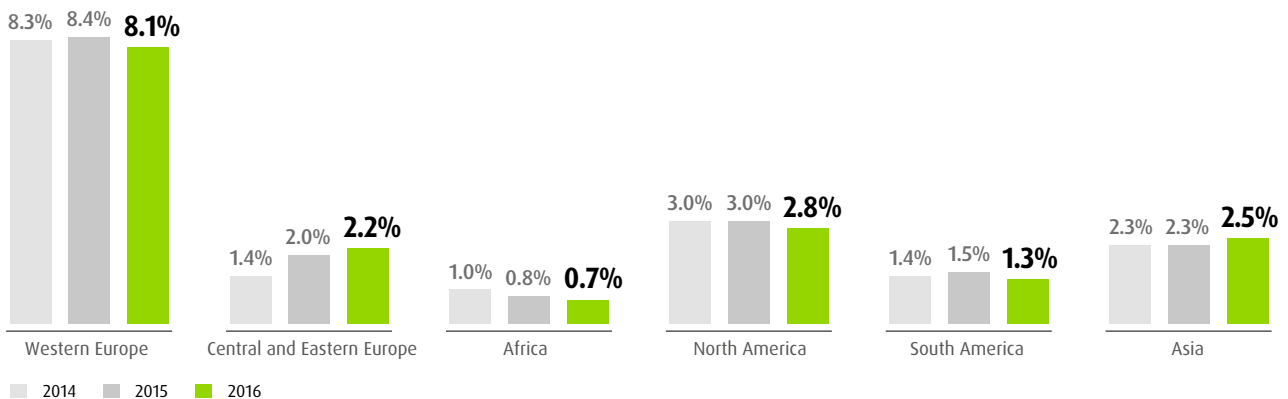
Each year, the Group appoints Experts to provide support for prospective new products and the development of industrial processes. In 2016, 161 new Experts were appointed in 16 countries. 66% of these appointments were in countries other than France. Moreover, the number of Experts in India (up 56% compared with 2015), China (up 51%) and Turkey (up 43%) grew particularly significantly.

#### ► BREAKDOWN OF EXPERTS BY EXPERTISE (2016)



Of the 161 Experts appointed in 2016, nine were employees integrated following the acquisition of peiker.

### ► CHANGE IN THE PROPORTION<sup>(1)</sup> OF EXPERTS BY GEOGRAPHIC AREA (2014-2016)



Experts also play a vital role in the transmission of knowledge and competences. Over 1,051 Valeo Experts in 21 countries worldwide take part in the Valeo Technical Institutes to deliver training programs and prepare educational materials used in classroom or online training modules.

In 2016, technical subjects accounted for nearly 344,362 hours of training (of which 27,000 in online modules, an increase of 48% compared with 2015) and 19.4% of the Group's total training hours.

The R&D Experts network is described in section 4.2.1 of this chapter, "A network of experts and key training to foster innovation", pages 172 to 173.

### Outlook

Valeo continues to develop its network 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.

## Retaining talent

### Challenges

The Group relies on its employees to support its 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 policy promoting loyalty among employees and to capitalize on their expertise and knowledge. This is a critical factor in ensuring operational excellence.

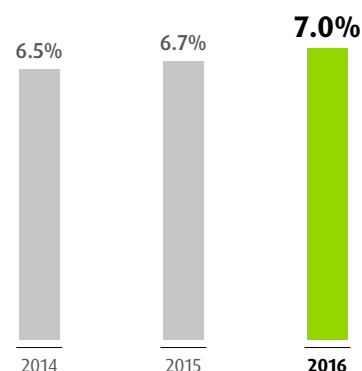
### Approach and achievements during the year

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 turnover represents the number of voluntary departures of managers and professionals expressed as a percentage of the total number of managers and professionals on the payroll (retirements and contract terminations are not taken into account). Turnover of managers and professionals 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, and to build a strategy for the long-term retention of employees.

In 2016, turnover among managers and professionals in the Group was 7.0%. It has been stable for three years. It was lowest in Argentina (0%), the Netherlands (3.2%) and Spain (3.7%).

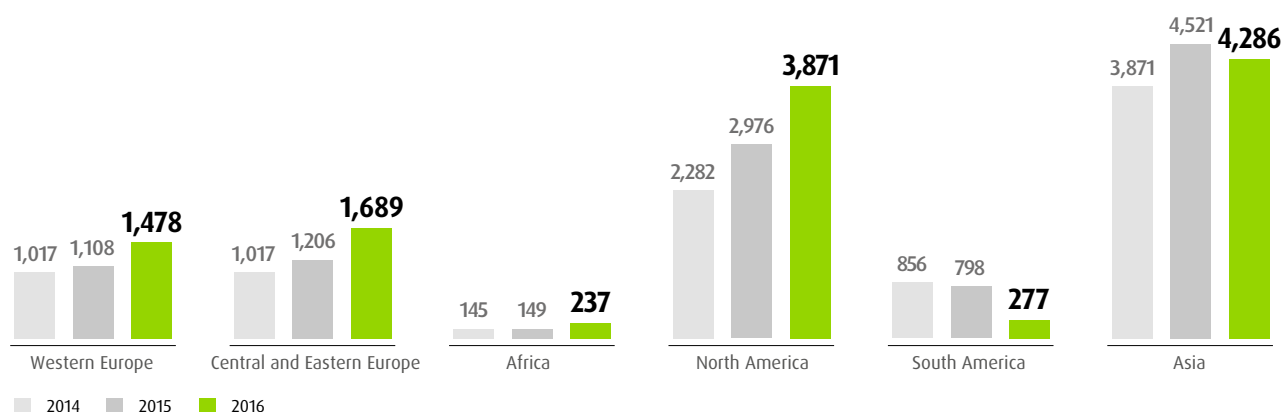
### ► VOLUNTARY TURNOVER OF MANAGERS AND PROFESSIONALS (2014-2016)



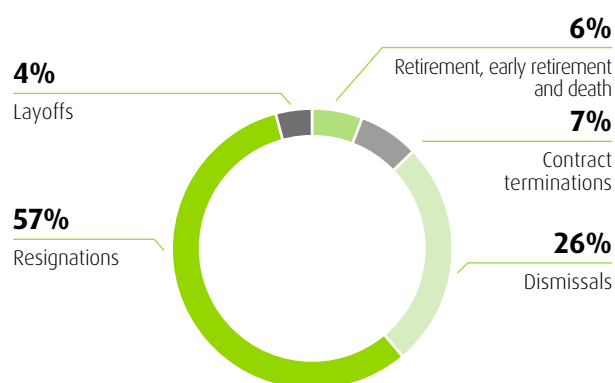
The turnover rate is low in China, where it was 8% (compared with 8.7% in 2015), and in emerging countries such as India, where it was 6.2% (compared with 6.8% in 2015). A comprehensive talent retention policy has been implemented, and has yielded results over recent years in those parts of the world where the labor market is still very volatile. Turnover was highest in Hungary and Romania, where special measures have been taken (compensation, career development, promotion of diversity, etc.) to bring the rate down significantly.

(1) The proportion of Experts by geographic area is calculated based on the population of managers and professionals in the relevant area.

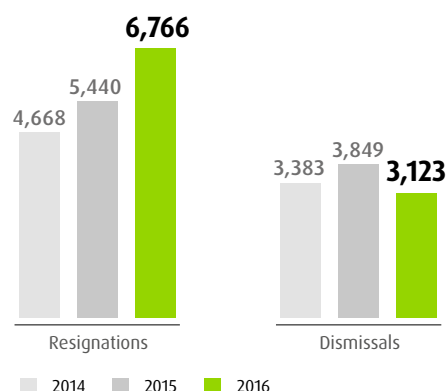
## ► BREAKDOWN OF TURNOVER BY GEOGRAPHIC AREA (2014-2016)



## ► BREAKDOWN OF TURNOVER BY CAUSE (2016)



## ► CHANGE IN RESIGNATIONS AND DISMISSALS (2014-2016)



In a highly competitive industry focused on new technologies, the low rate of voluntary turnover demonstrates the engagement of the Group's managers and professionals, their confidence in the Company's strategy and their loyalty to the Valeo Values.

Other than for personal reasons, 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 managers and professionals. Moreover, to empower employees in their career development, possible career paths are directly identified through the annual (or mid-year) appraisal form. The proactive policy of internal mobility is an important part of the employee retention strategy.

Valeo also conducts regular competitiveness analyses of salaries in major markets to ensure the appropriateness of pay scales in the countries where the Group operates. Valeo has introduced various types of compensation in order to retain its employees (see section on compensation). This has given rise to a number of initiatives such as an individual wage assessment in France to facilitate individual communication on the full extent of direct and indirect benefits received by employees (wages, contribution to health insurance/pension, holiday pay, bonuses, etc.).

Moreover, 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 in some countries.

### Outlook

In an increasingly competitive environment, Valeo has recruited several experts in the fields of compensation and employee benefits at different organizational levels and in different regions, in order to establish an attractive compensation policy in line with the local market practice.



## Engagement 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 engagement over time. With this in mind, Valeo must be attentive to their attitudes and expectations with regard to the Group and its strategy, but also in terms of quality of work life.

### Approach and achievements during the year

In 2008, Valeo conducted its first "Employee Feedback Survey" on the engagement of all Group managers and professionals. The survey is repeated every two years among managers and professionals 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.

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 organizational efficiency and recognition.

Moreover, in view of the importance of the role played by managers in cementing employee commitment, Valeo pays particular attention to training its managers through clearly identified training courses.

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.

Based on the survey results, each country and each site identifies four priorities to be implemented, and lays down appropriate action plans. The results of the surveys are available at site, country and Business Group levels (networks) and the resulting action plans 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 managers and professionals, providing information covering the situation within the Group as a whole and the priorities identified from an analysis of 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.

In 2017, a survey of managers and professionals will be undertaken simultaneously with the Well-Being at Work survey for operators and technicians. Pooling these surveys will allow local Human Resources and managerial teams to devise a single action plan for all categories of employees.

## 4.5 Commitment to corporate citizenship

Valeo is a committed 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 relations with institutions and 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 2016 materiality matrix.

### 4.5.1 Total quality and product safety

#### Challenges

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

#### Approach and achievements during the year

The Quality network's specific roles are to:

- represent the customer within the organization, ensuring that its 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 centered on customer satisfaction. This is what cements our corporate culture. Three new roadmaps were created in 2015 within the Total Quality axis. 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 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 (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 systematically integrated within a continuous improvement process in the following areas:
  - product/process development (generic FMECA – failure mode, effects and criticality analysis; RAISE – robustness, accountability, innovation, standardization and evaluation),
  - driving projects (review process by the Technical Committee),
  - supplier integration (StEDE – Standards Existence, Deployment and Enforcement, CCLs – Commodity Control Lists and SCPs – Standard Control Plans),
  - quality control in production (Standard Process Control Plan), and
  - monitoring guaranteed performance (advance detection of guarantee notifications).

The Quality network is in place at the Group's shared expertise center, GEEDS, 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 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,
  - improving the quality performance of partner suppliers, selected in conjunction with the Group Purchasing Department, involves the SD&P program (Suppliers Development & Prevention) and the RSQs program (Recover Supplier Quality). More than 200 suppliers were involved in these activities in 2016. 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) and 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 2016, Valeo received a record number of nearly 79 awards from customers, 32% more than in 2015. The quality standard was maintained, with a rate of customer returns at 3.8 parts per million products delivered (down from 4.2 parts per million products delivered in 2015). Given the current context of strong growth and innovation, this performance reflects the Group's ability to control its expansion.

## 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 combat corruption and anti-competitive practices. The program is gradually being extended into other areas.

### 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, and implement corrective action plans as appropriate.

The program set up by the Ethics and Compliance Department addresses the whole of the Valeo workforce, with particular emphasis on managers and professionals 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 2016, 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 to combat 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 employee training and awareness and forms the cornerstone of the Group's ethics and compliance policy.

Since 2012, the 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 employees 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.

To improve the access, understanding and commitment of employees on ethics and compliance issues, a team of Compliance Champions has been 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.

The 70 Compliance Champions keep their teams informed about the program, provide guidance on ethics and compliance issues, and act as ambassadors for the program.

### Prevent and alert: the Valeo alert line

Valeo has adopted a worldwide alert line enabling employees 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, corruption and fraud.

The line is open to all employees 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 and Control Department and an Alerts Committee that was set up with the alert line, in accordance with a standard procedure.

No retaliation of any kind whatsoever will be tolerated against a whistleblower deemed to have acted in good faith.

### 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, 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 Valeo's program to fight corruption.

Since then, the Group has updated and regularly deploys awareness tools (via e-learning modules) 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 2016

Valeo pressed ahead with its extensive ethics and compliance training program in 2016, training the entire target population, comprising all managers and professionals as well as other Group employees exposed to similar issues and the year's new arrivals, i.e., 19,616 people. Any failure in respect of these training obligations in 2016 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 4.4.3 of this chapter, "Management training", pages 231 to 232) and the Compliance Champions.

Following the extensive updating of tools and programs in 2014 and 2015, 2016 was 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. This training was reinforced by the deployment in 2016 of training in the form of complex case studies for managers and professionals liable to be exposed to anti-competitive practices or corruption.

In the fight against psychological harassment, Valeo also established a system of prevention and alert in 2016. The system devoted to psychological harassment is based on internal procedures for confidentiality and impartial treatment of complaints addressed to the Group. It is accompanied by training in the prevention of harassment and discrimination offered in 2016.

Lastly in 2016, Valeo also launched a comprehensive online training program on the Charter of Product Development Integrity. It aims to remind all stakeholders that the design, production, quality control and testing procedures of Valeo products must comply strictly with the law, applicable regulations and Valeo's Ethics. It stresses the fact that the transparent feedback of information contributes to the prevention of risks in these areas too.

### Outlook

2017 will be devoted primarily to the deployment of a compliance management system, a tool enabling employees to seek the necessary authorization in respect of various policies (gifts, invitations, donations, selection of intermediaries, management of conflicts of interest) from their computer workstation, tablet or smartphone. The tool will guarantee and centralize the traceability of requests and will also provide opportunities to address communications or surveys relating to compliance to all or part of the workforce.

In the same vein, a third-party management tool focused on intermediaries will also be implemented.

Furthermore, executives will continue to receive practical case-study based training.

Lastly, the Group will proceed with the implementation of a compliance program on export control and economic sanctions in 2017.

### 4.5.3 Application of sustainable development principles in purchasing processes

#### KEY FIGURES IN 2016

- 1,225 suppliers account for 95% of the amount attributable to direct purchases (manufacturing purchases);
- 624 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<sup>(1)</sup>: a prerequisite for automakers, met by Valeo

Anticipating 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.

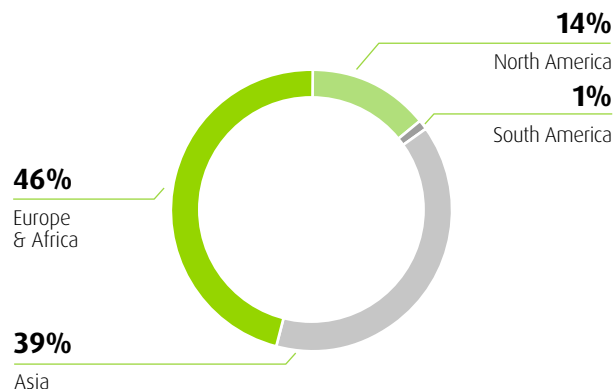
Therefore, since 2010, Valeo has created a special dialog on this issue with certain customers, based on the:

- 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 automaker 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 long-established presence in Europe, it is Valeo's primary geographic area in terms of consumption (52%) and supply (46%) of purchases. As a direct result of the Group's growth strategy in emerging countries, Asia ranks second, in terms of both consumption (28%) and number of suppliers (39%).

The breakdown of purchases by geographic area of consumption and 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:

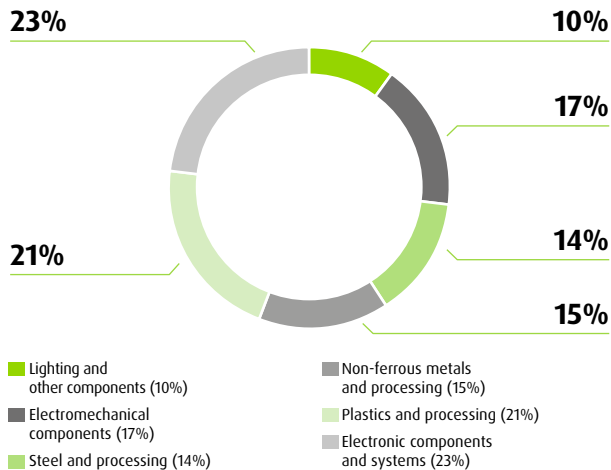
- reduce transportation-related CO<sub>2</sub> emissions;
- support local employment by developing competences;

- meet the expectations of local stakeholders (customers, local and national governments) that increasingly encourage local integration.

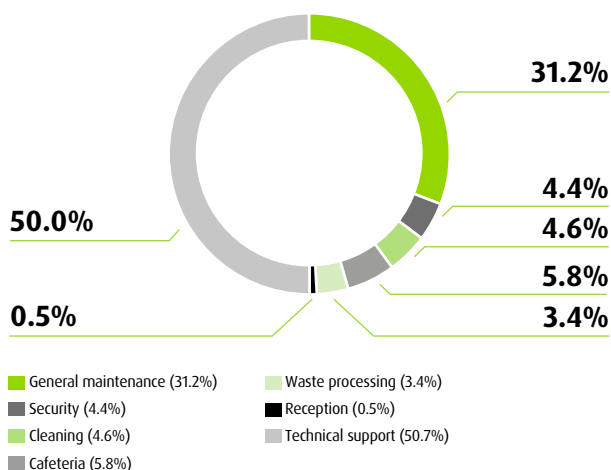
Furthermore, the policy to reduce risks, in particular of currency fluctuations, has led Valeo to favor local suppliers that comply with its supplier selection criteria.

(1) The tier corresponds to the automotive supplier's position relative to the automakers. Thus a tier-one supplier (such as Valeo) delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.



► **BREAKDOWN OF 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**

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 360 million euros in purchases in 2016. Technical support services are significant, accounting for nearly 50% of this expenditure due to the IT services provided by outside companies (hardware, networks, services, computer applications). General maintenance costs represent more than 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<sup>(1)</sup> 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.

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 has two major priorities:

- commodity (product family)/segment, 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, etc.).

Purchasing departments in each of the Group's regions (Europe, Middle East, Africa, China, India, Japan, ASEAN<sup>(2)</sup>, North America and South America) interact continuously with the commodity/segment teams 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 factors;
- social factors (respect for human rights, environmental protection, employee health and safety and quality).

(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.

(2) ASEAN: Association of Southeast Asian Nations.

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 among the incumbent supplier base and supported by Valeo's adherence to the Global Compact principles, the Group is now rolling out its ethics, compliance and sustainable development commitments to all of its suppliers, using the same methods, through 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 be excluded from the supplier panel.

New suppliers are also placed on probation for at least two years. During this period, the number of projects assigned remains under strict supervision to protect the supplier against the risk of becoming overly dependent on Valeo.

With this system, Valeo aims to better control its supply chain while building trusting relationships with its suppliers through cooperation on remedial action or improvement programs that are aimed at preventing or limiting operating risks.

## Achievements

### Progress in suppliers' sustainable development practices

As part of the Group's policy of reinforcing the support offered to its suppliers along the entire supply chain, the Sustainable Development & External Affairs, Purchasing and Quality Departments ran a survey on sustainable development choices across a representative sample of suppliers accounting for 60% of the Group's production purchases. Almost a quarter of the sample took part.

In 2016, Valeo reinforced this assessment of practices by scheduling the launch in January each year of a global audit campaign among suppliers identified through the sustainable development questionnaire. Audits have been performed in Europe, Asia (China, Japan, India, Thailand) and North America (United States, Mexico), giving suppliers a new dimension of support in their sustainable development approach. The variety of the suppliers audited (by commodity, segment, company size, etc.) enabled Valeo to understand the diversity of sustainable development practices.

This assessment highlighted the fact that more than 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. With a view to validating their commitments, over 80% of Valeo suppliers that responded to the survey have initiated voluntary certification and labeling programs for their environmental policies<sup>(1)</sup>.

(1) Notably ISO 14001 and/or equivalent certifications.

For nearly two-thirds of the survey respondents, their commitment to sustainable development and CSR also involves communicating sustainable development and CSR standards to their own 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.

As regards the respect of human rights, the Valeo Code of Conduct agreed with its suppliers specifies the Group's requirements on issues such as the minimum working age, elimination of forced labor and freedom of association. In addition to the commitment made by Valeo's suppliers to comply with Valeo's Code of Conduct, the Group has included a section related to human rights in the sustainable development questionnaire it sends each year to a representative sample of its suppliers (see above). This is also reviewed and verified during the supplier sustainable development audits that the Group put in place in 2015.

This methodology has been endorsed by Valeo's customers and acknowledged by non-financial analysts. Work planned for 2017 aims to enhance the sustainable development audit campaigns.

In an effort to reward the commitment and achievements of its suppliers in the field of sustainable development, the Group has set up awards integrating sustainable development evaluation criteria for each region (North America, Europe – Turkey – Middle East, India, China, Asia Pacific and Japan).

### North American diversity programs applied to suppliers

The minorities diversity programs in North America (United States and Canada) have added the Minority Business Enterprises (MBE) and Women's Business Enterprises (WBE) criteria for the integration of women and minorities in business to the 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 2016, Valeo grew its business with suppliers that meet the WBE and/or MBE diversity criteria by 42% compared with 2015.

### 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 2016, 74% 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.

Aware of the discussions on this topic at European level, Valeo launched a study process in 2016 aimed at anticipating the future European framework and adapting its tools accordingly.

### 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<sup>(1)</sup> 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.

<sup>(1)</sup> 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.

The charter requires that each signatory appoint 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 2016, over 500 companies had signed the charter, representing more than 400 billion euros of purchases.

#### **Ongoing sustainable development commitment through the Automotive Future Fund**

Since the Tier 2<sup>(1)</sup> Automotive Suppliers' Modernization Fund (FMEA) was set up in 2010 (and subsequently renamed the Automotive Future Fund), Valeo has been involved, alongside Bpifrance and other automotive suppliers (Bosch France, Faurecia, Hutchinson and 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 Automotive Future Fund (*Fonds Avenir Automobile* – FAA) 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. It continues to work on selecting potential SMEs whose core businesses are turned toward the automotive industry of the future.

<sup>(1)</sup> 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 "Valeo Service, products and services for the aftermarket", pages 63 to 66).

#### **VALEO, A PARTICIPANT IN THE REMANUFACTURING MARKET**

Through its remanufacturing activity, Valeo places its OEM parts design and manufacturing expertise at the service of the remanufacturing market, for which the Group has developed a high-quality, environmentally friendly 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<sup>(1)</sup>.

Valeo offers two ranges of parts – one new and one remanufactured. Remanufactured systems are mainly alternators and starters as well as clutches and thermal 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.

(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".

### 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

##### Relationships with professional associations

As an independent, global tier-one<sup>(1)</sup> 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*).

Membership of the abovementioned professional automotive supplier bodies represents Valeo's main financial contribution to interest groups and its only activities that qualify as lobbying.

##### Relationships with public bodies

Valeo develops institutional relationships with relevant administrations (at international, national and local level), through regular dialog, 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 of this chapter, "European Road Transport Research Advisory Council (ETRAC)", page 182).

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 2016.

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.

<sup>(1)</sup> 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.



## 4.5.6 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 2016.

#### ► MAIN CORPORATE CITIZENSHIP INITIATIVES AT VALEO SITES

| Commitment                    | Partners                                                                             | Examples of initiatives                                                                                                                         |
|-------------------------------|--------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Action with local communities | Local populations<br>Local government<br>Higher education and research organizations | <ul style="list-style-type: none"> <li>■ Support for local economic fabric and development</li> <li>■ Dialog with local stakeholders</li> </ul> |
| Aid for local populations     | Local populations                                                                    | <ul style="list-style-type: none"> <li>■ Solidarity actions with donations to local populations</li> </ul>                                      |

### Approach and achievements during the year

#### 2016, continuity in Valeo's special relationship with Japan

In 2014, for the 50th anniversary of the *Maison Franco-Japonaise* in Tokyo, the EHESS Social Sciences University set up the Advanced French-Japanese Studies Center in Paris, which runs programs inviting Japanese research scientists and specialists in Japan to Paris.

Valeo set up and finances the centers "innovative technologies for sustainable transport" chair. The chair's aim is to support exchanges between universities in France and Japan, including visits to France by Japanese academics in the fields of technology companies for an aging society, robotics, and human-machine interfaces for connected and automated mobility solutions.

In 2016, the exchange program went to Hidetada Higashi, from Yamanashi Gakuin University, a specialist in new product development models in the automotive industry. The results of his work will be the subject of a thorough exchange with Valeo's R&D teams starting in 2017.

The Group's special relationship with Japan is reflected in the French-Japanese business club that Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo, has co-chaired since October 2013, and whose 2016 meeting was held in Paris.

#### Action by sites with local communities

##### Valeo sites, contributing to the local economic fabric and development

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 participate in the creation and attraction of new businesses through transfers of competences.

Valeo has a policy of encouraging its sites to take responsibility and to support local initiatives around the world. Each site organizes local plant initiatives which reflect locally identified needs. With the assistance of the site Human Resources managers, 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, articles from the *ValeOnline Newscenter* sent by email to Group employees discuss 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, all sites performed 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.

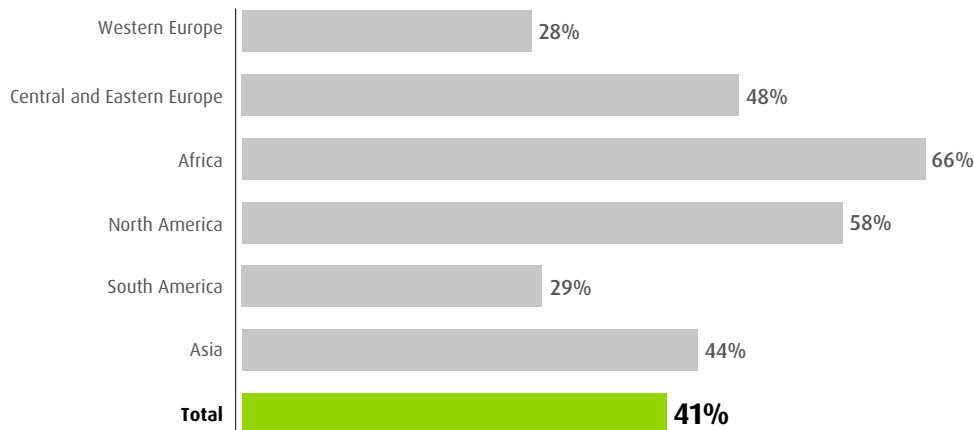
### Valeo sites involved in dialog with local stakeholders

In 2016, more than 80% of employees at Valeo Group sites worldwide volunteered on operations to help local communities. Their contribution chiefly involved time spent on educational activities or as Expert speakers at local seminars, schools and universities, as well as at technical training sessions. This kind of initiative forms a part of the local community involvement programs at many Valeo sites.

### 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, unique features and products to members of local communities.

#### ► PROPORTION OF SITES THAT HELD AN OPEN DAY IN 2016



### Relationships with local educational and training bodies

A global group with a strong R&D dimension and structured networks (see section 4.2.1 of this chapter, “Research and Development organization to support the Group’s innovations and assist its customers worldwide”, pages 172 to 173), Valeo also encourages the Group’s sites to join specific local initiatives in terms of relationships with local educational and training bodies (engineering schools, universities, technical institutes, etc.). The aim of this approach is to promote experience sharing and collaborative relationships beyond the simple opportunity to develop industry-oriented projects.

As such, many sites have long-standing philanthropic partnerships or established track records of participating in workshops or providing courses to students interested in experience and expertise sharing of this nature. More than three-quarters of sites in Asia are involved in these initiatives, as are nearly four-fifths of North American sites.

Similarly, many sites have relationships with local elementary schools. For example, Valeo’s Polish sites organized a “little engineers’ day” in 2016, in partnership with the Museum of Municipal Engineering in Krakow. The event offered children visiting the sites the chance to take part in a workshop entitled “discovering cars from the inside”, involving various fun car-related experiments aimed at a young audience.

## Valeo employees, working with the local community

### VALEO NORTH AMERICA IS COMMITTED TO SUSTAINABLE LOCAL COMMUNITIES

In 2016, Valeo's teams in Troy and Auburn Hills decided to get more involved in sustainable development within their local communities, launching projects in four main areas:

- strengthening global awareness about the importance of recycling;
- providing concrete examples of the potential of reusing used objects;
- supporting young people in difficulty;
- supporting efforts to assist homeless people in difficulty and their families.

This commitment resulted in the launch of a major recycling and reuse initiative at the headquarters of Valeo's North American Division in Troy, with the organization of a drive to recycle and reuse electronic products. Building on a system involving the sorting and reuse of electronic products, the initiative led to donations to local organizations, while raising awareness about the importance of recycling.

As regards support for young people in difficulty, the Valeo Women Connected network, which brings together women working at Valeo around sponsorship and mentoring, took part in the DREAM mentoring operation led by the association Vista Maria in May 2016. Vista Maria specializes in the support, assistance and education of young people in difficulty. Similarly, members of Valeo Women Connected volunteered as part of a partnership with the Grace Center, which is dedicated to providing shelter for the homeless and their families.

With a view to establishing an enduring relationship with their local communities, Valeo sites and their employees are committed to solidarity actions around the following main themes:

- awareness-raising on critical illnesses and disability, such as breast cancer, visual impairment, etc., notably by taking part in awareness campaigns (cancer screening on the various sites, etc.), and fund raising through charity races or other initiatives. For example, Valeo employees working on 11 Valeo sites in France took part in the Odyssey charity race in Paris in October 2016;

- initiatives to help address public health issues. For example, blood donation campaigns were organized in one-third of the Group's host countries worldwide in 2016;
- charity drives targeting the poorest populations, organized primarily around donations of clothing and food, such as those run by Valeo sites in Turkey, the Czech Republic, Brazil and Thailand.

These initiatives are the result of determined action by the sites and their employees. They demonstrate the importance of links with local communities.

### VALEO'S HISTORIC LINK WITH THE GARCHES FOUNDATION

The Group is a founding member of *Institut Garches*, which was created 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.

## 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 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 120 sites report environmental indicators.

Until 2015, Valeo considered that the reporting year began on December 1 of the prior year and ended on November 30 of the reporting year. In order to publish more reliable data within the required time frame, Valeo amended its reporting period in 2016. It now considers that the reporting year begins on October 1 of the prior year and ends on September 30 of the reporting year. The data in respect of 2016 provided in this document are those of the new period, whereas prior year comparatives correspond to the former period.

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, 130 sites were likely to obtain ISO 14001, ISO 50001 and OHSAS 18001 certification in 2016.

#### 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 in which Valeo holds an interest of 50% are included on the basis of a 50% share. The impacts of sites in which Valeo holds an interest of more than 50% are included in full.

Most indicators are expressed in absolute value (total quantity) as well as a ratio to sales. 2016 sales are calculated on the basis of a year beginning on October 1, 2015 and ending on September 30, 2016 so as to match the reporting period of the 2016 indicators. 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<sup>(1)</sup>), 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, inputs and the use of products sold by Valeo. The other aforementioned data are collected from the relevant internal department and consolidated by the RIE Department.

Financial data (sales) and those relating to raw materials for the Scope 3 calculation are sent directly by the Group's Finance Department.

(1) See section 4.3.1 of this chapter, "Centralized environmental reporting", page 192.

## Controls and external verification

Consistency checks on data for each site in the scope are performed by the Business Groups' HSE managers, the RIE Department and an external service provider. These controls include reviews of year-on-year changes, comparisons between sites in the same Business Group, and an analysis of major events during the year. Furthermore, VRI applies automatic upstream controls designed to prevent data entry errors and allow sites to provide reporting information with regard to material differences versus previous years.

Certain environmental data are also subject to external verification by the Statutory Auditors.

Ernst & Young, an independent audit firm, performed an engagement to verify the environmental data which resulted in a report including a statement of completeness and an opinion as to the accuracy of the information contained therein.

## Methodological limits

Methodologies relating to certain environmental indicators may be limited due to:

- the absence of harmonized national or international definitions, especially on hazardous substances and waste;
- use of estimates 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);
- the absence of a confirmed methodology for calculating indirect emissions related to the use of the Group's products.

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. They are regularly updated and distributed to all contributors.

## Reporting methodology for labor-related indicators

The labor-related indicators were prepared in accordance with the commitments 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 worldwide scope of consolidation (155 plants, 20 research centers, 38 development centers and 15 distribution platforms, located in 32 countries), except for the Fuzhou Niles Electronic Co. joint venture. As such, all countries and Business Groups are concerned, including Valeo Service.

In 2016, 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

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 by the Group's Human Resources Department using BIME consolidation software.

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.

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 tool and user guides have been prepared in French and English, to improve the reliability of reporting and reduce unreliable sources. They are regularly updated and distributed to all contributors.

## Reporting methodology for social indicators

The social indicators were prepared in accordance with the commitments 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 155 plants, 20 research centers, 38 development centers and 15 distribution platforms located in 32 countries, 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 local plant initiatives, which allow the Group to monitor initiatives aimed at local populations and communities, are reported through a single centralized tool used by Human Resources Departments. As all the sites addressed responded through the tool, the published data cover the Group's entire scope of consolidation;
- 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 collected by 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 training data (see reporting methodology for labor-related indicators).

### Specifications

Megatrend studies quoted in section 4.2.1 of this chapter, "From analysis of megatrends to the vehicle concept of tomorrow", pages 170 to 171, refer to forecasts on future passenger behavior. These surveys are carried out by the Product 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<br>Grenelle 2        | Chapters/Sections                                                                                                                                                                                           | Pages                    |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| <b>STRATEGY AND ANALYSIS</b>                      |                                                                                                                                   |                               |                                                                                                                                                                                                             |                          |
| G4-1                                              | ● Statement on sustainable development and the Group's strategy by the Chief Executive Officer                                    |                               | 4 – Interview with Jacques Aschenbroich                                                                                                                                                                     | 160                      |
| G4-2                                              | ● Key impacts, risks and opportunities                                                                                            | II. 2. d)                     | 4.1 – Valeo and sustainable development: strategy, policy and organization<br>4.1.3.3 – Risks and opportunities related to the impacts of climate change                                                    | 162<br>166               |
| <b>ORGANIZATIONAL PROFILE</b>                     |                                                                                                                                   |                               |                                                                                                                                                                                                             |                          |
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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<br>Grenelle 2 | Chapters/Sections                                                                                                                                             | Pages                    |
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| G4-21                         | ● Boundary of each material aspect outside the organization                                                       | -                      | 4.2.1 – Valeo's Research and Development policy<br>4.3.1 – Environmental policy<br>4.4 – Valeo and its employees<br>4.5 – Commitment to corporate citizenship | 170<br>186<br>212<br>236 |
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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<br>Grenelle 2 | Chapters/Sections                                                                                                                    | Pages     |
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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<br>Grenelle 2        | Chapters/Sections                                                                                                                                  | Pages             |
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| G4-50                                                                                      | ○ | Nature and total number of critical concerns communicated to the Board of Directors and the mechanism used to address and resolve them                                                        | -                             | -                                                                                                                                                  | -                 |
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| G4-52                                                                                      | ● | Process of determining compensation and participation in compensation committees                                                                                                              | -                             | 3.3 – Compensation of corporate officers<br>3.2.2 – Preparation and organization of the Board of Directors' work                                   | 138<br>116        |
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| G4-54                                                                                      | ○ | Ratio of the annual total compensation of the highest-paid individual in the organization to the median annual total compensation                                                             | I. a) 3                       | -                                                                                                                                                  | -                 |
| G4-55                                                                                      | ○ | Ratio of the percentage increase of the annual total compensation of the highest-paid individual in the organization to the median percentage increase in the annual total compensation       | I. a) 3                       | -                                                                                                                                                  | -                 |
| <b>INNOVATION</b>                                                                          |   |                                                                                                                                                                                               |                               |                                                                                                                                                    |                   |
| <b>Material aspect: autonomous and connected vehicle and low-carbon mobility solutions</b> |   |                                                                                                                                                                                               |                               |                                                                                                                                                    |                   |
| G4-DMA                                                                                     | ● | Management approach                                                                                                                                                                           | II c) 3<br>II d) 1<br>II d) 2 | 4.2.2 – Solutions that contribute to CO <sub>2</sub> emissions reduction and to autonomous and intuitive driving                                   | 175               |
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| G4-EN28                                                                                    | ● | Percentage of products sold and their packaging materials that are reclaimed by category                                                                                                      | II b) 2<br>II c) 2            | 4.3.4 – Packaging                                                                                                                                  | 208               |
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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<br>Grenelle 2 | Chapters/Sections                                                                                                                                                            | Pages                    |
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| <b>ENVIRONMENTAL ECO-EFFICIENCY</b>                         |   |                                                                                                                          |                        |                                                                                                                                                                              |                          |
| <b>Material aspect: energy and greenhouse gas emissions</b> |   |                                                                                                                          |                        |                                                                                                                                                                              |                          |
| G4-DMA                                                      | ● | Management approach                                                                                                      | II c) 3.1<br>II c) 3.2 | 4.3.1 – Valeo's environmental management organization<br>4.3.1 – ISO 50001 certification<br>4.3.2 – Reducing energy consumption<br>4.3.2 – Reducing greenhouse gas emissions | 186<br>191<br>196<br>199 |
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| G4-EN4                                                      | ● | Indirect energy consumption by primary energy source                                                                     | II c) 3.1              | 4.3.2 – Total Indirect energy consumption                                                                                                                                    | 196                      |
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| G4-EN22                                                     | ● | Total water discharge by quality and destination                                                                         | II.b) 1                | 4.3.5 – Total water discharge by sites                                                                                                                                       | 209                      |
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| G4-EN24                                                     | ● | Total number and volume of significant spills                                                                            | II.b) 1                | 4.3.3 – Prevention of discharges into the soil – Performance                                                                                                                 | 203                      |
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| G4-DMA                                                      | ● | Management approach                                                                                                      | II.c) 3<br>II.d) 1     | 4.3.4 – Transportation and Logistics – Approach and performance<br>4.3.4 – Packaging – Approach                                                                              | 206<br>208               |

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<br>Grenelle 2 | Chapters/Sections                                                                                                    | Pages      |
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| G4-EN30                              | ● | Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce           | II.c) 3<br>II.d) 1     | 4.3.2 – Greenhouse gas emissions related to logistics<br>4.3.2 – Greenhouse gas emissions related to business travel | 200<br>200 |
| 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                                  | 208        |
| <b>Material aspect: water</b>        |   |                                                                                                                                                                                 |                        |                                                                                                                      |            |
| G4-DMA                               | ● | Management approach                                                                                                                                                             | II c) 1                | 4.3.5 – Water                                                                                                        | 209        |
| G4-EN8                               | ● | Total water withdrawal by source                                                                                                                                                | II c) 1                | 4.3.5 – Total water consumption, by use, by geographic area and by source                                            | 209        |
| G4-EN9                               | ● | Water sources significantly affected by withdrawal of water                                                                                                                     | II c) 1                | 4.3.5 – Water restrictions                                                                                           | 210        |
| G4-EN10                              | ● | Percentage and total volume of water recycled and reused                                                                                                                        | II c) 1                | 4.3.5 – Water reuse                                                                                                  | 210        |
| <b>Material aspect: biodiversity</b> |   |                                                                                                                                                                                 |                        |                                                                                                                      |            |
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| 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<br>II c) 4     | 4.3.6 – Sites located in or near protected areas                                                                     | 211        |
| 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                                                                                                 | 211        |
| G4-EN14                              | ○ | Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organization, by level of extinction risk | II e) 1                | Not disclosed                                                                                                        |            |

## EMPLOYEES

**Material aspect: health, safety and working conditions**

|        |   |                                                                                                                                                                               |         |                                                                                                                                                                                                                                                                   |                   |
|--------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| G4-DMA | ● | Management approach                                                                                                                                                           | I. d) 1 | 4.4.2 – Workplace health and safety                                                                                                                                                                                                                               | 221               |
| G4-LA5 | ● | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on workplace health and safety programs | I. d) 1 | 4.4.1 – Organization of labor relations                                                                                                                                                                                                                           | 219               |
| G4-LA6 | ● | Type of injury and rates 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<br>4.4.2 – Absenteeism rate for the Group and by geographic area<br>4.4.2 – Breakdown of absences by reason (including occupational illnesses) and by geographic area | 222<br>222<br>222 |
| G4-LA8 | ● | Health and safety topics covered in formal agreements with trade unions                                                                                                       | I. d) 2 | 4.4.2 – Breakdown of agreements signed in 2016 by category                                                                                                                                                                                                        | 220               |

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- Full indicator.
- Partial indicator.
- Indicator not applied.



| GRI code                                                       | Description of the indicator                                                                                                                                                    | Art. 225<br>Grenelle 2                                        | Chapters/Sections                                                                                                                                                                                                                                                                                                          | Pages                           |
|----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| <b>Material aspect: commitment of teams</b>                    |                                                                                                                                                                                 |                                                               |                                                                                                                                                                                                                                                                                                                            |                                 |
| G4-DMA                                                         | ● Management approach                                                                                                                                                           | -                                                             | 4.4.3 – Commitment of teams                                                                                                                                                                                                                                                                                                | 235                             |
| -                                                              | ● Response rate to the Employee Feedback Survey                                                                                                                                 | -                                                             | 4.4.3 – Commitment of teams                                                                                                                                                                                                                                                                                                | 235                             |
| <b>Material aspect: attractiveness and talent development</b>  |                                                                                                                                                                                 |                                                               |                                                                                                                                                                                                                                                                                                                            |                                 |
| G4-DMA                                                         | ● Management approach                                                                                                                                                           | I. e) 1                                                       | 4.4.3 – Compensation<br>4.4.3 – Employer brand<br>4.4.3 – Training                                                                                                                                                                                                                                                         | 227<br>226<br>230               |
| G4-LA1                                                         | ● Total number and rates of new employee hires and employee turnover by age group, gender and region                                                                            | I. a) 1.2<br>I. a) 1.3<br>I. a) 1.4<br>I. a) 2.1<br>I. a) 2.2 | 4.4.3 – Attracting talent<br>4.4.3 – Retaining talent                                                                                                                                                                                                                                                                      | 225<br>233                      |
| G4-LA9                                                         | ● Average hours of training per year, per employee, by gender and by employee category                                                                                          | I. e) 2                                                       | 4.4.3 – Training<br>4.4.3 – Breakdown of employees trained                                                                                                                                                                                                                                                                 | 230<br>231                      |
| 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                                                       | 4.4.3 – Transfer of competences                                                                                                                                                                                                                                                                                            | 232                             |
| G4-LA11                                                        | ● Percentage of employees receiving regular performance and career development reviews, by gender and by employee category                                                      | I. e) 1                                                       | 4.4.3 – Development of competences                                                                                                                                                                                                                                                                                         | 230                             |
| <b>Material aspect: diversity</b>                              |                                                                                                                                                                                 |                                                               |                                                                                                                                                                                                                                                                                                                            |                                 |
| G4-DMA                                                         | ● Management approach                                                                                                                                                           | I. f) 1<br>I. f) 2<br>I. f) 3                                 | 4.4.1 – Diversity<br>4.4.1 – Disability diversity<br>4.4.1 – Generational diversity<br>4.4.1 – Cultural and social diversity                                                                                                                                                                                               | 214<br>216<br>217<br>216        |
| G4-LA12                                                        | ● Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity | I. f) 1<br>I. f) 2<br>I. a) 1                                 | 4.4.1 – Percentage of women on the Board and the Operations Committee<br>4.4.1 – Breakdown of women by socio-professional category<br>4.4.1 – Breakdown of women by geographic area<br>4.5.1 – Proportion of employees with disabilities in the world and in France<br>4.4.1 – Breakdown of registered headcount by gender | 215<br>215<br>215<br>216<br>215 |
| <b>COMMITMENT TO CORPORATE CITIZENSHIP</b>                     |                                                                                                                                                                                 |                                                               |                                                                                                                                                                                                                                                                                                                            |                                 |
| <b>Material aspect: total quality and product safety</b>       |                                                                                                                                                                                 |                                                               |                                                                                                                                                                                                                                                                                                                            |                                 |
| G4-DMA                                                         | ● Management approach                                                                                                                                                           | III d) 2                                                      | 4.5.1 – Total quality and product safety                                                                                                                                                                                                                                                                                   | 236                             |
| G4-PR1                                                         | ● Percentage of significant product and service categories for which health and safety impacts are assessed for improvement                                                     | III d) 2                                                      | 4.5.1 – Product quality and safety approach                                                                                                                                                                                                                                                                                | 236                             |
| <b>Material aspect: purchasing and sustainable development</b> |                                                                                                                                                                                 |                                                               |                                                                                                                                                                                                                                                                                                                            |                                 |
| G4-DMA                                                         | ● Management approach                                                                                                                                                           | III c) 1<br>III c) 2                                          | 4.5.3 – Application of sustainable development principles in purchasing processes                                                                                                                                                                                                                                          | 242                             |
| G4-EN32                                                        | ● Percentage of new suppliers that were screened using environmental criteria                                                                                                   | III c) 2                                                      | 4.5.3 – Assessment of the sustainable development practices of suppliers and share of key suppliers evaluated                                                                                                                                                                                                              | 242                             |

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<br>Grenelle 2 | Chapters/Sections                                                                                             | Pages |
|--------------------------------------------------------------|---|-------------------------------------------------------------------------------------------------------------------|------------------------|---------------------------------------------------------------------------------------------------------------|-------|
| G4-LA14                                                      | ● | Percentage of new suppliers that were screened using labor practices criteria                                     | III c) 2               | 4.5.3 – Assessment of the sustainable development practices of suppliers and share of key suppliers evaluated | 242   |
| G4-S09                                                       | ● | Percentage of new suppliers that were screened using criteria for impacts on society                              | III c) 2               | 4.5.3 – Assessment of the sustainable development practices of suppliers and share of key suppliers evaluated | 242   |
| G4-HR10                                                      | ● | Percentage of significant suppliers and contractors that were screened using human rights criteria                | III c) 2               | 4.5.3 – Becoming a Valeo supplier                                                                             | 242   |
| G4-EC9                                                       | ● | Policy, practices and proportion of spending on local suppliers at significant locations of operation             | III c) 2               | 4.5.3 – Breakdown of purchases by area of origin and consumption area                                         | 240   |
| <b>Material aspect: ethics and compliance</b>                |   |                                                                                                                   |                        |                                                                                                               |       |
| G4-DMA                                                       | ● | Management approach                                                                                               | III d) 1               | 4.5.2 – Ethics and compliance                                                                                 | 238   |
| G4-56                                                        | ● | Codes of conduct and ethics                                                                                       | III d) 1               | 4.5.2 – Ethics and compliance                                                                                 | 238   |
| G4-57                                                        | ● | Advisory mechanisms (ethical and lawful behavior)                                                                 | III d) 1               | 4.5.2 – Practical, accessible education                                                                       | 238   |
| G4-58                                                        | ● | Alert mechanisms (unethical and unlawful behavior)                                                                | III d) 1               | 4.5.2 – The Valeo alert line: detection, prevention and alert                                                 | 238   |
| G4-S04                                                       | ● | Communication and training on anti-corruption policies and procedures                                             | III d) 1               | 4.5.2 – A program to combat corruption and anti-competitive practices                                         | 238   |
| <b>Material aspect: availability of replacement products</b> |   |                                                                                                                   |                        |                                                                                                               |       |
| G4-DMA                                                       | ● | Management approach                                                                                               | II a) 1<br>II b) 2     | 4.5.4 – Valeo, a participant in the remanufacturing market                                                    | 245   |
| <b>Material aspect: public and regulatory policies</b>       |   |                                                                                                                   |                        |                                                                                                               |       |
| G4-DMA                                                       | ● | Management approach                                                                                               | III a) 1               | 4.5.5 – Public and regulatory policies                                                                        | 246   |
| G4-S06                                                       | ● | Total value of political contributions by country and recipient/beneficiary                                       | -                      | 4.5.5 – Public and regulatory policies                                                                        | 246   |
| <b>Material aspect: local integration</b>                    |   |                                                                                                                   |                        |                                                                                                               |       |
| G4-DMA                                                       | ● | Management approach                                                                                               | III a) 1<br>III a) 2   | 4.5.6 – Local management                                                                                      | 247   |
| G4-S01                                                       | ● | Percentage of operations with implemented local community engagement, impact assessments and development programs | III a) 2               | 4.5.6 – Commitment of sites and employees in favor of local community operations                              | 247   |
|                                                              |   |                                                                                                                   |                        | 4.5.5 – Proportion of sites that held an open day                                                             | 248   |
| G4-EC6                                                       | ● | Proportion of senior management hired from the local community at significant operation sites                     | III a) 1               | 4.4.1 – Proportion of sites whose manager was from the local country by geographic area                       | 217   |

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                     | 2014   | 2015   | 2016   |
|------------------------------------------------------------------|--------------------------|--------|--------|--------|
| <b>Key Research and Development indicators</b>                   |                          |        |        |        |
| Research and Development expenditure, net (as a % of sales)      |                          | 5.4%   | 5.5%   | 5.8%   |
| Research and Development headcount                               |                          | 10,400 | 11,620 | 13,700 |
| Number of customer projects managed                              |                          | 2,300  | 2,500  | 2,700  |
| Number of collaborative projects                                 |                          | >50    | >50    | >50    |
| Number of patents filed                                          |                          | 1,108  | 1,406  | 1,840  |
| Proportion of innovative products <sup>(1)</sup> in order intake |                          | 35%    | 37%    | 50%    |
| <b>Resources and eco-design indicators</b>                       |                          |        |        |        |
| Consumption of heavy metals                                      | metric tons              | 15.35  | 11.75  | 8.3    |
| Consumption of heavy metals/Sales                                | kg/€m                    | 1.22   | 0.84   | 0.55   |
| Consumption of chlorinated solvents                              | metric tons              | 240.5  | 205.7  | 191.4  |
| Consumption of chlorinated solvents/Sales                        | kg/€m                    | 19.25  | 14.60  | 12.64  |
| Consumption of CMR substances <sup>(2)</sup>                     | metric tons              | 168.1  | 361.6  | 365.1  |
| Consumption of CMR substances <sup>(2)</sup> /Sales              | kg/€m                    | 19.4   | 25.7   | 24.1   |
| Consumption of recycled plastics                                 | thousands of metric tons | 9.6    | 9.5    | 11.9   |

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

(2) See Sustainable Development Glossary, page 450.

The consumption of raw materials presented in the above table and in section 4.2.3 of this chapter, "Resources, materials and eco-design", pages 177 to 180, is expressed as a percentage of the gross sales of the sites included in the scope of environmental reporting (see section 4.7.2 of this chapter, "Summary of environmental indicators", pages 262 to 263).

## 4.7.2 Summary of environmental indicators

The indicators are presented in the order that they appear in section 4.3.

|                                                                                       | Unit                                         | 2013   | 2014   | 2015                 | 2016                 |
|---------------------------------------------------------------------------------------|----------------------------------------------|--------|--------|----------------------|----------------------|
| <b>Scope<sup>(1)</sup></b>                                                            |                                              |        |        |                      |                      |
| Total sales across all sites in reporting scope                                       | €m                                           | 11,779 | 12,492 | 14,056               | 15,138               |
| Number of sites in reporting scope                                                    | -                                            | 122    | 118    | 117                  | 120                  |
| <b>General policy on environmental issues</b>                                         |                                              |        |        |                      |                      |
| Number of sites able to obtain ISO 14001 and OHSAS 18001 certification <sup>(2)</sup> | -                                            | 116    | 128    | 122                  | 130                  |
| ISO 14001-certified sites                                                             | %                                            | 94     | 95     | 98                   | 94                   |
| ISO 50001-certified sites                                                             | %                                            | 2      | 5      | 8                    | 12                   |
| OHSAS 18001-certified sites                                                           | %                                            | 88     | 90     | 94                   | 91                   |
| Functional expenditure allocated to environment                                       | €k                                           | 11,853 | 19,367 | 21,957               | 17,221               |
| Capital expenditure allocated to environment, excluding cleanup costs                 | €k                                           | 4,343  | 2,613  | 2,995                | 3,338                |
| Cleanup costs, sites in operation                                                     | €k                                           | 3,171  | 4,615  | 3,191                | 560                  |
| Total provisions allocated to environmental risks                                     | €m                                           | 17     | 16.2   | 13.5                 | 13.7                 |
| Number of fines and compensation awards                                               | -                                            | 5      | 5      | 2                    | 1                    |
| Amount of fines and compensation awards                                               | €k                                           | 38     | 14     | 6                    | 118                  |
| Number of environmental complaints                                                    | -                                            | 4      | 4      | 19                   | 7                    |
| <b>Reduce energy consumption and greenhouse gas emissions</b>                         |                                              |        |        |                      |                      |
| Total energy consumption                                                              | GWh                                          | 1,862  | 1,946  | 2,005                | 2,077                |
| Proportion of electricity                                                             | %                                            | 70.8   | 74.9   | 74.9                 | 75.9                 |
| Proportion of natural gas                                                             | %                                            | 27.0   | 23.3   | 23.2                 | 22.6                 |
| Proportion of fuel oil                                                                | %                                            | 1.5    | 1.2    | 1.1                  | 1.0                  |
| Proportion of other energy sources                                                    | %                                            | 0.7    | 0.6    | 0.8                  | 0.5                  |
| Total energy consumption/Sales                                                        | MWh/€m                                       | 158    | 156    | 143                  | 137                  |
| Direct energy consumption/Sales                                                       | MWh/€m                                       | 45     | 38     | 35                   | 32                   |
| Indirect energy consumption/Sales                                                     | MWh/€m                                       | 113    | 118    | 108                  | 105                  |
| Energy efficiency: expected gain                                                      | MWh                                          | 26,308 | 35,699 | 41,894               | 76,117               |
| Direct greenhouse gas (GHG) emissions <sup>(2)</sup>                                  | thousands of eq. metric tons CO <sub>2</sub> | 168.4  | 164.7  | 141.8                | 145.8                |
| Indirect GHG emissions                                                                | thousands of eq. metric tons CO <sub>2</sub> | 534.1  | 627.7  | 649.4 <sup>(3)</sup> | 710.9 <sup>(3)</sup> |
| Other relevant indirect GHG emissions                                                 | thousands of eq. metric tons CO <sub>2</sub> | 4,975  | 5,489  | 5,990                | 7,296                |
| <b>Discharges and waste</b>                                                           |                                              |        |        |                      |                      |
| Atmospheric NO <sub>x</sub> emissions                                                 | metric tons                                  | 132    | 119    | 121                  | 122                  |
| Atmospheric NO <sub>x</sub> emissions/Sales                                           | kg/€m                                        | 11.2   | 9.5    | 8.6                  | 8.1                  |
| Atmospheric VOC emissions <sup>(2)</sup>                                              | metric tons                                  | 1,369  | 1,444  | 1,590                | 1,644                |
| Atmospheric VOC emissions/Sales                                                       | kg/€m                                        | 125    | 119    | 117                  | 109                  |
| Atmospheric TCE emissions                                                             | metric tons                                  | 19.4   | 11.9   | 22.5                 | 21.1                 |
| Atmospheric TCE emissions/Sales                                                       | kg/€m                                        | 1.6    | 0.95   | 1.6                  | 1.4                  |
| Atmospheric lead emissions                                                            | kg                                           | 9.5    | 17     | 16                   | 13                   |
| Atmospheric lead emissions/Sales                                                      | g/€m                                         | 0.8    | 1.36   | 1.14                 | 0.86                 |
| Emissions of ozone-depleting substances                                               | kg CFC-11                                    | 567    | 632    | 608                  | 489                  |
| Volume of industrial effluents treated                                                | thousand cubic meters                        | 807    | 816    | 724                  | 820                  |
| Heavy metal content in these effluents                                                | kg                                           | 269    | 253    | 24                   | 28                   |
| Number of significant spills                                                          | -                                            | 1      | 1      | 0                    | 0                    |
| Total waste generated                                                                 | thousands of metric tons                     | 199.9  | 213.7  | 231.0                | 257.2                |
| Of which hazardous waste                                                              | %                                            | 10     | 9      | 9                    | 9                    |
| Of which non-hazardous waste                                                          | %                                            | 90     | 91     | 91                   | 91                   |
| Total waste generated/Sales                                                           | metric tons/€m                               | 17     | 17.1   | 16.4                 | 17.0                 |
| Waste recovery rate                                                                   | %                                            | 75     | 86     | 90                   | 89                   |
| Total waste exported                                                                  | metric tons                                  | 319    | 803    | 1,596                | 1,986                |
| Ratio of total waste exported/Total waste generated                                   | %                                            | 0.2    | 0.4    | 0.7                  | 0.8                  |

## Summary of Valeo's Research and Development and CSR performance

|                                        | Unit                     | 2013  | 2014  | 2015  | 2016  |
|----------------------------------------|--------------------------|-------|-------|-------|-------|
| <b>Transportation and Logistics</b>    |                          |       |       |       |       |
| Packaging materials consumption        | thousands of metric tons | 77.6  | 78.6  | 78.8  | 84.7  |
| Proportion of plastic packaging        | %                        | 8     | 9.4   | 8.8   | 8.8   |
| Proportion of cardboard packaging      | %                        | 63    | 57.7  | 63.4  | 61.8  |
| Proportion of wood packaging           | %                        | 27    | 29.3  | 26.0  | 27.7  |
| Proportion of other types of packaging | %                        | 2     | 3.6   | 1.8   | 1.7   |
| Packaging materials consumption/Sales  | metric tons/€m           | 6.6   | 6.3   | 5.6   | 5.6   |
| <b>Water</b>                           |                          |       |       |       |       |
| Total water consumption                | thousands of cu.m        | 2,484 | 2,731 | 2,784 | 2,783 |
| Total water consumption/Sales          | cu.m/€m                  | 211   | 219   | 198   | 184   |

(1) Data may vary slightly depending on the rate of site response on specific indicators (see section 4.3.1 of this chapter, "Response rates for main indicators in 2016", page 192).

(2) See Sustainable Development Glossary, page 450.

(3) Data updated in accordance with the new energy factors received from the International Energy Agency in mid-2016.

### 4.7.3 Summary of labor-related indicators

|                                                                                                                   | 2014             | 2015             | 2016             |
|-------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|
| <b>Valeo Group headcount</b>                                                                                      |                  |                  |                  |
| Managers and professionals                                                                                        | 18,458           | 20,410           | 23,960           |
| Administrative staff, technicians and supervisors                                                                 | 10,189           | 10,141           | 12,518           |
| Operators                                                                                                         | 42,518           | 43,956           | 46,183           |
| <b>Registered headcount</b>                                                                                       | <b>71,165</b>    | <b>74,507</b>    | <b>82,661</b>    |
| Temporary staff                                                                                                   | 7,254            | 8,293            | 9,139            |
| <b>TOTAL HEADCOUNT</b>                                                                                            | <b>78,419</b>    | <b>82,800</b>    | <b>91,800</b>    |
| Permanent staff                                                                                                   | 56,208           | 59,884           | 67,383           |
| Non-permanent staff                                                                                               | 22,211           | 22,916           | 24,417           |
| <b>Number of new hires on permanent contracts</b>                                                                 | <b>7,125</b>     | <b>9,175</b>     | <b>14,150</b>    |
| Managers and professionals                                                                                        | 3,127            | 3,855            | 5,633            |
| Administrative staff, technicians and supervisors                                                                 | 896              | 684              | 1,453            |
| Operators                                                                                                         | 3,102            | 4,636            | 7,064            |
| <b>Number of new hires on fixed-term contracts</b>                                                                | <b>10,770</b>    | <b>10,937</b>    | <b>10,810</b>    |
| Managers and professionals                                                                                        | 397              | 298              | 384              |
| Administrative staff, technicians and supervisors                                                                 | 1,224            | 755              | 331              |
| Operators                                                                                                         | 9,149            | 9,884            | 10,095           |
| <b>Departures</b>                                                                                                 |                  |                  |                  |
| Dismissals                                                                                                        | 4,006            | 4,766            | 3,677            |
| of which layoffs                                                                                                  | 623              | 917              | 492              |
| Resignations                                                                                                      | 4,668            | 5,440            | 7,217            |
| <b>Rate of absenteeism</b>                                                                                        | <b>2.14%</b>     | <b>2.12%</b>     | <b>2.17%</b>     |
| <b>Breakdown of women by socio-professional category (%)</b>                                                      |                  |                  |                  |
| Managers and professionals                                                                                        | 21.6%            | 21.8%            | 23%              |
| Administrative staff, technicians and supervisors                                                                 | 26.3%            | 25.6%            | 24.3%            |
| Operators                                                                                                         | 38.9%            | 39.7%            | 40.6%            |
| <b>Number of lost-time occupational accidents per million hours worked, Group (FR1)</b>                           | <b>2.60</b>      | <b>2.35</b>      | <b>2.32</b>      |
| <b>Number of occupational accidents, with or without lost time, per million hours worked, Group (FR2)</b>         | <b>13.00</b>     | <b>11.50</b>     | <b>11.31</b>     |
| <b>Number of days lost owing to an occupational accident per thousand hours worked, Group (severity rate SR1)</b> | <b>0.08</b>      | <b>0.07</b>      | <b>0.07</b>      |
| <b>Percentage of training hours devoted to safety</b>                                                             | <b>15%</b>       | <b>26%</b>       | <b>17%</b>       |
| <b>Number of training hours provided</b>                                                                          | <b>1,382,154</b> | <b>1,484,824</b> | <b>1,859,854</b> |
| <b>Number of employees trained</b>                                                                                | <b>65,603</b>    | <b>72,591</b>    | <b>82,962</b>    |
| <b>Number of employees with disabilities</b>                                                                      | <b>1,077</b>     | <b>1,114</b>     | <b>1,443</b>     |
| <b>Number of interns</b>                                                                                          | <b>1,321</b>     | <b>1,490</b>     | <b>1,834</b>     |
| <b>Number of apprentices</b>                                                                                      | <b>867</b>       | <b>892</b>       | <b>1051</b>      |
| <b>Number of international corporate volunteers</b>                                                               | <b>133</b>       | <b>130</b>       | <b>151</b>       |



## 4.8 Independent verifier's report on consolidated social, environmental and societal information presented in the management report

Year ended December 31, 2016

*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<sup>(1)</sup>, under the number n° 3-1050, and as a member of the network of one of the statutory auditors of the company Valeo, we present our report on the consolidated social, environmental and societal information established for the year ended on the December 31, 2016, presented in the management report, hereafter referred to as the "CSR Information", pursuant to the provisions of the article L.225-102-1 of the French Commercial code (*Code de commerce*).

### Responsibility of the company

It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in the article R.225-105-1 of the French Commercial code (*Code de commerce*), in accordance with the protocols used by the company (hereafter referred to as the "Criteria"), and of which a summary is included in the management report 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 mobilized the skills of five people between October 2016 and February 2017 for an estimated duration of eight weeks. We conducted the work described below in accordance with the professional standards applicable in France and the Order of May 13, 2013 determining the conditions under which an independent third-party verifier conducts its mission, and in relation to the opinion of fairness and the reasonable assurance report, in accordance with the international standard ISAE 3000<sup>(2)</sup>.

## 1. Attestation of presence of CSR Information

### Nature and scope of the work

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 programs.

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*).

(1) Scope available at [www.cofrac.fr](http://www.cofrac.fr)

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

In the absence of certain consolidated information, we have verified that the explanations were provided in accordance with the provisions in Article R.225-105, paragraph 3, of the French Commercial code (*Code de commerce*).

We verified that the information covers the consolidated perimeter, namely the entity and its subsidiaries, as aligned with the meaning of the Article L.233-1 and the entities which it controls, as aligned with the meaning of the Article L.233-3 of the French Commercial code (*Code de commerce*).

## Conclusion

Based on this work, we confirm the presence in the management report of the required CSR information.

## 2. Limited assurance on CSR Information

### Nature and scope of the work

We undertook around ten interviews with the people responsible for the preparation of the CSR Information in the different departments, 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<sup>(1)</sup>:

- 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,<sup>(2)</sup> 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 10% of the total workforce and between 16% and 20% of the quantitative environmental information, that were considered as representative characteristics of the environmental and social domains.

#### <sup>(1)</sup> Social information:

- **Indicators (quantitative information):** total headcount and breakdown, hiring and terminations, number of absence hours and absenteeism rate, frequency (FR1 and FR2) and severity rate of work accidents, total number of training hours, number of employees trained.
- **Qualitative information:** employment (total headcount and breakdown by gender and geographic area, hiring and terminations), organisation of working time, labour relations (social dialogue, collective agreements), absenteeism, health and safety at the work place, work accidents, notably their frequency and their severity, training policies, diversity and equality of treatment and opportunities (measures undertaken for gender equality, employment, inclusion of disabled people, anti-discrimination policies and actions), promotion and respect of the ILO core conventions (freedom of association, anti-discrimination policies and actions, elimination of forced labour and child labour).

#### Environmental and Societal information:

- **Indicators (quantitative information):** number of ISO 14001 certified sites, hazardous and non-hazardous waste 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 information:** approaches to environmental evaluation and certification, training and information delivered to the employees, resources dedicated to the prevention of risks and pollutions, preventative measures, reduction of and compensation for discharges into the air (volatile organic compounds emissions), circular economy (preventative measures, recycling and waste management, water consumption, total energy consumption, measures undertaken to improve energy efficiency and to promote the use of renewable energy), climate change (the significant emission sources of greenhouse gas generated by the company's activities, including the use of the goods and services it produces, adaptation to climate change); importance of subcontracting and the consideration of environmental and social issues in purchasing policies and relations with suppliers and subcontractors, business ethics (actions undertaken to prevent bribery and corruption).

<sup>(2)</sup> THS – Kohnan (Japan), THS – Itatiba (Brazil), PTS – Campinas (Brazil), VIS – Seymour (United States), VIS – Bietigheim (Germany), CDA – Wemding (Germany), THS – Greensburg (United States), PTS Daegu (Korea).

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

For the "Packaging materials consumption" indicator, discrepancies of various types were identified during the work on audit and consolidation samples, and not all of them have been corrected. These discrepancies can lead to a risk for the consolidated indicator.

Based on our work, except for the incidence of the discrepancies identified for the indicator "Packaging materials consumption" as mentioned above, we have not identified any other significant misstatement that causes us to believe that the CSR Information, taken together, has not been fairly presented, in compliance with the Criteria.

Paris-La Défense, February 15, 2017

*French original signed by*

Independent verifier

**ERNST & YOUNG et Associés**

Éric Mugnier

Partner, Sustainable Development

Bruno Perrin

Partner

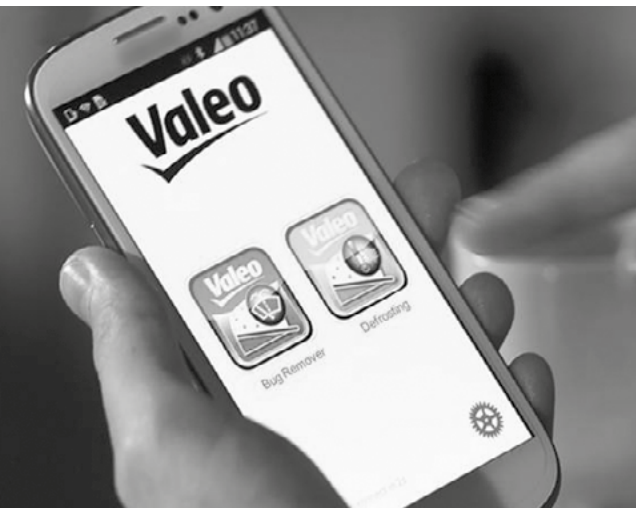


RESEARCH AND  
DEVELOPMENT SPENDING  
**1.6**  
BILLION EUROS

**91,800**  
EMPLOYEES



**94%**  
OF SITES  
CERTIFIED  
ISO 14001



**CODE OF ETHICS**

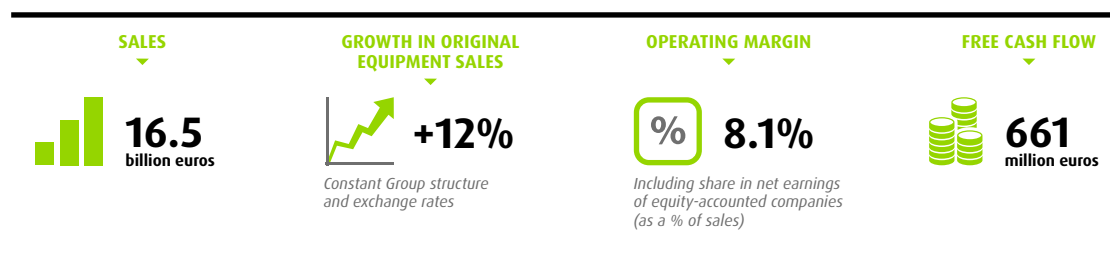


# 5

## FINANCIAL AND ACCOUNTING INFORMATION

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





## 5.1 Analysis of 2016 consolidated results AFR

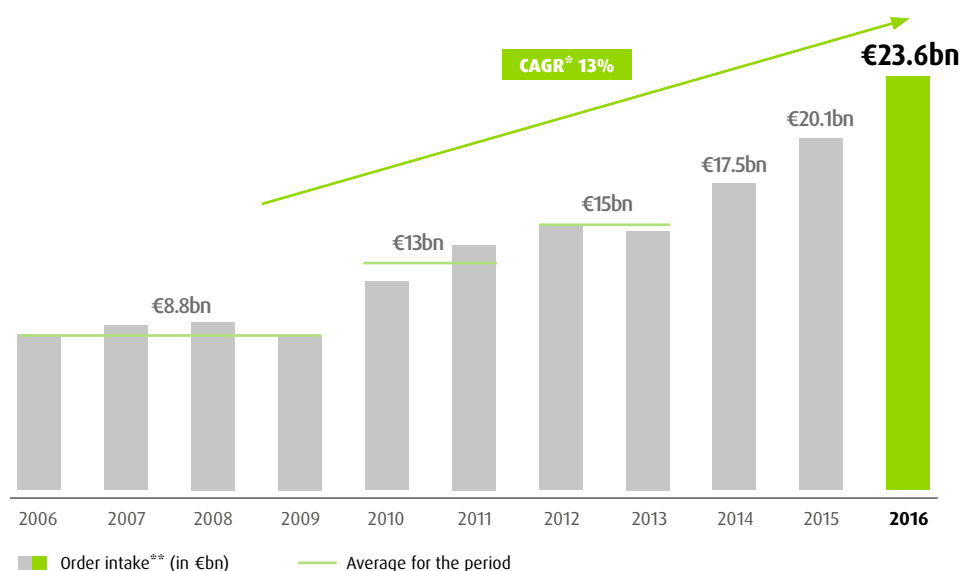
The Group's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as approved by the European Union. The accounting principles are explained in detail in this chapter in the notes to the 2016 consolidated financial statements in section 5.4.6, Note 1 "Accounting policies", pages 290 to 292.

The financial statements include the information deemed material as required by the French accounting standards-setter (*Autorité des normes comptables* – ANC) in Standard no. 2016-09.

### 5.1.1 Business review

#### Acceleration in the order intake<sup>(1)</sup>

##### ► CHANGE IN ORDER INTAKE



\* Reference 2008 (average over 2005-2009) → 2016.

\*\* Excluding the Access Mechanisms business between 2005 and 2013 and including equity-accounted joint ventures.

In 2016, the order intake came in 17% higher than 2015 at 23.6 billion euros, confirming the Group's ability to deliver structural growth ahead of global automotive production.

The order intake remained balanced across the Group's different regions:

- 39% in Asia: China accounted for 28% of the order intake, of which 42% of orders were booked with local Chinese automakers;

- 35% in Europe (and Africa);
- 24% in North America.

The rise in the order intake over the year was driven by innovative products<sup>(2)</sup> (50% of new orders) and confirms the successful positioning of Valeo's new technologies and products in the CO<sub>2</sub> emissions reduction and intuitive driving segments.

(1) See Financial Glossary, page 449.

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



## Global automotive production growth

Automotive production rose 4% year on year, bolstered by further growth in North America (up 2%), Europe (up 3%), and Asia (up 7%), driven by China (up 14%), buoyed by the introduction of a tax stimulus plan and a favorable comparison basis.

Production in South America continued its sharp decline (down 11%).

| Change in automotive production in 2016<br>(versus the same period in 2015) | Second-half 2016* | Full-year 2016* |
|-----------------------------------------------------------------------------|-------------------|-----------------|
| Europe & Africa                                                             | +1%               | +3%             |
| Asia, Middle East & Oceania                                                 | +12%              | +7%             |
| <i>of which China</i>                                                       | +21%              | +14%            |
| <i>excluding China</i>                                                      | +2%               | +0%             |
| North America                                                               | +2%               | +2%             |
| South America                                                               | -3%               | -11%            |
| <b>TOTAL</b>                                                                | <b>+7%</b>        | <b>+4%</b>      |

\* LMC automotive production estimates.

## Sales growth

Sales for the year came in at 16,519 million euros, delivering robust growth of 14% as reported and 11% like for like (12% in the second half).

Changes in exchange rates during the year had a negative 1% impact (zero impact in the second half), due chiefly to weakness in the Chinese renminbi against the euro.

Changes in Group structure had a positive 3% impact over the year (positive 4% impact in the second half); peiker (acquired in late February 2016) and Spheros (acquired in late March 2016) contributed 266 million euros and 184 million euros, respectively, to 2016 sales.

| Sales<br>(in millions of euros) | As a % of FY<br>2016 sales | Second-half  |              |                    |             | Full-year     |               |                    |             |
|---------------------------------|----------------------------|--------------|--------------|--------------------|-------------|---------------|---------------|--------------------|-------------|
|                                 |                            | 2016         | 2015         | Reported<br>change | LFL change* | 2016          | 2015          | Reported<br>change | LFL change* |
| Original equipment              | 87%                        | 7,297        | 6,284        | +16%               | +12%        | 14,403        | 12,600        | +14%               | +12%        |
| Aftermarket                     | 10%                        | 834          | 786          | +6%                | +4%         | 1,679         | 1,599         | +5%                | +5%         |
| Miscellaneous                   | 3%                         | 258          | 176          | +47%               | +43%        | 437           | 345           | +27%               | +25%        |
| <b>TOTAL</b>                    | <b>100%</b>                | <b>8,389</b> | <b>7,246</b> | <b>+16%</b>        | <b>+12%</b> | <b>16,519</b> | <b>14,544</b> | <b>+14%</b>        | <b>+11%</b> |

\* Like-for-like (constant Group structure and exchange rates).

**Original equipment sales** for the year came in at 14,403 million euros, or 87% of total sales, delivering robust like-for-like growth of 12% (12% in the second half).

**Aftermarket sales** (10% of total sales) moved up 5% like for like over the year (4% in the second half).

**Miscellaneous sales** (3% of total sales), mainly consisting of tooling revenues related to the launch of new projects, jumped 25% like for like (43% in the second half).

## Robust growth in original equipment sales, outpacing global automotive production

Valeo delivered market-beating growth driven by:

- an improved product mix resulting from technological innovations for CO<sub>2</sub> emissions reduction and intuitive driving;
- its balanced customer and geographic positioning.

| Original equipment sales<br>(by destination, in millions of euros) | Second-half  |              |             |                         | Full-year     |               |             |                         |
|--------------------------------------------------------------------|--------------|--------------|-------------|-------------------------|---------------|---------------|-------------|-------------------------|
|                                                                    | 2016         | 2015         | LFL change* | Difference vs. market** | 2016          | 2015          | LFL change* | Difference vs. market** |
| Europe & Africa                                                    | 3,434        | 3,007        | +9%         | +8 pts                  | 7,062         | 6,125         | +11%        | +8 pts                  |
| Asia, Middle East & Oceania                                        | 2,126        | 1,736        | +22%        | +10 pts                 | 3,907         | 3,385         | +17%        | +10 pts                 |
| <i>of which China</i>                                              | 1,148        | 910          | +32%        | +11 pts                 | 2,046         | 1,759         | +22%        | +8 pts                  |
| <i>excluding China</i>                                             | 978          | 826          | +11%        | +9 pts                  | 1,861         | 1,626         | +11%        | +11 pts                 |
| North America                                                      | 1,574        | 1,435        | +6%         | +4 pts                  | 3,138         | 2,826         | +8%         | +6 pts                  |
| South America                                                      | 163          | 106          | +26%        | +29 pts                 | 296           | 264           | +7%         | +18 pts                 |
| <b>TOTAL</b>                                                       | <b>7,297</b> | <b>6,284</b> | <b>+12%</b> | <b>+5 PTS</b>           | <b>14,403</b> | <b>12,600</b> | <b>+12%</b> | <b>+8 pts</b>           |

\* Like-for-like (constant Group structure and exchange rates).

\*\* Based on LMC automotive production estimates.

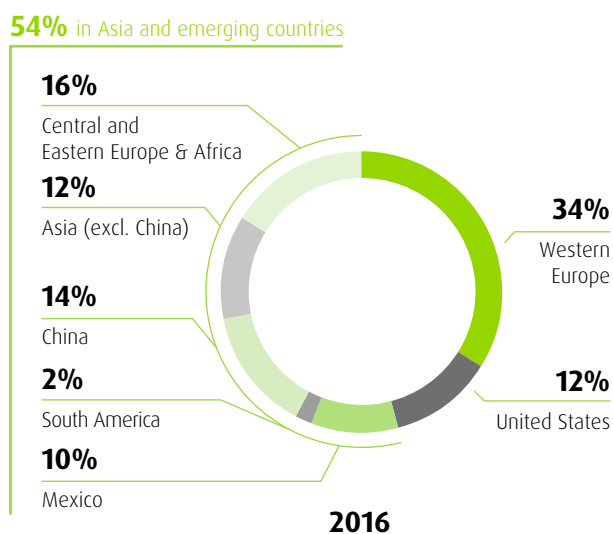
In 2016, the Group outperformed global automotive production by 8 percentage points (5 percentage points in both the second half and the fourth quarter), powered by strong growth in original equipment sales across all production regions:

- in **Europe** (including Africa), like-for-like original equipment sales rose 11%, lifted by an attractive portfolio of high technological value products and a favorable customer mix, outpacing automotive production by 8 percentage points (8 percentage point outperformance in the second half);
- in **China**, like-for-like original equipment sales rose 22%, outpacing automotive production by 8 percentage points (11 percentage point outperformance in the second half), driven in particular by market share gains with Chinese customers;
- in **Asia excluding China**, like-for-like original equipment sales rose 11%, outpacing automotive production by 11 percentage points (9 percentage point outperformance in the second half);
- in **North America**, like-for-like original equipment sales rose 8%, outpacing automotive production by 6 percentage points (4 percentage point outperformance in both the second half and the fourth quarter);
- in **South America**, like-for-like original equipment sales climbed 7%, outpacing automotive production by 18 percentage points (29 percentage point outperformance in the second half).

## Balanced geographic alignment of Valeo's businesses

### ► ORIGINAL EQUIPMENT SALES BY PRODUCTION REGION

As a % of original equipment sales



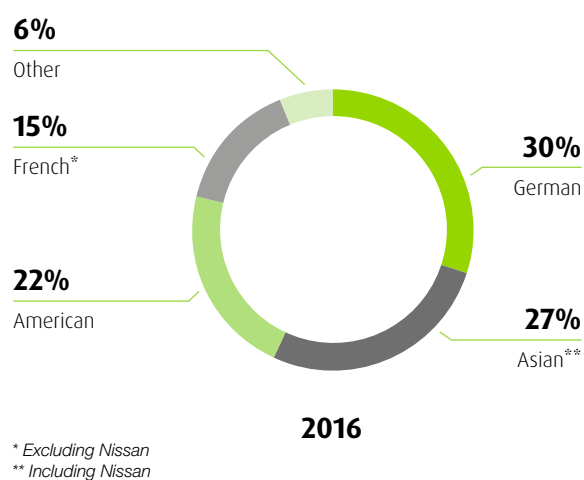
The share of original equipment sales in the different production regions in full-year 2016 was broadly unchanged from 2015:

- 50% of original equipment sales was produced in Europe (up 1 percentage point on 2015), including 34% in Western Europe (stable year on year) and 16% in Central and Eastern Europe (up 1 percentage point on 2015);
- 26% was produced in Asia (down 1 percentage point year on year);
- 22% was produced in North America (stable year on year);
- 2% was produced in South America (stable year on year).

## A more diverse customer portfolio

### ► CUSTOMER PORTFOLIO

As a % of original equipment sales



At end-2016:

- German customers represented 30% of original equipment sales, stable year on year;
- Asian customers accounted for 27% of original equipment sales, up 1 percentage point;
- US customers accounted for 22% of original equipment sales, down 2 percentage points;
- French customers accounted for 15% of original equipment sales, stable year on year.

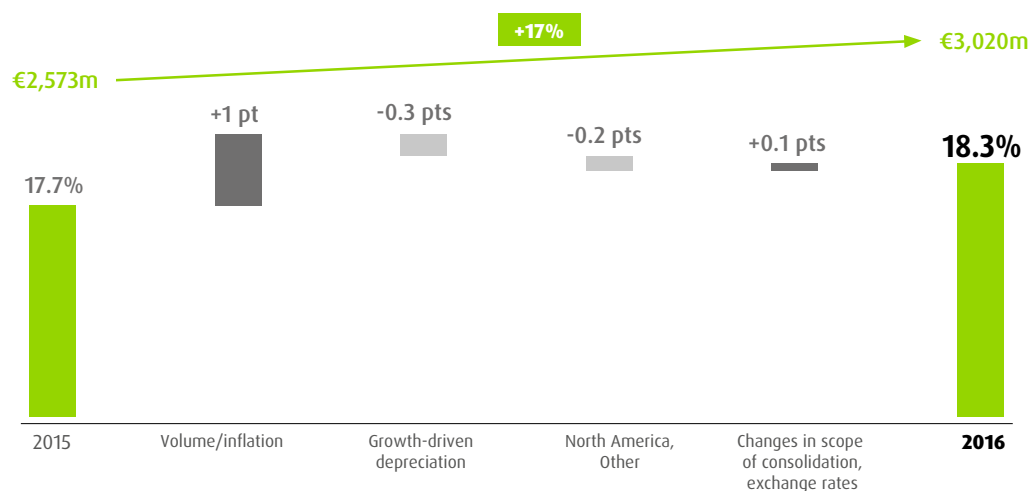
## 5.1.2 Results

In the year as a whole:

- gross margin was up 17% to 18.3% of sales;
- operating margin<sup>(1)</sup> was up 20% to 8.1% of sales;
- net attributable income jumped 27% to 5.6% of sales.

### ► ANALYSIS OF GROSS MARGIN

As a % of sales

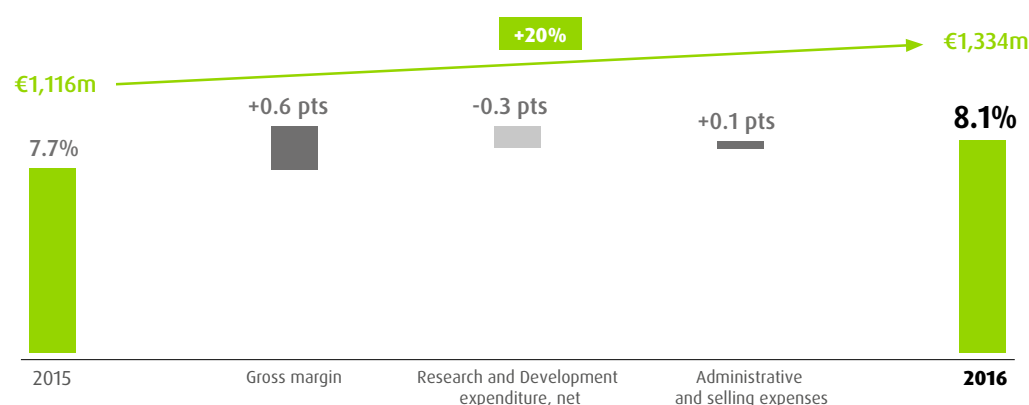


The **gross margin** for 2016 increased by 17% to 3,020 million euros, or 18.3% of sales (up 0.6 percentage points on 2015). This performance was chiefly driven by operating leverage (up 1 percentage point), partly offset by a rise in depreciation expense owing to the capital expenditure

carried out by the Group over the past few years (negative 0.3 percentage point impact) and by operational difficulties relating to the launch of new products at a site in North America (negative 0.2 percentage point impact).

### ► ANALYSIS OF OPERATING MARGIN<sup>(1)</sup>

As a % of sales



**Operating margin<sup>(1)</sup>** moved up 20% to 1,334 million euros, or 8.1% of sales (up 0.4 percentage points on 2015). In the second half, the operating margin<sup>(1)</sup> climbed 19% to 687 million euros, or 8.2% of sales.

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 449.

Valeo continued its Research and Development efforts to enhance its product portfolio and respond to the twin challenges of powertrain electrification and intuitive driving. Gross Research and Development expenditure was up 22% to 1,596 million euros in 2016, representing over 11% of original equipment sales. Net Research and Development expenditure rose 20% to 5.8% of sales, up 0.3 percentage points on 2015.

General and administrative expenses came out 0.1 percentage point lower than in 2015, at 3.2% of sales.

The share in net earnings of equity-accounted companies was 61 million euros, or 0.4% of sales, stable compared with 2015.

**Operating income<sup>(1)</sup>** rose 30% to 1,301 million euros, or 7.9% of sales (up 1.0 percentage points on 2015). Operating income includes other income and expenses representing a net expense of 33 million euros and relating to:

- 159 million euros in disposal gains on the creation of the joint venture with Siemens;
- a 99 million euro expense set aside to cover the main risks arising from antitrust investigations; and
- 61 million euros in one-off impairment charged against non-current assets.

The cost of net debt remained stable year on year, at 83 million euros.

The effective tax rate came out at 17%, primarily reflecting the improved profitability of the Group's operations in France and the United States, where Valeo has available tax loss carryforwards.

**Net attributable income** climbed 27% to 925 million euros, or 5.6% of sales (up 0.6 percentage points on 2015).

Excluding non-recurring items, net attributable income<sup>(1)</sup> rose 14% to 940 million euros, or 5.7% of sales, stable year on year.

**Return on capital employed (ROCE<sup>(1)</sup>)** and **return on assets (ROA<sup>(1)</sup>)** stood at 34% and 21%, respectively.

**Return on capital employed (ROCE)** corresponds to operating margin (including share in net earnings of equity-accounted companies) divided by capital employed (including investments in equity-accounted companies) excluding goodwill.

**Return on assets (ROA)** corresponds to operating income divided by capital employed (including investments in equity-accounted companies) including goodwill.

| (in millions of euros)                                                                                                                                                             | 2016         | 2015         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| <i>Balance sheet items included in full in capital employed:</i>                                                                                                                   | 4,149        | 3,539        |
| + Net intangible assets, Net property, plant and equipment, Deferred tax assets, Net inventories, Net accounts and notes receivable, Other current assets, Taxes recoverable       |              |              |
| - Subsidies and grants – long-term portion, Deferred tax liabilities, Accounts and notes payable, Subsidies and grants – current portion, Taxes payable, Other current liabilities |              |              |
| <i>Balance sheet items for which only the portion relating to operations has been included in capital employed:</i>                                                                | (249)        | (190)        |
| + Investments in equity-accounted companies excluding goodwill, Other current financial assets                                                                                     |              |              |
| - Other provisions – long-term portion, Other financial liabilities – long-term portion, Other provisions – current portion, Other financial liabilities – current portion         |              |              |
| <b>Capital employed (to calculate ROCE) (A)</b>                                                                                                                                    | <b>3,900</b> | <b>3,349</b> |
| Operating margin including share in net earnings of equity-accounted companies <sup>(1)</sup> (B)                                                                                  | 1,334        | 1,116        |
| Adjustment (C)                                                                                                                                                                     | (1)          | (10)         |
| <i>Annualization/elimination of data relating to entities acquired/sold during the year.</i>                                                                                       |              |              |
| <b>Adjusted operating margin (including share in net earnings of equity-accounted companies)<sup>(1)</sup> (D=B-C)</b>                                                             | <b>1,333</b> | <b>1,106</b> |
| <b>ROCE<sup>(1)</sup> (D/A)</b>                                                                                                                                                    | <b>34%</b>   | <b>33%</b>   |
| Goodwill (E)                                                                                                                                                                       | 1,922        | 1,450        |
| Goodwill relating to equity-accounted companies (F)                                                                                                                                | 268          | 61           |
| <b>Capital employed (to calculate ROA) (G=A+E+F)</b>                                                                                                                               | <b>6,090</b> | <b>4,860</b> |
| Operating income (including share in net earnings of equity-accounted companies) (H)                                                                                               | 1,301        | 999          |
| Adjustment (I)                                                                                                                                                                     | (2)          | (3)          |
| <i>Annualization/elimination of data relating to entities acquired/sold during the year</i>                                                                                        |              |              |
| <b>Adjusted operating income (including share in net earnings of equity-accounted companies) (J)</b>                                                                               | <b>1,299</b> | <b>996</b>   |
| <b>ROA<sup>(1)</sup> (J/G)</b>                                                                                                                                                     | <b>21%</b>   | <b>20%</b>   |

(1) See Financial Glossary, page 449.

## 5.1.3 Segment reporting

### Original equipment sales

Vigorous growth in original equipment sales outpaced automotive production in all four Business Groups:

The sales performance for the Business Groups reflects the specific product, geographic and customer mix and the relative weighting of the aftermarket in their activity as a whole.

| Sales by Business Group*<br>(in millions of euros) | Second-half  |              |                 |                      | Full-year     |               |                 |                      |
|----------------------------------------------------|--------------|--------------|-----------------|----------------------|---------------|---------------|-----------------|----------------------|
|                                                    | 2016         | 2015         | Change in sales | Change in OE sales** | 2016          | 2015          | Change in sales | Change in OE sales** |
| Comfort & Driving Assistance Systems               | 1,703        | 1,384        | +23%            | +12%                 | 3,363         | 2,720         | +24%            | +14%                 |
| Powertrain Systems                                 | 2,016        | 1,836        | +10%            | +11%                 | 4,027         | 3,762         | +7%             | +10%                 |
| Thermal Systems                                    | 2,396        | 2,028        | +18%            | +11%                 | 4,645         | 4,074         | +14%            | +10%                 |
| Visibility Systems                                 | 2,354        | 2,091        | +13%            | +15%                 | 4,649         | 4,185         | +11%            | +15%                 |
| <b>TOTAL</b>                                       | <b>8,389</b> | <b>7,246</b> | <b>+16%</b>     | <b>+12%</b>          | <b>16,519</b> | <b>14,544</b> | <b>+14%</b>     | <b>+12%</b>          |

\* Including intersegment sales.

\*\* Like-for-like (constant Group structure and exchange rates).

Over the full year, growth in original equipment sales outpaced automotive production in all Business Groups:

- sales for the **Comfort & Driving Assistance Systems** and **Visibility Systems Business Groups** rose 14% and 15%, respectively (up 12% and 15%, respectively, in the second half), reflecting the market's keen interest in intuitive driving and LED lighting technologies;
- buoyed by their attractive portfolio of technologies focused on CO<sub>2</sub> emissions reduction, like-for-like original equipment sales for the **Powertrain Systems** and **Thermal Systems Business Groups** picked up pace in the second half, with each business delivering 11% growth (8% and 9%, respectively, in the first half). Over the full year, the two Business Groups reported like-for-like growth of 10% in original equipment sales.

### EBITDA<sup>(1)</sup>

In 2016, consolidated EBITDA came in 16% higher at 2,144 million euros, or 13.0% of sales.

| EBITDA<br>(in millions of euros and as a % of sales) | Second-half            |                      |                          | Full-year              |                        |                          |
|------------------------------------------------------|------------------------|----------------------|--------------------------|------------------------|------------------------|--------------------------|
|                                                      | 2016                   | 2015*                | Change                   | 2016                   | 2015*                  | Change                   |
| Comfort & Driving Assistance Systems                 | 257<br>15.1%           | 201<br>14.5%         | +28%<br>+0.6 pts         | 496<br>14.7%           | 394<br>14.5%           | +26%<br>+0.2 pts         |
| Powertrain Systems                                   | 278<br>13.8%           | 249<br>13.6%         | +12%<br>+0.2 pts         | 534<br>13.3%           | 482<br>12.8%           | +11%<br>+0.5 pts         |
| Thermal Systems                                      | 237<br>9.9%            | 208<br>10.3%         | +14%<br>-0.4 pts         | 463<br>10.0%           | 435<br>10.7%           | +6%<br>-0.7 pts          |
| Visibility Systems                                   | 327<br>13.9%           | 272<br>13.0%         | +20%<br>+0.9 pts         | 645<br>13.9%           | 519<br>12.4%           | +24%<br>+1.5 pts         |
| <b>GROUP</b>                                         | <b>1,097<br/>13.1%</b> | <b>930<br/>12.8%</b> | <b>+18%<br/>+0.3 pts</b> | <b>2,144<br/>13.0%</b> | <b>1,841<br/>12.7%</b> | <b>+16%<br/>+0.3 pts</b> |

\* The amount shown under this item for 2015 differs from that presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA<sup>(1)</sup>.

(1) See Financial Glossary, page 449.



Against a backdrop of strong sales growth, the **Comfort & Driving Assistance, Powertrain and Visibility Systems Business Groups** delivered a consistent performance, reporting growth in EBITDA<sup>(1)</sup> at 14.7%, 13.3% and 13.9% of their sales, respectively.

The **Thermal Systems Business Group** saw the EBITDA<sup>(1)</sup> margin contract 0.7 percentage points to 10% of sales following operational difficulties related to the launch of new products at a North American plant. These temporary problems should gradually be ironed out during 2017.

## 5.1.4 Cash flow and financial position

### Stockholders' equity

At December 31, 2016, consolidated stockholders' equity amounted to 4,353 million euros versus 3,692 million euros at December 31, 2015. The net 661 million euro increase primarily reflects consolidated net income for the period of 983 million euros, translation gains of 45 million euros resulting from the appreciation in the US dollar and Japanese yen against the euro in 2016 and a capital increase of 29 million euros reserved for employees as part of the 2016 Shares4U employee

share ownership plan. These positive factors were partially offset by the dividend paid to (i) Group shareholders in an amount of 236 million euros, and (ii) non-controlling interests in consolidated subsidiaries in an amount of 27 million euros, as well as by actuarial losses net of deferred taxes in an amount of 90 million euros arising on pension obligations recognized in the statement of comprehensive income and by the impact of purchasing Hitachi's 34% stake in Valeo Unisia Transmissions for 24 million euros.

### Provisions

| (in millions of euros)                              | December 31, 2016 | December 31, 2015 |
|-----------------------------------------------------|-------------------|-------------------|
| Provisions for pensions and other employee benefits | 1,072             | 1,001             |
| Provisions for product warranties                   | 242               | 183               |
| Provisions for restructuring costs                  | 84                | 82                |
| Provisions for tax-related disputes                 | 89                | 79                |
| Environmental provisions                            | 14                | 14                |
| Provisions for loss-making contracts                | 40                | 9                 |
| Provisions for employee-related and other disputes  | 182               | 78                |
| <b>PROVISIONS</b>                                   | <b>1,723</b>      | <b>1,446</b>      |
| Of which long-term portion (more than one year)     | 1,334             | 1,169             |

Due to the lower discount rates used to calculate obligations in the main countries where Valeo has pension obligations, actuarial differences led to a 92 million euro increase in provisions in 2016. Provisions for product warranties increased to 242 million euros at end-2016 from 183 million euros at end-2015, reflecting the consolidation of peiker and Spheros in an amount of 20 million euros as well as the sharp rise in sales during the year. The total amount of provisions for restructuring costs remained stable at 84 million euros at December 31, 2016 versus 82 million euros at December 31, 2015. Restructuring costs for 2016 primarily relate to the phased shutdown of operations at a plant in Spain announced in 2015, a layoff plan in Japan announced in second-half 2016, a curtailment of operations at a plant in France announced in the first half of 2016, and early retirement plans for employees at certain sites in Germany. Provisions for tax-related disputes were

up significantly, rising to 89 million euros at end-2016 from 79 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 remained stable over the year. The increase in provisions for loss-making contracts in 2016 primarily results from allocating the peiker purchase price to customer relations in connection with onerous contracts in an amount of 28 million euros.

Provisions for employee-related and other disputes, which totaled 182 million euros at December 31, 2016 (compared with 78 million euros at December 31, 2015), cover risks arising in connection with former employees (in particular relating to asbestos), intellectual property disputes and various other disputes related to Valeo's operating activities across the globe, as well as the main risks relating to antitrust investigations.

(1) See Financial Glossary, page 449.

## Cash flows and debt

| (in millions of euros)                                                                                | 2016         | 2015         |
|-------------------------------------------------------------------------------------------------------|--------------|--------------|
| Gross operating cash flows <sup>(1)</sup>                                                             | 2,091        | 1,802        |
| Income taxes paid                                                                                     | (257)        | (190)        |
| Changes in working capital <sup>(1)</sup>                                                             | 56           | 94           |
| <b>Net cash flows from operating activities</b>                                                       | <b>1,890</b> | <b>1,706</b> |
| Net payments for purchases of intangible assets and property, plant and equipment <sup>(1)</sup>      | (1,249)      | (1,086)      |
| Elimination of change in non-recurring sales of accounts and notes receivable <sup>(2)</sup>          | 20           | (55)         |
| <b>FREE CASH FLOW<sup>(3)</sup></b>                                                                   | <b>661</b>   | <b>565</b>   |
| Change in non-recurring sales of accounts and notes receivable <sup>(2)</sup>                         | (20)         | 55           |
| Net change in certain non-current financial asset items                                               | (38)         | (10)         |
| Acquisitions of investments with gain of control, net of cash acquired                                | (630)        | (8)          |
| Acquisitions of investments in associates and/or joint ventures                                       | (17)         | -            |
| Disposals of investments with loss of control, net of cash transferred                                | 22           | -            |
| Acquisitions of investments without gain of control                                                   | (24)         | (3)          |
| Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries | (263)        | (201)        |
| Capital increase in cash                                                                              | 29           | -            |
| Sale (purchase) of treasury stock                                                                     | 13           | 18           |
| Net interest paid/received                                                                            | (58)         | (70)         |
| Loan issue costs and premiums                                                                         | (64)         | -            |
| <b>NET CASH FLOW</b>                                                                                  | <b>(389)</b> | <b>346</b>   |

(1) Gross operating cash flows, changes in working capital and net payments for purchases of intangible assets and property, plant and equipment shown for 2015 differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

(2) 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 section 5.4.6 of this chapter, Note 4.2 "Accounts and notes receivable" to the 2016 consolidated financial statements, page 304).

(3) See Financial Glossary, page 449.

Gross operating cash flows jumped 16% from 1,802 million euros in 2015 to 2,091 million euros in 2016. Net cash flows from operating activities were also up 11% on the previous year, at 1,890 million euros in 2016 compared to 1,706 million euros in 2015.

Working capital continued to improve in 2016, albeit at a slower pace than in 2015 (improvement of 56 million euros in 2016 versus 94 million in 2015), while income taxes paid were up from 190 million euros in 2015 to 257 million euros

in 2016. Acquisitions of property, plant and equipment and intangible assets in 2016 represented a net cash outflow of 1,249 million euros, a 163 million euro increase on 2015 (1,086 million euros). Given the record order intake over the past few years, the Group is continuing its capital investment strategy.

Free cash flow came in at 661 million euros in 2016, up a sharp 17% from 565 million euros in 2015.

EBITDA can be reconciled to free cash flow as follows:

| (in millions of euros)                                             | 2016       | 2015                   | Change      |
|--------------------------------------------------------------------|------------|------------------------|-------------|
| EBITDA <sup>(1)</sup>                                              | 2,144      | 1,841 <sup>(2)</sup>   | +16%        |
| Change in operating working capital <sup>(3)</sup>                 | 76         | 39                     | +95%        |
| Income tax expense                                                 | (257)      | (190)                  | +35%        |
| Investments in property, plant and equipment and intangible assets | (1,249)    | (1,086) <sup>(4)</sup> | +15%        |
| Other (provisions for pensions, restructuring costs, etc.)         | (53)       | (39)                   | +36%        |
| <b>FREE CASH FLOW<sup>(1)</sup></b>                                | <b>661</b> | <b>565</b>             | <b>+17%</b> |

(1) See Financial Glossary, page 449.

(2) The amount shown under this item for 2015 differs from that presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA<sup>(1)</sup>.

(3) Change in working capital excluding the change in non-recurring sales of accounts and notes receivable (see section 5.4.6 of this chapter, Note 11.8 "Free cash flow and net cash flow" to the 2016 consolidated financial statements, page 359).

(4) The amount of investments in property, plant and equipment and intangible assets shown for 2015 differs from that shown in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

In 2016, cash outflows arising on acquisitions of investments with gain of control, net of cash acquired, represented 630 million euros, mainly corresponding to the acquisition of peiker and Spheros, which represented 301 million euros and 326 million euros, respectively. A net cash outflow of 17 million euros in respect of acquisitions of investments in associates and/or joint ventures chiefly corresponds to the stake acquired in CloudMade in an amount of 16 million euros. A net cash inflow of 22 million euros chiefly relates to the sale of the Engine Control business to Continental in early 2016. A net cash outflow of 24 million euros recorded in "Acquisitions of investments without gain of control" primarily relates to the purchase of non-controlling interests in the Japanese subsidiary Valeo Unisia Transmissions.

In 2016, cash flows relating to financing activities mainly included dividends paid to Valeo shareholders in an amount of 236 million euros and to non-controlling interests in an amount of 27 million euros, net interest paid in an amount of 58 million euros, a capital increase carried out under the Shares4U employee share ownership plan in an amount of 29 million euros, and net treasury share sales in an amount of 13 million euros.

Net cash flow in 2016 represented a net outflow of 389 million euros compared to a net inflow of 346 million euros in 2015.

Cash flows relating to financing activities in 2016 also included subscriptions of long-term loans and borrowings in an amount of 1,112 million euros (mainly relating to 600 million euros' worth of bonds issued on March 18, 2016 and 450 million US dollars' worth of non-dilutive convertible bond issued on June 16, 2016, to which a further 125 million US dollars was added in November 2016), as well as repayments of long-term debt in an amount of 469 million euros (including repayment of the 250 million-euro syndicated loan, the two subscriptions to private placements in an aggregate amount of 100 million euros and the two annual installments on the European Investment Bank (EIB) loans). In all, financing activities resulted in a net inflow of 276 million euros in 2016 compared with a net outflow of 242 million euros in 2015.

Net consolidated cash and cash equivalents rose 220 million euros, compared with an increase of 357 million euros in 2015.

Net debt<sup>(1)</sup> stood at 526 million euros at December 31, 2016, up from 124 million euros in 2015. The leverage ratio (net debt/EBITDA) came out at 0.25x, compared with 0.1x at end-2015, and the gearing ratio (net debt/stockholders' equity excluding non-controlling interests) stood at 13% compared to 4% at end-2015. Net debt at end-December 2016 includes 79 million euros of debt reflecting the value of the put options 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 Marco Polo, which owns a 40% interest in Spheros Climatizaçao Brazil SA alongside Valeo's 60%.

(1) See Financial Glossary, page 449.

## Investments over the past three years

| Investments<br>(in millions of euros)         | 2016         | 2015         | 2014       |
|-----------------------------------------------|--------------|--------------|------------|
| Property, plant and equipment <sup>(1)</sup>  | 878          | 714          | 616        |
| Intangible assets <sup>(1)</sup>              | 483          | 411          | 340        |
| Including capitalized development expenditure | 437          | 364          | 298        |
| <b>TOTAL</b>                                  | <b>1,361</b> | <b>1,125</b> | <b>956</b> |
| % of sales                                    | 8.2%         | 7.7%         | 7.5%       |

(1) Acquisitions (see section 5.4.6, Note 6.2 "Other intangible assets" and Note 6.3 "Property, plant and equipment" to the 2016 consolidated financial statements, pages 325 and 326).

| Investments<br>(as a % of sales by geographic area) | 2016 | 2015 | 2014 |
|-----------------------------------------------------|------|------|------|
| Western Europe                                      | 37%  | 40%  | 43%  |
| Central & Eastern Europe and Africa                 | 17%  | 16%  | 16%  |
| Asia                                                | 30%  | 28%  | 27%  |
| North America                                       | 15%  | 14%  | 12%  |
| South America                                       | 1%   | 2%   | 2%   |

The record order intakes achieved over the past few years have been driven by growth in our investments.

### 2016

Investments recorded in 2016 were up 21% on 2015, and were used to create new capacity and extend existing facilities at plants in China, France, Korea, Mexico, the United States, Hungary, Poland, Japan, Romania and the Czech Republic. Capital expenditure was mainly earmarked for Transmission Systems, Lighting Systems, Electrical Systems, Thermal Powertrain and Air Conditioning Systems.

In line with its growth strategy driven by innovative technologies and geographic expansion in high-growth regions, Valeo announced the following transactions:

- On April 18, 2016, Valeo and Siemens announced that they had signed an agreement to create the joint venture Valeo Siemens eAutomotive GmbH, joining forces to offer a comprehensive range of high-voltage (above 60 V) components and systems for all types of electric vehicles (hybrids, plug-in hybrids and full electric vehicles). The joint venture began operating on December 1, 2016.
- On June 2, 2016, Valeo announced that it had signed an agreement with Bain Capital Private Equity, owner of FTE automotive, to acquire the entire share capital of the company. The transaction was subject to the approval of

the European and Brazilian antitrust authorities. Clearance from the Brazilian antitrust authorities was obtained on November 3, 2016. On November 30, 2016 following discussions with the European Commission and in agreement with Bain Capital, Valeo decided to withdraw its merger notification and intends to promptly renotify the Commission with a view to obtaining clearance to acquire FTE and finalize the transaction in 2017.

- On November 22, 2016, Valeo announced the launch of a takeover bid for the shares of Ichikoh at a price of 408 Japanese yen per share. The takeover bid ran from November 24, 2016 to January 12, 2017. As of settlement-delivery on January 20, 2017, Valeo held 55.08% of Ichikoh's capital, equating to the cap set out in its bid, and therefore took control of Japan's leading automotive lighting company, which continues to be listed on the Tokyo Stock Exchange. Ichikoh has been consolidated by Valeo with effect from February 1, 2017.

These transactions are described in further detail in section 5.4.6 of this chapter, Note 2.2.1 "Transactions carried out in 2016", pages 295 to 299. Financing for these investments is described in Chapter 2, section 2.1.4 "Liquidity risk", pages 82 to 83.

## 2015

Investments in 2015 were 18% higher than in 2014, and were used in particular to create new capacity and extend existing facilities at plants in China, Mexico and Poland. Capital expenditure was mainly earmarked for Driving Assistance, Transmission Systems, Thermal Powertrain and Lighting Systems.

Valeo also announced the following transactions during the year (see section 5.4.6, Notes 2.2.1.3 and 2.2.1.4 to the 2015 consolidated financial statements, page 275):

- On December 21, 2015, the acquisition of the German company peiker, a major supplier of onboard 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. Following clearance by the antitrust authorities, on March 8, 2016 Valeo acquired control of peiker, which has been fully consolidated in the Group's financial statements since March 1, 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. Following clearance by the antitrust authorities, on March 31, 2016 Valeo acquired control of Spheros, which has been fully consolidated in the Group's financial statements since April 1, 2016.

These two acquisitions had no impact on the 2015 consolidated financial statements.

## 2014

Investments in 2014 were 7% higher than in 2013, and were used in particular to create new capacity and extend existing facilities at plants in China, South Korea and Poland. Capital expenditure was mainly earmarked for Lighting Systems, Transmission Systems, Driving Assistance, Powertrain Thermal Systems and Electrical Systems.

In addition, on January 21, 2014, Valeo confirmed the closing of the acquisition of Osram's 50% stake in Valeo Sylvania, in accordance with the agreement signed on June 13, 2013. In early January 2014, Osram GmbH had exercised its put option to sell Valeo its entire stake in this North American joint venture for a price of 104 million US dollars (equivalent to three times estimated 2014 EBITDA). Valeo now holds all of Osram's capital. The acquisition of the shares in Valeo Sylvania not already owned by the Group represents a major strategic step in bolstering Valeo's global leadership in automotive lighting systems (see section 5.4.6, Note 2.2.1.1 to the 2014 consolidated financial statements, page 254).

In a further move consistent with the Group's strategy, 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).

## Commitments

The table below shows the main commitments given:

| <i>(in millions of euros)</i>             | December 31, 2016 | December 31, 2015 | December 31, 2014 |
|-------------------------------------------|-------------------|-------------------|-------------------|
| Lease commitments                         | 328               | 190               | 174               |
| Guarantees given                          | 13                | 13                | 14                |
| Non-cancelable asset purchase commitments | 401               | 253               | 272               |
| Other commitments given                   | 28                | 24                | 64                |
| <b>TOTAL</b>                              | <b>770</b>        | <b>480</b>        | <b>524</b>        |

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 28 million euros at December 31, 2016 (24 million euros at December 31, 2015) and mainly include commitments given on the creation of the joint venture with Siemens and on the sale of the Engine Control business. The commitments given on the sale of the Access Mechanisms business expired in 2016.

Commitments received totaled 327 million euros at December 31, 2016, compared with 28 million euros at December 31, 2015. This sharp increase is mainly attributable to vendor warranties received by Valeo in connection with the acquisitions of Spheros, peiker and CloudMade during the year. In addition, at the time the joint venture with Siemens was created, Valeo and Siemens gave each other mutual commitments.



## 5.2 Subsequent events

On January 11, 2017 the Group issued 500 million euros' worth of six-year bonds maturing on January 11, 2023. The issue pays a coupon of 0.625% and was placed on favorable terms.

On January 13, 2017, Valeo announced the successful completion of its Ichikoh takeover bid at a price of 408 Japanese yen. The takeover bid ran from November 24, 2016 to January 12, 2017. Valeo now holds 55.08% of Ichikoh's capital and therefore took control of Japan's leading automotive lighting company, which remains listed on the Tokyo Stock Exchange. Ichikoh is fully consolidated by Valeo with effect from February 1, 2017.

On February 2, 2017, Valeo signed an agreement with its long-standing South Korean partner, Pyeong Hwa Group, to create a 50/50 joint venture in transmission manufacturing. The new company will be called Valeo-Kapec. The transaction is subject in particular to clearance from certain antitrust authorities. From its headquarters in South Korea, Valeo-Kapec will leverage a global manufacturing footprint to become the world leader in torque converters for automatic and continuously variable transmissions. The partners will contribute their respective torque converter businesses, located for Valeo at Nanjing (China), Atsugi (Japan), San Luis Potosi (Mexico) and Troy (United States), and for Kapec in Daegu, Waegwan and Seongju (South Korea). The new company will employ some 3,000 people and will be controlled and therefore fully consolidated by Valeo. It is forecast to generate sales of around 1 billion euros in 2017 on an annualized basis and will be accretive to Valeo's operating margin from year one.

On February 15, 2017, Valeo acquired 33% of the share capital of telematics and connectivity specialist Kuantic, whose machine-to-machine technology will be used to capture the vehicle data needed to develop personalized services.

On March 6, 2017, Valeo entered into an agreement with an Investment Services Provider to buy back Valeo shares. The shares will be allocated to cover the implementation of stock option purchase plans and the allotment of shares to employees as part of their involvement in the performance of the Company or pursuant to a company savings plan.

On March 8, 2017, the European Commission published its decision to fine Behr, Calsonic, Denso, Panasonic, Sanden and Valeo a total of 155 million euros for breach of European antitrust rules between 2004 and 2009 concerning supplies of air conditioning and engine cooling components to automakers. The fine accepted by Valeo amounts to 26.8 million euros. At the end of July 2011, antitrust investigations were initiated against several automotive suppliers (including Valeo), in particular by the United States and European antitrust authorities (see section 5.4.6 of this chapter, Note 7.2 "Antitrust investigations", page 333).

On March 13, 2017, Valeo acquired all of the outstanding shares of gestigon, a German start-up specialized in developing 3D image processing software for the vehicle cabin.

## 5.3 Trends and outlook

Based on the following assumptions:

- an increase in global automotive production of between 1.5% and 2%;
- raw material prices and exchange rates in line with current levels.

Valeo has set the following objectives for 2017:

- sales growth outperforming the market by more than 5 percentage points;
- a slight increase in operating margin<sup>(1)</sup> (as a % of sales and before acquisitions).

The objectives of the medium-term strategic plan are set out in Chapter 1, section 1.1.3 "An ambitious new strategic plan, presented on February 28, 2017", page 19.

<sup>(1)</sup> Including share in net earnings of equity-accounted companies, see Financial Glossary, page 449.

## 5.4 2016 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, 2015, set out on pages 264 to 336 and 337 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 25, 2016 under number D.16-0211;
- 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 AMF on March 27, 2015 under number D.15-0220.

### 5.4.1 Consolidated statement of income

| (in millions of euros)                                                                | Notes   | 2016          | 2015          |
|---------------------------------------------------------------------------------------|---------|---------------|---------------|
| <b>SALES</b>                                                                          | 4.1     | <b>16,519</b> | <b>14,544</b> |
| Cost of sales                                                                         | 4.3     | (13,499)      | (11,971)      |
| <b>GROSS MARGIN</b>                                                                   | 4.3     | <b>3,020</b>  | <b>2,573</b>  |
| as a % of sales                                                                       |         | 18.3%         | 17.7%         |
| Research and Development expenditure, net                                             | 4.5.1   | (956)         | (797)         |
| Selling expenses                                                                      |         | (258)         | (230)         |
| Administrative expenses                                                               |         | (533)         | (486)         |
| <b>OPERATING MARGIN</b>                                                               |         | <b>1,273</b>  | <b>1,060</b>  |
| as a % of sales                                                                       |         | 7.7%          | 7.3%          |
| Share in net earnings of equity-accounted companies                                   | 4.5.3.1 | 61            | 56            |
| <b>OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES</b> | 4.5     | <b>1,334</b>  | <b>1,116</b>  |
| as a % of sales                                                                       |         | 8.1%          | 7.7%          |
| Other income and expenses                                                             | 4.6.2   | (33)          | (117)         |
| <b>OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES</b> | 4.6.1   | <b>1,301</b>  | <b>999</b>    |
| Interest expense                                                                      | 8.2.1   | (90)          | (92)          |
| Interest income                                                                       | 8.2.1   | 7             | 8             |
| Other financial income and expenses                                                   | 8.2.2   | (46)          | (35)          |
| <b>INCOME BEFORE INCOME TAXES</b>                                                     |         | <b>1,172</b>  | <b>880</b>    |
| Income taxes                                                                          | 9.1     | (189)         | (106)         |
| <b>NET INCOME FOR THE YEAR</b>                                                        |         | <b>983</b>    | <b>774</b>    |
| Attributable to:                                                                      |         |               |               |
| ■ Owners of the Company                                                               |         | 925           | 729           |
| ■ Non-controlling interests                                                           | 10.1.7  | 58            | 45            |
| Earnings per share <sup>(1)</sup> :                                                   |         |               |               |
| ■ Basic earnings per share (in euros)                                                 | 10.2    | 3.91          | 3.11          |
| ■ Diluted earnings per share (in euros)                                               | 10.2    | 3.86          | 3.05          |

(1) Earnings per share shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1, page 355).

### Operating performance indicator

| (in millions of euros) | Notes | 2016         | 2015 <sup>(1)</sup> |
|------------------------|-------|--------------|---------------------|
| <b>EBITDA</b>          | 3.2   | <b>2,144</b> | <b>1,841</b>        |
| as a % of sales        |       | 13.0%        | 12.7%               |

(1) EBITDA shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA (see Note 3.1, page 301).

The Notes are an integral part of the consolidated financial statements.

## 5.4.2 Consolidated statement of comprehensive income

| <i>(in millions of euros)</i>                                                                   | 2016        | 2015       |
|-------------------------------------------------------------------------------------------------|-------------|------------|
| <b>NET INCOME FOR THE YEAR</b>                                                                  | <b>983</b>  | <b>774</b> |
| Share of changes in comprehensive income from equity-accounted companies recycled to income     | (8)         | 10         |
| <i>o/w income taxes</i>                                                                         | -           | -          |
| Translation adjustment                                                                          | 45          | 97         |
| Cash flow hedges:                                                                               |             |            |
| ■ Gains (losses) taken to equity                                                                | (14)        | 16         |
| ■ (Gains) losses transferred to income for the year                                             | 4           | (22)       |
| <i>o/w income taxes</i>                                                                         | 3           | 3          |
| <b>OTHER COMPREHENSIVE INCOME RECYCLED TO INCOME</b>                                            | <b>27</b>   | <b>101</b> |
| Share of changes in comprehensive income from equity-accounted companies not recycled to income | (1)         | 2          |
| <i>o/w income taxes</i>                                                                         | -           | -          |
| Actuarial gains (losses) on defined benefit plans                                               | (90)        | 66         |
| <i>o/w income taxes</i>                                                                         | 2           | (27)       |
| <b>OTHER COMPREHENSIVE INCOME (LOSS) NOT RECYCLED TO INCOME</b>                                 | <b>(91)</b> | <b>68</b>  |
| <b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX</b>                               | <b>(64)</b> | <b>169</b> |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                                                  | <b>919</b>  | <b>943</b> |
| Attributable to:                                                                                |             |            |
| ■ Owners of the Company                                                                         | 860         | 892        |
| ■ Non-controlling interests                                                                     | 59          | 51         |

The Notes are an integral part of the consolidated financial statements.

### 5.4.3 Consolidated statement of financial position

| <i>(in millions of euros)</i>                                                                               | <i>Notes</i> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|-------------------------------------------------------------------------------------------------------------|--------------|--------------------------|--------------------------|
| <b>ASSETS</b>                                                                                               |              |                          |                          |
| Goodwill                                                                                                    | 6.1          | 1,922                    | 1,450                    |
| Other intangible assets                                                                                     | 6.2          | 1,382                    | 1,148                    |
| Property, plant and equipment                                                                               | 6.3          | 3,065                    | 2,744                    |
| Investments in equity-accounted companies                                                                   | 4.5.3.2      | 461                      | 192                      |
| Other non-current financial assets                                                                          | 8.1.1        | 223                      | 55                       |
| Assets relating to pensions and other employee benefits                                                     | 5.3          | -                        | 1                        |
| Deferred tax assets                                                                                         | 9.2          | 626                      | 526                      |
| <b>NON-CURRENT ASSETS</b>                                                                                   |              | <b>7,679</b>             | <b>6,116</b>             |
| Inventories, net                                                                                            | 4.4          | 1,393                    | 1,161                    |
| Accounts and notes receivable, net                                                                          | 4.2          | 2,462                    | 1,964                    |
| Other current assets                                                                                        | 4.5.2        | 427                      | 371                      |
| Taxes recoverable                                                                                           |              | 38                       | 16                       |
| Other current financial assets                                                                              | 8.1.1        | 20                       | 25                       |
| Cash and cash equivalents                                                                                   | 8.1.3.2      | 2,359                    | 1,725                    |
| Assets held for sale                                                                                        | 2.2.1.4      | -                        | 62                       |
| <b>CURRENT ASSETS</b>                                                                                       |              | <b>6,699</b>             | <b>5,324</b>             |
| <b>TOTAL ASSETS</b>                                                                                         |              | <b>14,378</b>            | <b>11,440</b>            |
| <b>EQUITY AND LIABILITIES</b>                                                                               |              |                          |                          |
| Share capital                                                                                               | 10.1.1       | 239                      | 238                      |
| Additional paid-in capital                                                                                  | 10.1.2       | 1,462                    | 1,434                    |
| Translation adjustment                                                                                      | 10.1.3       | 282                      | 245                      |
| Retained earnings                                                                                           | 10.1.4       | 2,134                    | 1,556                    |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                 |              | <b>4,117</b>             | <b>3,473</b>             |
| Non-controlling interests                                                                                   | 10.1.7       | 236                      | 219                      |
| <b>STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS</b>                                             |              | <b>4,353</b>             | <b>3,692</b>             |
| Provisions for pensions and other employee benefits – long-term portion                                     | 5.3          | 983                      | 914                      |
| Other provisions – long-term portion                                                                        | 7.1          | 351                      | 255                      |
| Long-term portion of long-term debt                                                                         | 8.1.2.1      | 2,070                    | 1,145                    |
| Other financial liabilities – long-term portion                                                             | 8.1.1        | 116                      | 1                        |
| Liabilities associated with put options granted to holders of non-controlling interests – long-term portion | 8.1.2.2      | 23                       | -                        |
| Subsidies and grants – long-term portion                                                                    |              | 41                       | 35                       |
| Deferred tax liabilities                                                                                    | 9.2          | 66                       | 39                       |
| <b>NON-CURRENT LIABILITIES</b>                                                                              |              | <b>3,650</b>             | <b>2,389</b>             |
| Accounts and notes payable                                                                                  |              | 3,884                    | 3,224                    |
| Provisions for pensions and other employee benefits – current portion                                       | 5.3          | 89                       | 87                       |
| Other provisions – current portion                                                                          | 7.1          | 300                      | 190                      |
| Subsidies and grants – current portion                                                                      |              | 18                       | 12                       |
| Taxes payable                                                                                               |              | 107                      | 69                       |
| Other current liabilities                                                                                   |              | 1,128                    | 1,012                    |
| Current portion of long-term debt                                                                           | 8.1.2.1      | 225                      | 472                      |
| Other financial liabilities – current portion                                                               | 8.1.1        | 26                       | 90                       |
| Liabilities associated with put options granted to holders of non-controlling interests – current portion   | 8.1.2.2      | 56                       | 39                       |
| Short-term debt                                                                                             | 8.1.2.3      | 542                      | 128                      |
| Liabilities held for sale                                                                                   | 2.2.1.4      | -                        | 36                       |
| <b>CURRENT LIABILITIES</b>                                                                                  |              | <b>6,375</b>             | <b>5,359</b>             |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                                                         |              | <b>14,378</b>            | <b>11,440</b>            |

The Notes are an integral part of the consolidated financial statements.

### 5.4.4 Consolidated statement of cash flows

| (in millions of euros)                                                   | Notes | 2016           | 2015           |
|--------------------------------------------------------------------------|-------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                              |       |                |                |
| Net income for the year                                                  |       | 983            | 774            |
| Share in net earnings of equity-accounted companies                      |       | (61)           | (56)           |
| Net dividends received from equity-accounted companies                   |       | 43             | 44             |
| Expenses (income) with no cash effect <sup>(1)</sup>                     | 11.1  | 854            | 850            |
| Cost of net debt                                                         |       | 83             | 84             |
| Income taxes (current and deferred)                                      |       | 189            | 106            |
| <b>GROSS OPERATING CASH FLOWS</b>                                        |       | <b>2,091</b>   | <b>1,802</b>   |
| Income taxes paid                                                        |       | (257)          | (190)          |
| Changes in working capital <sup>(1)</sup>                                | 11.2  | 56             | 94             |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>                          |       | <b>1,890</b>   | <b>1,706</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                              |       |                |                |
| Acquisitions of intangible assets                                        |       | (483)          | (412)          |
| Acquisitions of property, plant and equipment <sup>(1)</sup>             |       | (817)          | (684)          |
| Disposals of property, plant and equipment and intangible assets         |       | 51             | 10             |
| Net change in non-current financial assets                               |       | (38)           | (10)           |
| Acquisitions of investments with gain of control, net of cash acquired   | 11.3  | (630)          | (8)            |
| Acquisitions of investments in associates and/or joint ventures          | 11.4  | (17)           | -              |
| Disposals of investments with loss of control, net of cash transferred   | 11.5  | 22             | -              |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>                       |       | <b>(1,912)</b> | <b>(1,104)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                              |       |                |                |
| Dividends paid to owners of the Company                                  |       | (236)          | (172)          |
| Dividends paid to non-controlling interests in consolidated subsidiaries |       | (27)           | (29)           |
| Capital increase                                                         |       | 29             | -              |
| Sale (purchase) of treasury stock                                        |       | 13             | 18             |
| Issuance of long-term debt                                               | 11.6  | 1,112          | 104            |
| Loan issue costs and premiums                                            | 11.6  | (64)           | -              |
| Interest paid                                                            |       | (63)           | (76)           |
| Interest received                                                        |       | 5              | 6              |
| Repayments of long-term debt                                             | 11.6  | (469)          | (90)           |
| Acquisitions of investments without gain of control                      | 11.7  | (24)           | (3)            |
| <b>NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>                |       | <b>276</b>     | <b>(242)</b>   |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>      |       | <b>(34)</b>    | <b>(3)</b>     |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                           |       | <b>220</b>     | <b>357</b>     |
| <b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                |       | <b>1,597</b>   | <b>1,240</b>   |
| <b>NET CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                      |       | <b>1,817</b>   | <b>1,597</b>   |
| Of which:                                                                |       |                |                |
| ■ Cash and cash equivalents                                              |       | 2,359          | 1,725          |
| ■ Short-term debt                                                        |       | (542)          | (128)          |

(1) The consolidated statement of cash flows shown for 2015 differs from that presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities (see Note 11, pages 357 to 359).

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 |                           |       |
|---------------------------------|-----------------------------------------------|---------------|----------------------------|-----------------------------------|-------------------|-------------------------------------------------------------------------|---------------------------|-------|
| Number of shares <sup>(1)</sup> | (in millions of euros)                        | Share capital | Additional paid-in capital | Cumulative translation adjustment | Retained earnings | Stockholders' equity                                                    | Non-controlling interests | Total |
| STOCKHOLDERS' EQUITY            |                                               |               |                            |                                   |                   |                                                                         |                           |       |
| 233,301,654                     | AT JANUARY 1, 2015                            | 238           | 1,434                      | 145                               | 929               | 2,746                                                                   | 209                       | 2,955 |
| 2,060,901                       | 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            |                                               |               |                            |                                   |                   |                                                                         |                           |       |
| 235,362,555                     | AT DECEMBER 31, 2015                          | 238           | 1,434                      | 245                               | 1,556             | 3,473                                                                   | 219                       | 3,692 |
| 1,784,200                       | Dividends paid                                | -             | -                          | -                                 | (236)             | (236)                                                                   | (27)                      | (263) |
|                                 | Treasury stock                                | -             | -                          | -                                 | 13                | 13                                                                      | -                         | 13    |
| 755,511                         | Capital increase <sup>(2)</sup>               | 1             | 28                         | -                                 | -                 | 29                                                                      | -                         | 29    |
|                                 | Share-based payment                           | -             | -                          | -                                 | 21                | 21                                                                      | -                         | 21    |
|                                 | Put options granted <sup>(3)</sup>            | -             | -                          | -                                 | (18)              | (18)                                                                    | (3)                       | (21)  |
|                                 | Other movements                               | -             | -                          | -                                 | (25)              | (25)                                                                    | (12)                      | (37)  |
| TRANSACTIONS WITH OWNERS        |                                               | 1             | 28                         | -                                 | (245)             | (216)                                                                   | (42)                      | (258) |
|                                 | Net income for the year                       | -             | -                          | -                                 | 925               | 925                                                                     | 58                        | 983   |
|                                 | Other comprehensive income (loss), net of tax | -             | -                          | 37                                | (102)             | (65)                                                                    | 1                         | (64)  |
|                                 | TOTAL COMPREHENSIVE INCOME                    | -             | -                          | 37                                | 823               | 860                                                                     | 59                        | 919   |
| STOCKHOLDERS' EQUITY            |                                               |               |                            |                                   |                   |                                                                         |                           |       |
| 237,902,266                     | AT DECEMBER 31, 2016                          | 239           | 1,462                      | 282                               | 2,134             | 4,117                                                                   | 236                       | 4,353 |

(1) The number of shares outstanding at January 1, 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1, page 355).

(2) The terms and conditions of the November 15, 2016 capital increase reserved for employees are detailed in Note 10.1, page 355.

(3) This item includes changes in the fair value of liabilities relating to put options granted to holders of non-controlling interests (see Note 8.1.2.2, pages 339 to 340).

The Notes are an integral part of the consolidated financial statements.



## 5.4.6 Notes to the consolidated financial statements

|               |                                                                                |            |                |                                                                        |            |
|---------------|--------------------------------------------------------------------------------|------------|----------------|------------------------------------------------------------------------|------------|
| <b>Note 1</b> | <b>Accounting policies</b>                                                     | <b>290</b> | <b>Note 7</b>  | <b>Other provisions and contingent liabilities</b>                     | <b>332</b> |
| 1.1           | Accounting standards applied                                                   | 290        | 7.1            | Other provisions                                                       | 332        |
| 1.2           | Basis of preparation                                                           | 292        | 7.2            | Antitrust investigations                                               | 333        |
| <b>Note 2</b> | <b>Scope of consolidation</b>                                                  | <b>293</b> | 7.3            | Contingent liabilities                                                 | 334        |
| 2.1           | Accounting policies relating to the scope of consolidation                     | 293        | <b>Note 8</b>  | <b>Financing and financial instruments</b>                             | <b>334</b> |
| 2.2           | Changes in the scope of consolidation                                          | 295        | 8.1            | Financial assets and liabilities                                       | 334        |
| 2.3           | Off-balance sheet commitments relating to the scope of consolidation           | 299        | 8.2            | Financial income and expenses                                          | 350        |
| <b>Note 3</b> | <b>Segment reporting</b>                                                       | <b>300</b> | 8.3            | Risk management policy                                                 | 351        |
| 3.1           | Key segment performance indicators                                             | 300        | 8.4            | Off-balance sheet commitments relating to Group financing              | 352        |
| 3.2           | Reconciliation with Group data                                                 | 302        | <b>Note 9</b>  | <b>Income tax expense</b>                                              | <b>352</b> |
| 3.3           | Reporting by geographic area                                                   | 302        | 9.1            | Income tax expense                                                     | 352        |
| 3.4           | Breakdown of sales by major customer                                           | 303        | 9.2            | Deferred taxes                                                         | 354        |
| <b>Note 4</b> | <b>Operating data</b>                                                          | <b>303</b> | <b>Note 10</b> | <b>Stockholders' equity and earnings per share</b>                     | <b>355</b> |
| 4.1           | Sales                                                                          | 303        | 10.1           | Stockholders' equity                                                   | 355        |
| 4.2           | Accounts and notes receivable                                                  | 304        | 10.2           | Earnings per share                                                     | 357        |
| 4.3           | Gross margin and cost of sales                                                 | 305        | <b>Note 11</b> | <b>Breakdown of cash flows</b>                                         | <b>357</b> |
| 4.4           | Inventories                                                                    | 305        | 11.1           | Expenses (income) with no cash effect                                  | 357        |
| 4.5           | Operating margin including share in net earnings of equity-accounted companies | 306        | 11.2           | Changes in working capital                                             | 358        |
| 4.6           | Operating income and other income and expenses                                 | 311        | 11.3           | Acquisitions of investments with gain of control, net of cash acquired | 358        |
| <b>Note 5</b> | <b>Personnel expenses and employee benefits</b>                                | <b>313</b> | 11.4           | Acquisitions of investments in associates and/or joint ventures        | 358        |
| 5.1           | Headcount                                                                      | 313        | 11.5           | Disposals of investments with loss of control, net of cash acquired    | 358        |
| 5.2           | Employee benefits                                                              | 313        | 11.6           | Issuance and repayment of long-term debt                               | 358        |
| 5.3           | Provisions for pensions and other employee benefits                            | 314        | 11.7           | Acquisitions of investments without gain of control                    | 359        |
| 5.4           | Share-based payment                                                            | 320        | 11.8           | Free cash flow and net cash flow                                       | 359        |
| 5.5           | Executive compensation (Related party transactions)                            | 323        | <b>Note 12</b> | <b>Fees paid to the Statutory Auditors</b>                             | <b>360</b> |
| <b>Note 6</b> | <b>Intangible assets and property, plant and equipment</b>                     | <b>324</b> | <b>Note 13</b> | <b>Subsequent events</b>                                               | <b>360</b> |
| 6.1           | Goodwill                                                                       | 324        | <b>Note 14</b> | <b>List of consolidated companies</b>                                  | <b>361</b> |
| 6.2           | Other intangible assets                                                        | 325        |                |                                                                        |            |
| 6.3           | Property, plant and equipment                                                  | 326        |                |                                                                        |            |
| 6.4           | Impairment losses on non-current assets                                        | 328        |                |                                                                        |            |
| 6.5           | Off-balance sheet commitments relating to operating activities                 | 331        |                |                                                                        |            |

## Note 1 Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2016 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 CO<sub>2</sub> 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, 2016 were authorized for issue by the Board of Directors on February 15, 2017.

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<sup>(1)</sup>.

The financial statements include the information deemed material as required by the ANC in Standard no. 2016-09.

#### 1.1.1 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2016

The following standards, amendments and interpretations have been published by the IASB and adopted by the European Union:

##### Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2016

|                                              |                                                                      |
|----------------------------------------------|----------------------------------------------------------------------|
| Amendments to IAS 19                         | Defined Benefit Plans: Employee Contributions                        |
| Annual Improvements to IFRSs 2010-2012 cycle | Various provisions                                                   |
| 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 Amortization |
| Amendments to IAS 1                          | Disclosure initiative                                                |
| Annual Improvements to IFRSs 2012-2014 cycle | Various provisions                                                   |

These new publications did not have a material impact on the Group's consolidated financial statements.

<sup>(1)</sup> [http://ec.europa.eu/internal\\_market/accounting/ias/index\\_en.htm](http://ec.europa.eu/internal_market/accounting/ias/index_en.htm)

### 1.1.2 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning after January 1, 2016 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:

| Standards, amendments and interpretations                        | Effective date  | Impacts for the Group                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------------------------------------|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>IFRS 15<br/>Revenue from<br/>Contracts with<br/>Customers</b> | January 1, 2018 | <p>IFRS 15 will replace IAS 11, IAS 18 and the related IFRIC and SIC interpretations on revenue recognition. It introduces a new model for accounting for revenue from contracts with customers. Clarifications to the standard were published by the IASB on April 12, 2016 following publication of the "Clarifications to IFRS 15" exposure draft in July 2015, and are subject to approval by the European Union in the near future.</p> <p>The European Union adopted IFRS 15 on September 22, 2016.</p> <p>Together with the Business Groups and Valeo Service, Valeo selected the principal transactions and contracts representing the Group's current and future activity. These were analyzed in light of the five-step model required by IFRS 15 in order to identify areas where it needs to exercise judgment and any potential changes resulting from application of the standard. The findings of this initial analysis are presented below and may change in light of the more detailed analysis currently in progress.</p> <p>For a given automotive project, the three main promises made by Valeo to an automaker typically identified within the scope of the initial analysis are:</p> <ul style="list-style-type: none"> <li>■ product development, which includes determining the intrinsic technical features of parts and those related to the relevant production process;</li> <li>■ supply of tooling such as molds and other equipment used to manufacture parts;</li> <li>■ supply of parts.</li> </ul> <p>The Group is continuing its analysis in order to determine whether each of these promises is distinct and whether they must be considered as performance obligations.</p> <p>Valeo also considers that the contractual promise made to the automaker in the form of warranties for the parts supplied does not meet the definition of a separate performance obligation as it does not give rise to an "additional service". Warranty costs will therefore continue to be accounted for in accordance with IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets".</p> <p>An analysis of the relationship with the end customer under certain specific contracts has led Valeo to consider that it acts as agent in such dealings and not as principal.</p> <p>The Group identified an impact on the presentation of its consolidated net income as a result of applying IFRS 15 but this has not yet been quantified. This concerns contributions received from customers in respect of development costs and prototypes, which are currently shown as a deduction from Research and Development costs, net. These costs are now to be included on the "Sales" line as they result from a contract with a customer with a view to obtaining goods or services that are an output of the Group's ordinary activities in exchange for consideration.</p> <p>The choice of transition method has not yet been decided.</p> <p>During the first half of 2017, Valeo will finalize its analyses and will estimate the impacts of applying the new standard (temporarily deferred recognition of revenue, treatment of pre-production activities, presentation, disclosure requirements in the financial statements, etc.).</p> |
| <b>IFRS 9<br/>Financial<br/>Instruments</b>                      | January 1, 2018 | <p>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:</p> <ul style="list-style-type: none"> <li>■ the approach for classifying and measuring financial assets is now based on an analysis of both the business model for each asset portfolio and the contractual terms of the financial asset in question;</li> <li>■ the impairment model no longer uses the current approach based on identified losses but an approach based on expected losses;</li> <li>■ the accounting for hedges has been significantly improved and more closely aligned with an entity's risk management strategy.</li> </ul> <p>Owing to the nature of its operations, the Group does not expect the classification and measurement of its financial assets to change significantly.</p> <p>A detailed analysis of the impairment model for financial assets, and particularly accounts and notes receivable, is to be carried out in 2017. The expected credit loss impairment model prescribed by IFRS 9 will result in recognizing impairment losses against accounts and notes receivable not yet due.</p> <p>The Group considers that its existing hedging relationships meeting the definition of effective hedges will continue to meet IFRS 9 hedge accounting criteria.</p> <p>These preliminary conclusions are based on the analyses carried out to date and may change during 2017.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

### 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:

| Standards, amendments and interpretations | Effective date <sup>(1)</sup> | Impacts for the Group                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------------|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>IFRS 16 Leases</b>                     | January 1, 2019               | <p>On January 13, 2016, the IASB published IFRS 16 – “Leases”. IFRS 16 will replace IAS 17 and the related IFRIC and SIC interpretations, and will eliminate the different accounting treatment previously applicable to 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 a right-of-use asset representing the right to use the underlying leased asset and a lease liability representing the obligation to make lease payments.</p> <p>In 2016, Valeo began to identify leases of its subsidiaries along with their main provisions, the aim being to analyze the qualitative and quantitative impacts of this future new standard on the Group's consolidated financial statements in 2017.</p> <p>Based on this analysis, the Group will be able to decide on its transition method and assess whether it is able to early adopt IFRS 16 at January 1, 2018 at the same time as IFRS 15.</p> |

<sup>(1)</sup> Subject to adoption by the European Union.

The IASB has also published the following guidance, which is not expected to have a material impact on the Group's consolidated financial statements:

| Standards, amendments and interpretations           | Effective date <sup>(1)</sup>                                                                                                                                            |
|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Amendments to IFRS 10 and IAS 28</b>             | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<br>First-time application date postponed by the IASB; new date yet to be specified |
| <b>Amendments to IAS 12</b>                         | Recognition of Deferred Tax Assets for Unrealized Losses<br>January 1, 2017                                                                                              |
| <b>Amendments to IAS 7</b>                          | Disclosure initiative<br>January 1, 2017                                                                                                                                 |
| <b>Amendments to IFRS 2</b>                         | Classification and Measurement of Share-based Payment Transactions<br>January 1, 2018                                                                                    |
| <b>Annual Improvements to IFRSs 2014-2016 cycle</b> | Various provisions<br>January 1, 2017/January 1, 2018                                                                                                                    |
| <b>IFRIC 22</b>                                     | Foreign Currency Transactions and Advance Consideration<br>January 1, 2018                                                                                               |

<sup>(1)</sup> Subject to adoption by the European Union.

## 1.2 Basis of preparation

The financial statements are presented in euros and are rounded to the nearest 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 environment and 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, judgments and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2016 chiefly concern:

- the measurement of intangible assets recognized in the allocation of the purchase price to the assets and liabilities of peiker and Spheros (see Notes 2.2.1.1 and 2.2.1.2, respectively, pages 295 to 297);
- the measurement of the disposal gains arising on the creation of the Valeo Siemens eAutomotive joint venture, and of the related put and call options recognized at the same time (see Note 2.2.1.3, pages 297 to 298);
- the conditions for capitalizing Research and Development expenditure (see Note 4.5.1.1, page 306);
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6, pages 324 to 332);
- estimates of provisions, particularly for pensions and other employee benefits and for risks linked to product warranties (see Notes 5.3 and 7.1, respectively, pages 314 and 332);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9.2, page 354).

## 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 cost. In accordance with IFRS 10.25, in the specific case of loss of control of a subsidiary leading to recognition of an interest in a joint venture or associate, the initial cost of this investment is equal to its fair value at the date control is lost. The investment is subsequently adjusted after the

acquisition date to reflect the Group's share of the retained comprehensive income of the investee. These items 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 (on 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 these partial or full repayments of loans or borrowings equate to a partial or full disposal of the subsidiary.

### 2.1.3 Business combinations

Business combinations are accounted for using the acquisition method, whereby:

- the cost of a combination is determined at 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.

Intangible assets may be recognized in respect of customer relationships that correspond in substance to contracts in progress at the date control is acquired and/or to relationships with regular customers of the acquired entity (opportunity to enter into new contracts). These intangible assets are measured based on the "excess earnings" method, whereby the value of the intangible asset corresponds to the present value of the cash flows generated by this asset, less a capital charge representing a return on the other assets concerned. Intangible assets may also be recognized in respect of patented or unpatented technologies. These assets are measured based on the "royalties" method or "replacement cost" method.

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 included within "Other income and expenses" in the period in which they are incurred.

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

Changes in transactions involving non-controlling interests that do not result in a change of control are recognized in equity. 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 presented on the "Liabilities held for sale" line in the statement of financial position. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell, and are therefore no longer subject to depreciation and amortization.

In accordance with IFRS 5, a discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the date of sale or at an earlier date if the business meets the criteria to be recognized as an asset held for sale. Income or losses generated by these operations, as well as any capital gains or losses on disposal, are presented net of tax on a separate line of the statement of income. To provide a meaningful year-on-year comparison, the same treatment is applied to these items in the previous year.

For assets not classified as discontinued operations, any related impairment losses or proceeds from their disposal are recognized through operating income.

## 2.2 Changes in the scope of consolidation

### 2.2.1 Transactions carried out in 2016

#### 2.2.1.1 Acquisition of peiker

On December 21, 2015 Valeo announced the acquisition of German-based peiker, a major supplier of onboard telematics and mobile connectivity solutions. The transaction enabled 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.

Having received clearance from the antitrust authorities, on March 8, 2016 Valeo acquired control of peiker for 283 million euros. Valeo holds the entire share capital of the company, which has been fully consolidated within the Comfort & Driving Assistance Systems Business Group since March 1, 2016.

The purchase price was allocated to peiker's assets and liabilities on a provisional basis in 2016, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 202 million euros. The value of the goodwill chiefly reflects the expected operating synergies relative to onboard telematics and connectivity, mainly attributable to the improved industrial performance and efficiency of the Company's Sourcing, Logistics and Research & Development networks.

The main impacts of this acquisition are as follows:

| <i>(in millions of euros)</i>                                | Allocation at<br>June 30, 2016 | Allocation at<br>December 31, 2016 |
|--------------------------------------------------------------|--------------------------------|------------------------------------|
| <b>PURCHASE PRICE</b>                                        | <b>299</b>                     | <b>283</b>                         |
| Identifiable assets acquired at the acquisition date         | 164                            | 164                                |
| Identifiable liabilities assumed at the acquisition date     | (105)                          | (105)                              |
| Technology <sup>(1)</sup>                                    | -                              | 38                                 |
| Customer relationship <sup>(2)</sup>                         | -                              | 34                                 |
| Customer relationship on loss-making contracts               | -                              | (28)                               |
| Tax liability                                                | -                              | (21)                               |
| Other individually non-material remeasurements to fair value | -                              | (1)                                |
| <b>FAIR VALUE OF IDENTIFIABLE NET ASSETS</b>                 | <b>59</b>                      | <b>81</b>                          |
| <b>PROVISIONAL GOODWILL ARISING ON THE ACQUISITION</b>       | <b>240</b>                     | <b>202</b>                         |

| <i>(in millions of euros)</i>                        | Allocation at<br>June 30, 2016 | Allocation at<br>December 31, 2016 |
|------------------------------------------------------|--------------------------------|------------------------------------|
| Net cash and cash equivalents acquired               | 6                              | 6                                  |
| Consideration paid                                   | (299)                          | (299)                              |
| Earnout payment                                      | -                              | (5)                                |
| Acquisition costs paid during the period             | (3)                            | (3)                                |
| <b>Net cash flows resulting from the acquisition</b> | <b>(296)</b>                   | <b>(301)</b>                       |

(1) Technology is primarily amortized over 8 years.

(2) The customer relationship is amortized over 11 years.

peiker contributed 266 million euros to consolidated sales in 2016.

### 2.2.1.2 Acquisition of Spheros

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. Spheros leverages its technological leadership to supply air conditioning systems to 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.

This 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 identify new drivers of growth, particularly in CO<sub>2</sub> emissions reduction.

Following clearance by the antitrust authorities, on March 31, 2016 Valeo acquired control of Spheros, which has been fully consolidated in the Group's financial statements since April 1, 2016. Spheros forms part of the Thermal Systems Business Group.

The purchase price was allocated to Spheros' assets and liabilities on a provisional basis in 2016, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 249 million euros. The value of the goodwill chiefly reflects the operating and tax synergies expected to result from the transaction.

The main impacts of this acquisition are as follows:

| <i>(in millions of euros)</i>                                | Allocation at<br>June 30, 2016 | Allocation at<br>December 31, 2016 |
|--------------------------------------------------------------|--------------------------------|------------------------------------|
| <b>PURCHASE PRICE</b>                                        | <b>255</b>                     | <b>256</b>                         |
| Identifiable assets acquired at the acquisition date         | 127                            | 127                                |
| Identifiable liabilities assumed at the acquisition date     | (154)                          | (154)                              |
| Customer relationship <sup>(1)</sup>                         | -                              | 41                                 |
| Technology <sup>(2)</sup>                                    | -                              | 13                                 |
| Deferred taxes                                               | -                              | (10)                               |
| Other individually non-material remeasurements to fair value | -                              | (10)                               |
| <b>FAIR VALUE OF IDENTIFIABLE NET ASSETS</b>                 | <b>(27)</b>                    | <b>7</b>                           |
| <b>PROVISIONAL GOODWILL ARISING ON THE ACQUISITION</b>       | <b>282</b>                     | <b>249</b>                         |

| <i>(in millions of euros)</i>                        | Allocation at<br>June 30, 2016 | Allocation at<br>December 31, 2016 |
|------------------------------------------------------|--------------------------------|------------------------------------|
| Net cash and cash equivalents acquired               | (58)                           | (66)                               |
| Consideration paid                                   | (255)                          | (255)                              |
| Earnout payment                                      | -                              | (1)                                |
| Acquisition costs paid during the period             | (1)                            | (4)                                |
| <b>Net cash flows resulting from the acquisition</b> | <b>(314)</b>                   | <b>(326)</b>                       |

(1) The customer relationship is amortized over 12 years.

(2) Technology is amortized over 8 years.

Spheros contributed 184 million euros to consolidated sales in 2016.

### 2.2.1.3 Creation of joint venture with Siemens in the field of high-voltage powertrains

On April 18, 2016, Valeo announced its plan to form a 50-50 joint venture with Siemens specialized in high-voltage powertrains. The operation was approved by the competent authorities on September 30, 2016.

The entity was set up on December 1, 2016 and aims to become a front-ranking player in the fast-growing automotive electrification market. Valeo and Siemens have joined forces to offer a comprehensive and innovative range of high-voltage (above 60 V) components and systems for all types of electric vehicles (hybrids, plug-in hybrids and full electric vehicles), including e-motors, onboard chargers, inverters and DC/DC converters.

Valeo contributed its high-voltage power electronics activities (onboard chargers, inverters, DC/DC converters), which employs around 200 people, of whom 90 are based in France. Its under-60 V powertrain activity will not be part of the joint venture. Siemens contributed its E-Car Powertrain Systems Business Unit (e-motors, inverters), which employs around 500 people, of whom 370 are based in Germany and 130 in China.

In accordance with IFRS 5, the assets and liabilities relating to the high-voltage powertrain systems business were recorded in assets and liabilities held for sale in the consolidated statement of financial position at June 30, 2016 in an amount of 64 million euros and 15 million euros, respectively. This

reclassification also led to the discontinuation of depreciation and amortization of the property, plant and equipment and intangible assets dedicated to this business.

The net assets of the high-voltage powertrain systems business, amounting to 75 million euros, including a share of the goodwill allocated to this business, were transferred to the joint venture on December 1, 2016. In consideration for its contribution, Valeo received 50% of the share capital of Valeo Siemens eAutomotive. These shares have been included in "Investments in equity-accounted companies" for 241 million euros, corresponding to their fair value.

The Group recognized this contribution to a joint venture in accordance with IFRS 10. The loss of control of the assets and liabilities led to (i) derecognition of said assets and liabilities from the consolidated statement of financial position, (ii) recognition of the shares received in the new joint venture at their fair value, and (iii) recognition of a disposal gain equal to the difference between the fair value of the shares received and the net carrying amount of the assets and liabilities derecognized as a result of the loss of control. This disposal gain was recognized in full in "Other income and expenses" and represents the difference between the carrying amount of the net assets transferred by Valeo and the fair value of the equity-accounted investment. The overall proceeds from this transaction, including the disposal gain, the fair value of the put and call options and the transaction-related costs, total 159 million euros and are recorded in "Other income and expenses" (see Note 4.6.2, pages 311 to 312).

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In the absence of directly or indirectly observable inputs on a listed market, Valeo adopted a discounted cash flows method for the valuation based on the 2016-2020 business plan, drawn up with Siemens during the joint venture negotiations. The fair value of the equity-accounted investment corresponds to Valeo's share in the venture plus a portion of the expected synergies.

The following key non-observable assumptions were used:

- a discount rate of 11.5%;
- a terminal value calculated using a perpetual growth rate of 1.5%, which is in line with the average mid- to long-term growth rate for the Group's industry and is the same as that used for impairment testing.

This technique corresponds to Level 3 in the fair value hierarchy.

The impacts of changes in key assumptions of the fair value of the equity-accounted investment are:

| (in millions of euros)                    | Fair value                    | Impact on fair value  |                                         |                             |
|-------------------------------------------|-------------------------------|-----------------------|-----------------------------------------|-----------------------------|
|                                           | Based on assumptions for 2016 | WACC of 12.5% (+1 pt) | Perpetuity growth rate of 1% (-0.5 pts) | Combination of both factors |
| Fair value of equity-accounted investment | 241                           | (32)                  | (13)                                    | (43)                        |

At the time the joint venture was created, Siemens granted Valeo a call option and Valeo granted Siemens a put option. These options were valued by an independent expert using a probability-based approach at 35 million euros and 37 million euros, respectively (see Note 8.1.4.4, page 348).

#### 2.2.1.4 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 and the sale was completed on February 29, 2016.

In accordance with IFRS 5, the assets and liabilities relating to the Engine Control business were therefore classified within assets and liabilities held for sale in the consolidated statement of financial position published at June 30, 2015 and December 31, 2015. Valeo chose this classification for these assets and liabilities as their carrying amount was to be recovered principally through a sale transaction rather than through their continuing use. At December 31, 2015, this reclassification within assets and liabilities held for sale in an amount of 69 million euros and 36 million euros, respectively, 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 contributed 10 million euros to consolidated sales in the first half of 2016 up until the date of sale, versus 52 million euros in 2015.

Following the measurement of the definitive loss on disposal, income of 1 million euros – mainly relating to recycled translation adjustments – was recognized in "Other income and expenses" relative to the estimated loss recognized in the 2015 financial statements.

Net of cash and cash equivalents transferred, this sale resulted in a net inflow of 27 million euros in the consolidated statement of cash flows for 2016.

#### 2.2.1.5 Acquisition of a stake in CloudMade

On November 10, 2016, Valeo announced its acquisition of a 50% stake in the capital of CloudMade, a developer of smart and innovative big data-driven automotive solutions such as a machine learning platform which seeks to improve and personalize vehicle comfort and safety for drivers and their passengers.

Valeo has joint control over CloudMade, which has therefore been accounted for by the equity method in its consolidated financial statements since November 10, 2016. CloudMade is part of the Comfort & Driving Assistance Systems Business Group.

This acquisition resulted in an outflow of 16 million euros in the consolidated statement of cash flows for 2016.

#### 2.2.1.6 Purchase of non-controlling interests in Valeo Unisia Transmissions

On September 30, 2016, Valeo acquired Hitachi's 34% stake in Valeo Unisia Transmissions KK for 24 million euros, and now holds all of this company's capital.

This acquisition did not have a material impact on the Group's consolidated financial statements since the company was previously controlled and fully consolidated by Valeo.

#### 2.2.1.7 Other transactions in the year with no impact on the scope of consolidation at December 31, 2016

##### Acquisition of FTE automotive

On June 2, 2016, Valeo announced it had signed an agreement with Bain Capital Private Equity, owner of FTE automotive, to acquire the entire share capital of the company for an enterprise value of 819.3 million euros, which represents an estimated 8x EBITDA for 2016.

FTE automotive, headquartered in Germany, is a leading producer of clutch and gear actuators. Its product portfolio and customer base are highly complementary to Valeo's. The acquisition will enable the Group to expand its offering of active hydraulic actuators, a strategic and fast-growing market driven by the rise of dual-clutch technology and hybrid vehicles. FTE automotive will also strengthen Valeo's aftermarket business. The company has 3,700 employees and a diversified industrial footprint in eight countries, including Germany, the Czech Republic, Slovakia, Mexico and China.

Clearance from the Brazilian antitrust authorities was obtained on November 3, 2016.

In its Phase 1 review, the European Commission expressed concerns about the acquisition. Following discussions with the European Commission and in agreement with Bain Capital, Valeo decided to withdraw its merger notification and to promptly renotify the Commission with a view to obtaining clearance to acquire FTE and finalize the transaction in 2017.

### Launch of a takeover bid for the shares of Ichikoh

On November 22, 2016, Valeo announced the launch of a takeover bid for the shares of Ichikoh, a Japanese company listed on the First Section of the Tokyo Stock Exchange. Valeo acquired an initial stake in Ichikoh on April 27, 2000 and at December 31, 2016 held 31.58% of its capital. Ichikoh is equity-accounted in the 2016 financial statements.

Valeo offered to buy shares from Ichikoh's shareholders at a price of 408 Japanese yen per share, subject to Valeo obtaining at least 50.09% of Ichikoh's capital (including the shares it already holds), with Valeo's stake being capped at 55.08% of the capital in order to maintain the liquidity of the Ichikoh share, which will continue to be listed on the Tokyo Stock Exchange.

On completion of the takeover bid, which ran from November 24, 2016 to January 12, 2017, Valeo announced that 32,383,612 shares had been tendered by the shareholders. As the offer was oversubscribed, the financial intermediaries will reduce the shares to be acquired by Valeo on a prorated basis, by approximately 30.26%.

On December 12, 2016, Valeo announced that it had obtained the necessary approvals from the relevant antitrust authorities to proceed with the transaction.

As of settlement-delivery on January 20, 2017 following Valeo's takeover bid, the Group holds 55.08% of Ichikoh's capital and therefore takes control of Japan's leading automotive lighting company. Ichikoh will be fully consolidated by Valeo as from February 1, 2017.

This acquisition had no accounting impact in 2016. Given the date on which control was acquired, a provisional valuation will be carried out in the first half of 2017 in accordance with the provisions of IFRS 3 applicable to acquisitions carried out in stages (step acquisitions).

## 2.2.2 Transactions carried out in 2015

### 2.2.2.1 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. 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 and a 23 million euro 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.

The liability relating to the put option granted to STEC was remeasured at its fair value at December 31, 2016 (see Note 8.1.2.2, page 339).

## 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, 2016, 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

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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 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 28 million euros at December 31, 2016 (24 million euros at December 31, 2015) and mainly include commitments given on the creation of the joint venture with Siemens (see Note 2.2.1.3,

page 297) and on the sale of the Engine Control business (see Note 2.2.1.4, page 298). The commitments given on the sale of the Access Mechanisms business expired in 2016.

### 2.3.2 Commitments received

Commitments received totaled 327 million euros at December 31, 2016 (28 million euros at December 31, 2015) and correspond to guarantees granted to Valeo in connection with its acquisitions. The increase is mainly attributable to vendor warranties received in connection with the acquisitions of Spheros, peiker and CloudMade during the period (see Note 2.2.1.2, Note 2.2.1.1 and Note 2.2.1.5, respectively, pages 296, 295 and 298). In addition, at the time the joint venture with Siemens was created, Valeo and Siemens gave each other mutual commitments.

## 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 Connected Cars. It focuses on the driver experience and develops a range of solutions to enable safer, greener and more connected intuitive driving by means of innovative interfaces between the driver, the vehicle and the surrounding environment.
- **Powertrain Systems**, comprising four Product Groups: Electrical Systems, Transmission Systems, Combustion Engine Systems and Electronics, organized around three activities: electrification, transmission automation and clean engines. This Business Group develops innovative powertrain solutions to reduce CO<sub>2</sub> emissions and fuel consumption without compromising driving performance or pleasure.
- **Thermal Systems**, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Bus Systems. 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 and passengers in all weather, day and night, and in their various onboard activities.

Each of these Business Groups is also responsible for production and for some of the distribution of 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 definition of EBITDA was revised in 2016 to exclude the income, recognized during the year within operating margin, relating to government subsidies and grants on non-current assets.



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 the impact of government subsidies and grants on non-current assets, 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.

## 2016

| (in millions of euros)                                             | Comfort & Driving Assistance Systems | Powertrain Systems | Thermal Systems | Visibility Systems | Other    | Total        |
|--------------------------------------------------------------------|--------------------------------------|--------------------|-----------------|--------------------|----------|--------------|
| <b>Sales:</b>                                                      |                                      |                    |                 |                    |          |              |
| ■ segment (excluding Group)                                        | 3,343                                | 3,975              | 4,622           | 4,545              | 34       | 16,519       |
| ■ intersegment (Group)                                             | 20                                   | 52                 | 23              | 104                | (199)    | -            |
| <b>EBITDA</b>                                                      | <b>496</b>                           | <b>534</b>         | <b>463</b>      | <b>645</b>         | <b>6</b> | <b>2,144</b> |
| Research and Development expenditure, net                          | (334)                                | (183)              | (184)           | (235)              | (20)     | (956)        |
| Investments in property, plant and equipment and intangible assets | 342                                  | 357                | 302             | 330                | 30       | 1,361        |
| Segment assets                                                     | 1,981                                | 2,107              | 2,024           | 2,028              | 83       | 8,223        |

## 2015

| (in millions of euros)                                             | Comfort & Driving Assistance Systems | Powertrain Systems | Thermal Systems | Visibility Systems | Other     | Total        |
|--------------------------------------------------------------------|--------------------------------------|--------------------|-----------------|--------------------|-----------|--------------|
| <b>Sales:</b>                                                      |                                      |                    |                 |                    |           |              |
| ■ segment (excluding Group)                                        | 2,702                                | 3,706              | 4,032           | 4,073              | 31        | 14,544       |
| ■ intersegment (Group)                                             | 18                                   | 56                 | 42              | 112                | (228)     | -            |
| <b>EBITDA<sup>(1)</sup></b>                                        | <b>394</b>                           | <b>482</b>         | <b>435</b>      | <b>519</b>         | <b>11</b> | <b>1,841</b> |
| 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        |

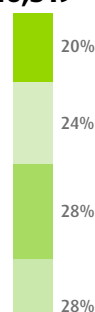
(1) EBITDA shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA.

## Segment data

### Breakdown of sales by Business Group (including intersegment sales)

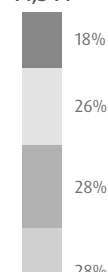
(in millions of euros and as a % of total sales)

16,519



2016

14,544



2015

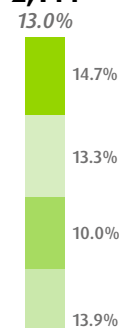
■ Comfort & Driving Assistance Systems

■ Powertrain Systems

### EBITDA by Business Group<sup>(1)</sup>

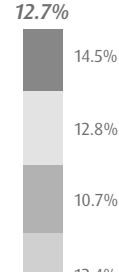
(in millions of euros and as a % of total sales)

2,144



2016

1,841



2015

■ Thermal Systems

■ Visibility Systems

(1) EBITDA shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA.

### 3.2 Reconciliation with Group data

The table below reconciles EBITDA with the consolidated operating margin:

| (in millions of euros)                                                                                                     | 2016         | 2015 <sup>(2)</sup> |
|----------------------------------------------------------------------------------------------------------------------------|--------------|---------------------|
| <b>Operating margin</b>                                                                                                    | <b>1,273</b> | <b>1,060</b>        |
| Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses <sup>(1)</sup> | 841          | 743                 |
| Impact of government subsidies and grants on non-current assets recognized in the statement of income                      | (13)         | (6)                 |
| Dividends paid by equity-accounted companies                                                                               | 43           | 44                  |
| <b>EBITDA</b>                                                                                                              | <b>2,144</b> | <b>1,841</b>        |

(1) Impairment losses recorded in operating margin only.

(2) EBITDA shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA (see Note 3.1, page 301).

This indicator is used by Management to monitor and track Business Group performance and to decide on the allocation of resources.

Total segment assets reconcile to total Group assets as follows:

| (in millions of euros)              | December 31, 2016 | December 31, 2015 |
|-------------------------------------|-------------------|-------------------|
| <b>Segment assets</b>               | <b>8,223</b>      | <b>6,695</b>      |
| Accounts and notes receivable       | 2,462             | 1,964             |
| Other current assets                | 427               | 371               |
| Taxes recoverable                   | 38                | 16                |
| Financial assets                    | 2,602             | 1,806             |
| Deferred tax assets                 | 626               | 526               |
| Assets held for sale <sup>(1)</sup> | -                 | 62                |
| <b>TOTAL GROUP ASSETS</b>           | <b>14,378</b>     | <b>11,440</b>     |

(1) At December 31, 2015, assets classified as held for sale corresponded to the assets of the Engine Control business (see Note 2.2.1.4, page 298).

### 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.

#### 2016

| (in millions of euros)              | External sales by market | Sales by production area | Non-current assets |
|-------------------------------------|--------------------------|--------------------------|--------------------|
| France                              | 1,278                    | 2,985                    | 672                |
| Other European countries and Africa | 6,984                    | 5,757                    | 1,844              |
| North America                       | 3,452                    | 3,453                    | 730                |
| South America                       | 393                      | 337                      | 58                 |
| Asia                                | 4,412                    | 4,711                    | 1,604              |
| Eliminations                        | -                        | (724)                    | -                  |
| <b>TOTAL</b>                        | <b>16,519</b>            | <b>16,519</b>            | <b>4,908</b>       |

## 2015

| <i>(in millions of euros)</i>       | External sales<br>by market | Sales by<br>production area | Non-current<br>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)                       | -                     |
| <b>TOTAL</b>                        | <b>14,544</b>               | <b>14,544</b>               | <b>4,084</b>          |

### 3.4 Breakdown of sales by major customer

In 2016, two global automakers represented 29.1% of the Group's sales, and each of these individually accounted for more than 10% of the Group's sales.

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.

## 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.

The price reductions granted upstream to automakers are deferred in the consolidated statement of financial position at the time of payment and subsequently deducted from sales and reported under income on a straight-line basis as from the start of volume production.

Group sales rose 13.6% to 16,519 million euros in 2016 from 14,544 million euros in 2015.

Exchange rates had a 0.9% negative currency effect, relating mainly to the depreciation of the Chinese renminbi, while changes in scope of consolidation during the year had a 3.1% positive impact. Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2016 climbed 11.4% on 2015.

## 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, 2016 | December 31, 2015 |
|-------------------------------------------|-------------------|-------------------|
| Accounts and notes receivable, gross      | 2,486             | 1,981             |
| Impairment                                | (24)              | (17)              |
| <b>Accounts and notes receivable, net</b> | <b>2,462</b>      | <b>1,964</b>      |

At December 31, 2016, Valeo's largest automotive customer accounted for 14% of the Group's accounts and notes receivable (15% at December 31, 2015).

The average days' sales outstanding stood at 47 days at December 31, 2016, stable compared with December 31, 2015.

The Group's credit risk management policy is described in Chapter 2, section 2.1.1 "Customer credit risk", page 74.

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, 2016 | December 31, 2015 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|  <p><b>2,486</b><br/>in 2016</p> <ul style="list-style-type: none"> <li>93.5% – Not yet due</li> <li>2.9% – Less than 1 month past due</li> <li>2.9% – More than 1 month but less than 1 year past due</li> <li>0.7% – More than 1 year past due</li> </ul> | 2,325             | 1,874             |
|                                                                                                                                                                                                                                                                                                                                                | 72                | 53                |
|                                                                                                                                                                                                                                                                                                                                                | 71                | 45                |
|                                                                                                                                                                                                                                                                                                                                                | 18                | 9                 |
| <b>ACCOUNTS AND NOTES RECEIVABLE, GROSS</b>                                                                                                                                                                                                                                                                                                    | <b>2,486</b>      | <b>1,981</b>      |

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2016 totaled 2,325 million euros and 72 million euros, respectively, and represented 96% of total gross accounts and notes receivable (97% at end-2015). Past due receivables were written down in an amount of 24 million euros at December 31, 2016 (17 million euros at December 31, 2015).

Accounts and notes receivable falling due after December 31, 2016, 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 301 million euros at December 31, 2016 versus 306 million euros at December 31, 2015. A total of 98 million euros out of the 301 million euros relates to sale operations carried out on a recurring basis (83 million euros at December 31, 2015). The financial cost of these transactions, recognized in cost of net debt, was around 3 million euros in 2016 (stable as compared to 2015).

### 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. 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 3,020 million euros, or 18.3% of sales (17.7% of sales in 2015).

Cost of sales can be analyzed as follows:

| (in millions of euros)             |                                                                        | 2016            | 2015            |
|------------------------------------|------------------------------------------------------------------------|-----------------|-----------------|
| <p><b>(13,499)</b><br/>in 2016</p> | 58.6% <sup>(1)</sup> – Raw materials consumed                          | (9,681)         | (8,510)         |
|                                    | 12.0% <sup>(1)</sup> – Labor                                           | (1,975)         | (1,806)         |
|                                    | 8.2% <sup>(1)</sup> – Direct production costs and production overheads | (1,358)         | (1,209)         |
|                                    | 2.9% <sup>(1)</sup> – Depreciation and amortization <sup>(2)</sup>     | (485)           | (446)           |
|                                    | <b>Cost of sales</b>                                                   | <b>(13,499)</b> | <b>(11,971)</b> |

(1) As a % of sales.

(2) This amount does not include amortization charged against capitalized development costs, which is recognized in Research and Development expenditure, net. It includes the impact of government subsidies and grants on non-current production assets (excluding Research and Development) recognized in the statement of income for the year.

### 4.4 Inventories

Inventories are stated at the lower of cost and net realizable value. Impairment losses are booked 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 on property, plant and equipment, page 326) 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, 2016, inventories break down as follows:

| (in millions of euros)      | December 31, 2016     |              |                     | December 31, 2015   |
|-----------------------------|-----------------------|--------------|---------------------|---------------------|
|                             | Gross carrying amount | Impairment   | Net carrying amount | Net carrying amount |
| Raw materials               | 622                   | (98)         | 524                 | 396                 |
| Work-in-progress            | 147                   | (15)         | 132                 | 107                 |
| Finished goods and supplies | 524                   | (89)         | 435                 | 388                 |
| Specific tooling            | 308                   | (6)          | 302                 | 270                 |
| <b>Inventories, net</b>     | <b>1,601</b>          | <b>(208)</b> | <b>1,393</b>        | <b>1,161</b>        |

Impairment losses taken against inventories amounted to 208 million euros at December 31, 2016 (168 million euros at December 31, 2015), including an allowance (net of reversals)

of 29 million euros during the period. Allowances to provisions for impairment of inventories net of reversals amounted to 16 million euros in 2015.

## 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 2016, operating margin including share in net earnings of equity-accounted companies totaled 1,334 million euros, or 8.1% of sales (7.7% of sales in 2015).

Share in net earnings of equity-accounted companies amounted to 61 million euros in 2016 and 56 million euros in 2015. Note 4.5.3, pages 308 to 311 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 recorded in assets in the statement of financial position 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 2016 and 2015 are analyzed below:

| <i>(in millions of euros)</i>             | 2016         | 2015         |
|-------------------------------------------|--------------|--------------|
| <b>GROSS CARRYING AMOUNT AT JANUARY 1</b> | <b>1,973</b> | <b>1,792</b> |
| Accumulated amortization and impairment   | (1,080)      | (1,026)      |
| <b>NET CARRYING AMOUNT AT JANUARY 1</b>   | <b>893</b>   | <b>766</b>   |
| Capitalized development expenditure       | 437          | 364          |
| Disposals                                 | (36)         | -            |
| Changes in scope of consolidation         | -            | -            |
| Impairment                                | (20)         | (8)          |
| Amortization                              | (238)        | (193)        |
| Translation adjustment                    | -            | 13           |
| Reclassifications                         | (43)         | (49)         |
| <b>NET CARRYING AMOUNT AT DECEMBER 31</b> | <b>993</b>   | <b>893</b>   |

Reclassifications in 2016 chiefly concern intangible assets contributed to the joint venture with Siemens which were recognized as held for sale (see Note 2.2.1.3, page 297). Reclassifications in 2015 chiefly related to intangible assets within the Engine Control business recognized as held for sale (see Note 2.2.1.4, page 298).

#### 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 deferred and 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 2016 and 2015:

| <i>(in millions of euros)</i>                                      | 2016         | 2015         |
|--------------------------------------------------------------------|--------------|--------------|
| Research and Development expenditure                               | (1,596)      | (1,307)      |
| Contributions received and subsidies and grants                    | 456          | 353          |
| Capitalized development expenditure                                | 437          | 364          |
| Amortization and impairment of capitalized development expenditure | (253)        | (207)        |
| <b>Research and Development expenditure, net</b>                   | <b>(956)</b> | <b>(797)</b> |

The Group continued to step up its Research and Development efforts in 2016 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. The French

research tax credit, or any other similar tax provision in other jurisdictions, 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 as and when the related costs are taken to income.

The research tax credit in France represented income of 55 million euros in 2016 (51 million euros in 2015).

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## 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 the CICE tax credit (*Crédit d'Impôt pour la Compétitivité et l'Emploi* – see Note 5.2, page 313) 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, 2016, amounts receivable in respect of the CICE tax credit for 2013, 2014, 2015 and 2016, and the 2013, 2014 and 2015 research tax credit in France are no longer carried in the consolidated statement of financial position, which now includes only the estimated 55 million euros receivable in respect of the 2016 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 receivable on June 26, 2015 for 56 million euros;
- the 2015 CICE tax credit receivable on December 18, 2015 for 15 million euros;
- the 2015 research tax credit receivable on June 22, 2016 for 54 million euros;
- the 2016 CICE tax credit receivable on December 21, 2016 for 15 million euros.

The cost of these transfers for the Group, recognized in cost of net debt for the period, was 1 million euros, compared to just under 3 million euros in 2015.

At December 31, 2015, only the 2015 research tax credit receivable was still carried on the consolidated statement of financial position for an estimated 51 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)                                     | 2016      | 2015      |
|------------------------------------------------------------|-----------|-----------|
| Share in net earnings of associates                        | 27        | 21        |
| Share in net earnings of joint ventures                    | 34        | 35        |
| <b>Share in net earnings of equity-accounted companies</b> | <b>61</b> | <b>56</b> |

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 considers it appropriate to recognize the share in net earnings of equity-accounted companies within operating margin.

## Share in net earnings of associates

| (in millions of euros)                     | 2016      | 2015      |
|--------------------------------------------|-----------|-----------|
| Ichikoh Industries Limited                 | 22        | 8         |
| Detroit Thermal Systems                    | 5         | 13        |
| Valeo Pyeong Hwa Metals Co. Ltd            | -         | -         |
| <b>Share in net earnings of associates</b> | <b>27</b> | <b>21</b> |

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 2016, the share in net earnings of associates covers a period of 12 months (October 1, 2015 to September 30, 2016, as in 2015).

On November 24, 2016, Valeo launched a takeover bid for the shares of Ichikoh. Following the close of the offer on January 12, 2017, Valeo controlled the Japan-based company. Ichikoh will be fully consolidated by Valeo as from February 1, 2017 (see Note 2.2.1.7, page 299).

### Share in net earnings of joint ventures

| (in millions of euros)                  | 2016 | 2015 |
|-----------------------------------------|------|------|
| Share in net earnings                   |      |      |
| ■ Chinese joint ventures                | 37   | 34   |
| ■ Other joint ventures                  | (3)  | 1    |
| Share in net earnings of joint ventures | 34   | 35   |

### 4.5.3.2 Investments in equity-accounted companies

#### Investments in associates

Changes in the "Investments in associates" caption can be analyzed as follows:

| (in millions of euros)                          | 2016      | 2015      |
|-------------------------------------------------|-----------|-----------|
| <b>INVESTMENTS IN ASSOCIATES AT JANUARY 1</b>   | <b>74</b> | <b>55</b> |
| Share in net earnings of associates             | 27        | 21        |
| Dividend payments                               | (8)       | (7)       |
| Impact of changes in scope of consolidation     | -         | -         |
| Translation adjustment                          | (3)       | 3         |
| Other movements                                 | (4)       | 2         |
| <b>Investments in associates at December 31</b> | <b>86</b> | <b>74</b> |

The Group's investments in associates are detailed below:

|                                                | % interest<br>(in %) |                   | Carrying amount<br>(in millions of euros) |                   |
|------------------------------------------------|----------------------|-------------------|-------------------------------------------|-------------------|
|                                                | December 31, 2016    | December 31, 2015 | December 31, 2016                         | December 31, 2015 |
| Ichikoh Industries Limited                     | 31.6                 | 31.6              | 67                                        | 53                |
| Detroit Thermal Systems                        | 49.0                 | 49.0              | 20                                        | 22                |
| Valeo Pyeong Hwa Metals Co. Ltd <sup>(1)</sup> | 49.0                 | 49.0              | (1)                                       | (1)               |
| <b>Investments in associates</b>               |                      |                   | <b>86</b>                                 | <b>74</b>         |

(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 Exchange) was 93 million euros at December 31, 2016 and 55 million euros at December 31, 2015.

#### Investments in joint ventures

Changes in the "Investments in joint ventures" caption can be analyzed as follows:

| (in millions of euros)                              | 2016       | 2015       |
|-----------------------------------------------------|------------|------------|
| <b>INVESTMENTS IN JOINT VENTURES AT JANUARY 1</b>   | <b>117</b> | <b>112</b> |
| Net earnings of joint ventures                      | 34         | 35         |
| Dividend payments                                   | (35)       | (37)       |
| Impact of changes in scope of consolidation         | 260        | -          |
| Other movements                                     | 1          | -          |
| Translation adjustment                              | (4)        | 7          |
| <b>INVESTMENTS IN JOINT VENTURES AT DECEMBER 31</b> | <b>373</b> | <b>117</b> |

Investments in joint ventures chiefly relate to Chinese joint ventures in an amount of 111 million euros (stable compared with end-2015) and the joint ventures created with Siemens in 2016 (see Note 2.2.1.3, page 297).

Changes in the scope of consolidation reflect the joint ventures created with Siemens during the year as well as the interest acquired in CloudMade (see Note 2.2.1.5, page 298).

#### 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:

| <i>(in millions of euros)</i> | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Non-current assets            | 426               | 380               |
| Current assets                | 408               | 344               |
| Non-current liabilities       | 290               | 272               |
| Current liabilities           | 358               | 305               |

| <i>(in millions of euros)</i> | 2016    | 2015  |
|-------------------------------|---------|-------|
| Sales                         | 1,151   | 973   |
| Operating expenses            | (1,066) | (909) |

##### Joint ventures

Summarized financial data in respect of joint ventures are set out in the table below:

| <i>(in millions of euros)</i> | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Non-current assets            | 403               | 133               |
| Current assets                | 465               | 299               |
| Non-current liabilities       | 48                | 23                |
| Current liabilities           | 408               | 250               |

| <i>(in millions of euros)</i> | 2016  | 2015  |
|-------------------------------|-------|-------|
| Sales                         | 749   | 711   |
| Operating expenses            | (670) | (630) |

#### 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, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Accounts and notes receivable | 9                 | 5                 |
| Accounts and notes payable    | 15                | 8                 |
| Net debt (cash)               | 11                | 11                |

| <i>(in millions of euros)</i>   | 2016 | 2015 |
|---------------------------------|------|------|
| Sales of goods and services     | 34   | 24   |
| Purchases of goods and services | (67) | (48) |

##### Transactions with joint ventures

| <i>(in millions of euros)</i> | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Accounts and notes receivable | 21                | 13                |
| Accounts and notes payable    | 17                | 3                 |
| Net debt (cash)               | 10                | 10                |

| <i>(in millions of euros)</i>   | 2016 | 2015 |
|---------------------------------|------|------|
| Sales of goods and services     | 24   | 22   |
| Purchases of goods and services | (10) | (8)  |

## 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 1,301 million euros in 2016 versus 999 million euros in 2015.

### 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 cost 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 2016 and 2015:

| <i>(in millions of euros)</i>                                                                    | <i>Notes</i> | 2016        | 2015         |
|--------------------------------------------------------------------------------------------------|--------------|-------------|--------------|
| Transaction costs and capital gains and losses arising on changes in the scope of consolidation: | 4.6.2.1      |             |              |
| ■ Acquisition fees                                                                               |              | (14)        | (5)          |
| ■ Sale of the Engine Control business                                                            |              | 1           | (8)          |
| ■ Income relating to the creation of a joint venture with Siemens, net of costs                  |              | 159         | -            |
| Claims and litigation:                                                                           | 4.6.2.2      |             |              |
| ■ Antitrust investigations                                                                       |              | (99)        | (2)          |
| ■ Other disputes                                                                                 |              | (3)         | (7)          |
| Restructuring plans                                                                              | 4.6.2.3      | (16)        | (69)         |
| Impairment of non-current assets                                                                 | 4.6.2.4      | (61)        | (27)         |
| Other                                                                                            |              | -           | 1            |
| <b>Other income and expenses</b>                                                                 |              | <b>(33)</b> | <b>(117)</b> |

#### 4.6.2.1 Transaction costs and capital gains and losses arising on changes in the scope of consolidation

Acquisition fees recognized in 2016 mainly relate to transactions carried out in the period, chiefly peiker and Spheros (see Notes 2.2.1.1 and 2.2.1.2, respectively, pages 295 and 296), and to the planned acquisition of FTE Automotive (see Note 2.2.1.7, page 298).

Once the final loss on the disposal of the Engine Control business had been calculated (see Note 2.2.1.4), the Group recognized income of 1 million euros after the impairment loss of 8 million euros recognized in 2015.

The creation of the joint venture with Siemens resulted in a disposal gain of 159 million euros net of transaction costs and the impact of the put and call options recognized. The disposal gain represents the difference between the carrying amount of the net assets transferred by Valeo and the fair value of the equity-accounted investment (see Note 2.2.1.3, page 297).

#### 4.6.2.2 Claims and litigation

At the end of July 2011, antitrust investigations were initiated against numerous automotive suppliers (including Valeo) by the US and European antitrust authorities in the area of components and systems supplied to the automotive industry.

In 2016, claims and litigation mainly relates to the impacts of these investigations (see Note 7.2, page 333).

In 2015, it mainly comprised legal advisory costs relating to these investigations.

#### 4.6.2.3 Restructuring plans

Restructuring costs for 2016 primarily relate to the costs of a phased shutdown of operations at a plant in Spain announced in 2015, a layoff plan in Japan announced in second-half 2016, a curtailment of operations at a plant in France announced in the first half of 2016, and early retirement plans for employees at certain sites in Germany.

These costs were partially offset in an amount of 8 million euros by the impacts of the lump-sum program in the United States, net of administrative costs (see Note 5.3.4, page 317).

Restructuring costs for 2015 amounting to 69 million euros related mainly 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, a plan to restructure European Research and Development operations for the Wiper Systems Product Group, and a layoff plan in Japan.

#### 4.6.2.4 Impairment of non-current assets

As a result of the cash-generating unit (CGU) impairment tests carried out in 2016, an impairment loss of 49 million euros was recognized against the Compressors Product Group, and the Electronics Product Group was written down in an amount of 12 million euros (see Note 6.4, pages 328 to 331).

In 2015, the Group recognized a non-recurring impairment loss against assets in Brazil and Argentina for 42 million euros, partly offset by the reversal of (i) an impairment loss previously recognized against the Interior Electronics Product Group for 8 million euros, and (ii) an impairment loss booked against specific property, plant and equipment at a site belonging to the Transmission Systems Product Group for 7 million euros.



## Note 5 Personnel expenses and employee benefits

### 5.1 Headcount

Including temporary staff, the Group's headcount is as follows:

|                                   | 2016   | 2015   |
|-----------------------------------|--------|--------|
| Total employees at December 31    | 91,800 | 82,800 |
| Average employees during the year | 89,125 | 82,125 |

### 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 314) 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)                            | 2016         | 2015         |
|---------------------------------------------------|--------------|--------------|
| Wages and salaries <sup>(1)</sup>                 | 2,727        | 2,447        |
| Social security charges                           | 531          | 492          |
| Share-based payment                               | 21           | 18           |
| Pension expenses under defined contribution plans | 83           | 78           |
| <b>TOTAL</b>                                      | <b>3,362</b> | <b>3,035</b> |

(1) Including temporary staff.

In France, the Group is eligible for the CICE tax credit, which is calculated on a proportion of compensation paid by French companies to their employees. 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 2016, stable compared with 2015.

Pension expenses under defined benefit plans are set out in Note 5.3, page 314.

Provisions for restructuring plans and employee disputes are set out in Note 7.1, pages 332 to 333.

### 5.3 Provisions for pensions and other employee benefits

As indicated in Note 5.2, page 313, 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, 2016, 94% of provisions are related to post-employment benefits, while the remaining 6% 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 States/South Korea/United Kingdom) 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 to the Group's executive managers in France is detailed in Note 5.5, page 323.

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, 2016:

|                                                              | France        | Other European countries | North America | Asia         | Total         |
|--------------------------------------------------------------|---------------|--------------------------|---------------|--------------|---------------|
| Active Valeo employees                                       | 12,303        | 16,850                   | 7,600         | 8,100        | 44,853        |
| Active employees having left the Group                       | -             | 1,840                    | 1,880         | 2            | 3,722         |
| Retirees                                                     | 9             | 4,100                    | 4,600         | 170          | 8,879         |
| <b>Total employees</b>                                       | <b>12,312</b> | <b>22,790</b>            | <b>14,080</b> | <b>8,272</b> | <b>57,454</b> |
| <b>Average duration of the defined benefit plans (years)</b> | <b>12</b>     | <b>22</b>                | <b>12</b>     | <b>8</b>     | <b>15</b>     |

The Group also grants other long-term benefits, chiefly long-service bonuses or loyalty awards in France, Germany, Japan and South Korea.

All of these plans are accounted for as described above.

### 5.3.2 Actuarial assumptions

To calculate discount rates for the year ended December 31, 2016, 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, 2016 | December 31, 2015 |
|----------------|----------------------------------|-------------------|-------------------|
| Eurozone       | iBoxx Euro-Corporate AA 10-year+ | 1.8               | 2.2               |
| United Kingdom | iBoxx E-Corporate AA 15-year+    | 2.55              | 4.0               |
| United States  | iBoxx \$-Corporate AA 10-year+   | 3.9               | 4.3               |
| Japan          | 10-year government bonds         | 0.3               | 0.9               |
| South Korea    | 10-year government bonds         | 2.8               | 2.7               |

The weighted average long-term salary inflation rate was around 3.2% at December 31, 2016, up on 2015.

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, 2016, gradually falling to 5% by 2032. This assumption is unchanged from that used in 2015.

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 319.

### 5.3.3 Breakdown and movements in obligations

Pension obligations and provisions break down as follows by major geographic area:

#### 2016

| (in millions of euros)                                        | France        | Other European countries | North America <sup>(2)</sup> | Asia          | Total         |
|---------------------------------------------------------------|---------------|--------------------------|------------------------------|---------------|---------------|
| Present value of unfunded obligations                         | 221           | 478                      | 113                          | 49            | 861           |
| Present value of funded obligations                           | 41            | 114                      | 455                          | 111           | 721           |
| Market value of plan assets                                   | (7)           | (80)                     | (334)                        | (89)          | (510)         |
| <b>Provisions recognized at December 31, 2016</b>             | <b>255</b>    | <b>512</b>               | <b>234</b>                   | <b>71</b>     | <b>1,072</b>  |
| <b>Permanent employees at December 31, 2016<sup>(1)</sup></b> | <b>12,176</b> | <b>25,611</b>            | <b>11,965</b>                | <b>15,141</b> | <b>64,893</b> |

(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 88 million euros.

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## 2015

| (in millions of euros)                                  | France     | Other European countries | North America <sup>(2)</sup> | 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)        |
| <b>Provisions recognized at December 31, 2015</b>       | <b>236</b> | <b>449</b>               | <b>250</b>                   | <b>65</b> | <b>1,000</b> |
| Permanent employees at December 31, 2015 <sup>(1)</sup> | 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.

Movements in obligations in 2016 and 2015 are shown in the tables below by major geographic area:

## 2016

| (in millions of euros)                                              | France     | Other European countries | North America | Asia       | Total        |
|---------------------------------------------------------------------|------------|--------------------------|---------------|------------|--------------|
| <b>BENEFIT OBLIGATIONS AT JANUARY 1, 2016</b>                       | <b>246</b> | <b>527</b>               | <b>604</b>    | <b>149</b> | <b>1,526</b> |
| Actuarial gains and losses recognized in other comprehensive income | 14         | 68                       | 18            | 4          | 104          |
| Benefits paid                                                       | (24)       | (16)                     | (88)          | (15)       | (143)        |
| Translation adjustment                                              | -          | (14)                     | 17            | 5          | 8            |
| Changes in scope of consolidation <sup>(1)</sup>                    | -          | 2                        | 1             | -          | 3            |
| Expenses (income) for the year:                                     | 26         | 25                       | 16            | 17         | 84           |
| ■ Service cost                                                      | 18         | 17                       | 3             | 14         | 52           |
| ■ Interest cost                                                     | 5          | 13                       | 25            | 3          | 46           |
| ■ Other <sup>(2)</sup>                                              | 3          | (5)                      | (12)          | -          | (14)         |
| <b>BENEFIT OBLIGATIONS AT DECEMBER 31, 2016</b>                     | <b>262</b> | <b>592</b>               | <b>568</b>    | <b>160</b> | <b>1,582</b> |

(1) Changes in the scope of consolidation relate to the acquisitions of peiker and Spheros (see Notes 2.2.1.1 and 2.2.1.2, respectively, pages 295 and 296).

(2) "Other" mainly includes actuarial gains and losses recognized immediately in income, as well as past service costs and gains on settlements.

Actuarial losses totaling 104 million euros in 2016 primarily reflect the impacts of the decrease in discount rates in eurozone countries and in the United States. A limited-term lump-sum program was offered to eligible participants of the four

pension plans in the United States during the second half of 2016, generating a 12 million euro gain linked to the settlement of obligations with regard to participants in the program.

## 2015

| (in millions of euros)                                              | France     | Other European countries | North America | Asia       | Total        |
|---------------------------------------------------------------------|------------|--------------------------|---------------|------------|--------------|
| <b>BENEFIT OBLIGATIONS AT JANUARY 1, 2015</b>                       | <b>248</b> | <b>563</b>               | <b>604</b>    | <b>137</b> | <b>1,552</b> |
| 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)          |
| <b>BENEFIT OBLIGATIONS AT DECEMBER 31, 2015</b>                     | <b>246</b> | <b>527</b>               | <b>604</b>    | <b>149</b> | <b>1,526</b> |

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.

### 5.3.4 Movements in provisions

Movements in provisions in 2016 and 2015, 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        |
|---------------------------------------------------------------------|------------|--------------------------|---------------|-----------|--------------|
| <b>PROVISIONS AT JANUARY 1, 2015</b>                                | <b>242</b> | <b>491</b>               | <b>259</b>    | <b>67</b> | <b>1,059</b> |
| 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           |
| ■ Service cost                                                      | 17         | 18                       | 2             | 14        | 51           |
| ■ Net interest cost                                                 | 4          | 9                        | 11            | 1         | 25           |
| ■ Other                                                             | (2)        | 1                        | (1)           | (1)       | (3)          |
| <b>PROVISIONS AT DECEMBER 31, 2015</b>                              | <b>236</b> | <b>449</b>               | <b>250</b>    | <b>65</b> | <b>1,000</b> |
| Actuarial gains and losses recognized in other comprehensive income | 14         | 59                       | 15            | 4         | 92           |
| Amounts utilized during the year                                    | (21)       | (17)                     | (40)          | (17)      | (95)         |
| Translation adjustment                                              | -          | (3)                      | 7             | 3         | 7            |
| Changes in scope of consolidation                                   | -          | 2                        | 1             | -         | 3            |
| Expenses (income) for the year:                                     | 26         | 22                       | 1             | 16        | 65           |
| ■ Service cost                                                      | 18         | 17                       | 3             | 14        | 52           |
| ■ Net interest cost                                                 | 5          | 10                       | 10            | 2         | 27           |
| ■ Other                                                             | 3          | (5)                      | (12)          | -         | (14)         |
| <b>PROVISIONS AT DECEMBER 31, 2016</b>                              | <b>255</b> | <b>512</b>               | <b>234</b>    | <b>71</b> | <b>1,072</b> |
| Of which current portion (less than one year)                       | 19         | 18                       | 44            | 8         | 89           |

The decrease in expenses in respect of pensions and other employee benefits in 2016 is chiefly attributable to the impact of the limited-term lump-sum program launched in the United States in the second half of 2016. The expenses totalled 65 million euros for the period, including 46 million euros recorded in operating margin, 27 million euros in other financial

income and expenses, and a gain of 8 million euros net of administrative expenses in other income and expenses (see Note 4.6.2, pages 311 to 312) in connection with the lump-sum program in the United States (see Note 5.3.3, page 316).

### 5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2016 and 2015 is shown in the tables below:

#### 2016

| <i>(in millions of euros)</i>                        | France   | Other European countries | North America | Asia      | Total      |
|------------------------------------------------------|----------|--------------------------|---------------|-----------|------------|
| Cash at bank                                         | -        | -                        | 15            | 38        | 53         |
| Shares                                               | 7        | 44                       | 195           | 15        | 261        |
| Government bonds                                     | -        | 19                       | 62            | 4         | 85         |
| Corporate bonds                                      | -        | 17                       | 62            | 31        | 110        |
| Real estate                                          | -        | -                        | -             | 1         | 1          |
| <b>Breakdown of plan assets at December 31, 2016</b> | <b>7</b> | <b>80</b>                | <b>334</b>    | <b>89</b> | <b>510</b> |

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## 2015

| (in millions of euros)                               | France    | Other European countries | North America | Asia <sup>(1)</sup> | 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          |
| <b>Breakdown of plan assets at December 31, 2015</b> | <b>10</b> | <b>78</b>                | <b>354</b>    | <b>84</b>           | <b>526</b> |

(1) At December 31, 2015, a Japanese plan was overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized a non-current financial asset for the amount of the surplus, i.e., 1 million euros, as it considers the right to a refund unconditional within the meaning of IFRIC 14.

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 2016 and 2015 can be analyzed as follows:

## 2016

| (in millions of euros)                  | France    | Other European countries | North America | Asia      | Total      |
|-----------------------------------------|-----------|--------------------------|---------------|-----------|------------|
| <b>PLAN ASSETS AT JANUARY 1, 2016</b>   | <b>10</b> | <b>78</b>                | <b>354</b>    | <b>84</b> | <b>526</b> |
| Expected return on plan assets          | -         | 3                        | 15            | 1         | 19         |
| Contributions paid to external funds    | 8         | 4                        | 30            | 9         | 51         |
| Benefits paid                           | (11)      | (3)                      | (29)          | (7)       | (50)       |
| Actuarial gains and losses              | -         | 9                        | 3             | -         | 12         |
| Translation adjustment                  | -         | (11)                     | 10            | 2         | 1          |
| Other movements                         | -         | -                        | (49)          | -         | (49)       |
| <b>PLAN ASSETS AT DECEMBER 31, 2016</b> | <b>7</b>  | <b>80</b>                | <b>334</b>    | <b>89</b> | <b>510</b> |

The decrease in the fair value of plan assets at December 31, 2016 is chiefly attributable to the lump-sum program in the United States (see Note 5.3.3, page 316). The actual return on plan assets represented 31 million euros and the expected return totaled 19 million euros, recognized in other financial income and expenses. The 12 million euro difference reflects

actuarial gains resulting from experience adjustments and was recognized within other comprehensive income in 2016.

Contributions totaling 51 million euros were paid to external funds in 2016, representing a sharp increase compared with initial estimates due to the lump-sum program carried out in the United States. Contributions in 2017 are estimated at 29 million euros.

## 2015

| (in millions of euros)                  | France    | Other European countries | North America | Asia      | Total      |
|-----------------------------------------|-----------|--------------------------|---------------|-----------|------------|
| <b>PLAN ASSETS AT JANUARY 1, 2015</b>   | <b>6</b>  | <b>72</b>                | <b>345</b>    | <b>70</b> | <b>493</b> |
| 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         |
| <b>PLAN ASSETS AT DECEMBER 31, 2015</b> | <b>10</b> | <b>78</b>                | <b>354</b>    | <b>84</b> | <b>526</b> |



### 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)                                            | 2016         | 2015         | 2014         | 2013 <sup>(1)</sup> | 2012 <sup>(1)</sup> |
|-------------------------------------------------------------------|--------------|--------------|--------------|---------------------|---------------------|
| Engagements                                                       | 1,582        | 1,526        | 1,552        | 1,146               | 1,253               |
| Financial assets                                                  | (510)        | (526)        | (493)        | (368)               | (358)               |
| <b>Net benefit obligations</b>                                    | <b>1,072</b> | <b>1,000</b> | <b>1,059</b> | <b>778</b>          | <b>895</b>          |
| Actuarial (losses) gains recognized in other comprehensive income | (92)         | 93           | (225)        | 102                 | (153)               |

(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.

Actuarial gains and losses recognized in other comprehensive income in 2016 include:

- 102 million euros in actuarial losses on changes in actuarial assumptions, chiefly due to the fall in discount rates, notably in the eurozone and in the United States;
- 2 million euros in actuarial losses resulting from experience adjustments on benefit obligations; and
- 12 million euros in actuarial gains resulting from experience adjustments arising on the return on plan assets.

### 5.3.7 Sensitivity of obligations

The discount rates and inflation rates applied in each geographic area or country have a significant impact on the amount of the Group's benefit obligations.

A 0.5-point increase or decrease in these rates would have the following impact on the projected benefit obligation at December 31, 2016:

| (in millions of euros)         | France | Other European countries | North America | Asia | Total |
|--------------------------------|--------|--------------------------|---------------|------|-------|
| <b>Discount rate</b>           |        |                          |               |      |       |
| Impact of a 0.5-point increase | (11)   | (61)                     | (32)          | (6)  | (110) |
| Impact of a 0.5-point decrease | 16     | 64                       | 34            | 6    | 120   |
| <b>Salary inflation rate</b>   |        |                          |               |      |       |
| Impact of a 0.5-point increase | 16     | 3                        | 1             | 4    | 24    |
| Impact of a 0.5-point decrease | (14)   | (2)                      | (1)           | (4)  | (21)  |

At December 31, 2016, 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 2017 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 5 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 10 years in respect of pension plans and other employee benefits can be estimated as follows:

| <i>(in millions of euros)</i> | France     | Other European countries | North America | Asia       | Total      |
|-------------------------------|------------|--------------------------|---------------|------------|------------|
| 2017                          | 24         | 14                       | 36            | 11         | 85         |
| 2018                          | 8          | 15                       | 35            | 15         | 73         |
| 2019                          | 21         | 15                       | 34            | 13         | 83         |
| 2020                          | 12         | 16                       | 34            | 14         | 76         |
| 2021                          | 11         | 17                       | 34            | 13         | 75         |
| 2022/2026                     | 88         | 94                       | 166           | 76         | 424        |
| <b>TOTAL</b>                  | <b>164</b> | <b>171</b>               | <b>339</b>    | <b>142</b> | <b>816</b> |

## 5.4 Share-based payment

Some Group employees receive equity-settled compensation in the form of share-based payment.

### Free share plans

The fair value of the benefit granted to employees within the scope of free share plans is estimated based on the share price at the grant date, taking into account a discount corresponding to the dividends forfeited over the vesting period and a discount to reflect the lock-up period requirement, calculated using the approach set out in the French National accounting board's (CNC) December 2004 statement.

The overall cost of equity-settled plans is calculated and fixed at the grant date of the plan concerned. The number of instruments that Valeo expects to deliver to beneficiaries factors in the turnover of the beneficiary populations concerned by each plan. Since the final allotment of free shares is subject to a presence condition, this personnel expense is recognized against equity on a straight-line basis over the rights vesting period.

### Stock purchase option plans

The cost of stock purchase option plans is also recorded in personnel expenses. It 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.

Stock purchase options and free shares are included in the calculation of diluted earnings per share, as described in Note 10.2, page 357.

An expense of 21 million euros was booked in 2016 in respect of stock option and free share plans (18 million euros in 2015).

### 5.4.1 Free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by Valeo at December 31, 2016 are as follows:

| Year in which plan was set up | Number of free shares authorized <sup>(1)</sup> | of which subject to conditions <sup>(2)</sup> | Outstanding shares not yet granted at Dec. 31, 2016 | Year of vesting <sup>(3)</sup> |
|-------------------------------|-------------------------------------------------|-----------------------------------------------|-----------------------------------------------------|--------------------------------|
| 2011                          | 980,580                                         | 379,440                                       | -                                                   | 2014/2016                      |
| 2012                          | 639,420                                         | 351,660                                       | 104,256                                             | 2015/2017                      |
| 2013                          | 1,421,442                                       | 669,942                                       | 464,946                                             | 2016/2018                      |
| 2014                          | 970,440                                         | 316,770                                       | 846,468                                             | 2017/2019                      |
| 2015                          | 957,027                                         | 260,805                                       | 848,481                                             | 2018/2020                      |
| 2016                          | 1,267,022                                       | 573,522                                       | 910,662                                             | 2019/2021                      |
| <b>TOTAL</b>                  | <b>6,235,931</b>                                | <b>2,552,139</b>                              | <b>3,174,813</b>                                    |                                |

(1) The number of authorized free shares along with their exercise price differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1, page 355).

(2) These free shares are subject to the Group meeting performance conditions.

(3) The vesting year varies depending on the country in which the plan's beneficiaries are based.

The main data and assumptions underlying the valuation of free share plans at fair value were as follows:

| Free shares                                        | 2016        |                 | 2015 <sup>(1)</sup> |                 |
|----------------------------------------------------|-------------|-----------------|---------------------|-----------------|
|                                                    | France      | Other countries | France              | Other countries |
| Share price at grant date (in euros)               | 46.1        | 46.1            | 45.9                | 45.9            |
| Risk-free rate (%)                                 | (0.1)       | -               | 0.1                 | 0.3             |
| Dividend rate (%)                                  | 3.3         | -               | 2.7                 | -               |
| <b>Fair value of equity instruments (in euros)</b> | <b>38.9</b> | <b>39.5</b>     | <b>40.0</b>         | <b>40.2</b>     |

(1) The share price at the grant date and the fair value of equity instruments shown for 2015 differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1, page 355).

### 5.4.2 Stock purchase option plans

The terms and conditions of the employee stock purchase option plans operated by the Valeo Group at December 31, 2016 were as follows:

| Year in which plan was set up | Number of shares under option <sup>(1)</sup> | of which subject to conditions <sup>(1)(2)</sup> | Exercise price (in euros) <sup>(1)(3)</sup> | Outstanding options not yet exercised at Dec. 31, 2016 | Expiration date |
|-------------------------------|----------------------------------------------|--------------------------------------------------|---------------------------------------------|--------------------------------------------------------|-----------------|
| 2010                          | 3,000,000                                    | 1,834,095                                        | 8.02                                        | 331,913                                                | 2018            |
| 2011                          | 878,520                                      | 631,110                                          | 14.14                                       | 117,905                                                | 2019            |
| 2012                          | 1,101,480                                    | 795,690                                          | 13.59                                       | 376,855                                                | 2020            |
| <b>TOTAL</b>                  | <b>4,980,000</b>                             | <b>3,260,895</b>                                 |                                             | <b>826,673</b>                                         |                 |

(1) The number of authorized options along with their exercise price differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1, page 355).

(2) These stock purchase options are subject to the Group meeting performance conditions.

(3) 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.

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## 5.4.3 Movements in stock purchase option and free share plans

Movements in stock purchase option and free share plans in 2016 and 2015 are detailed below:

## 2016

|                                                                                            | Number of options<br>and free shares | Weighted average<br>exercise price |
|--------------------------------------------------------------------------------------------|--------------------------------------|------------------------------------|
| <b>OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT JANUARY 1, 2016<sup>(1)</sup></b> | <b>5,075,178</b>                     | <b>3.86</b>                        |
| Options/Free shares granted                                                                | 1,267,022                            | -                                  |
| Options/Free shares canceled                                                               | (480,941)                            | 0.19                               |
| Options/Free shares expired                                                                | (85,374)                             | 8.55                               |
| Options exercised/Free shares remitted                                                     | (1,774,399)                          | 5.24                               |
| <b>OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT DECEMBER 31, 2016</b>             | <b>4,001,486</b>                     | <b>2.36</b>                        |
| <b>OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2016</b>                                  | <b>826,673</b>                       | <b>11.43</b>                       |

(1) The number of authorized options and free shares along with their weighted exercise price differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1, page 355).

## 2015

|                                                                                | Number of options<br>and free shares <sup>(1)</sup> | Weighted average<br>exercise price <sup>(1)</sup> |
|--------------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------|
| <b>OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT JANUARY 1, 2015</b>   | <b>6,577,773</b>                                    | <b>6.09</b>                                       |
| Options/Free shares granted                                                    | 957,027                                             | -                                                 |
| Options/Free shares canceled                                                   | (169,944)                                           | 1.03                                              |
| Options/Free shares expired                                                    | (176,250)                                           | 12.27                                             |
| Options exercised/Free shares remitted                                         | (2,113,428)                                         | 8.58                                              |
| <b>OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT DECEMBER 31, 2015</b> | <b>5,075,178</b>                                    | <b>3.86</b>                                       |
| <b>OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2015</b>                      | <b>1,660,314</b>                                    | <b>11.78</b>                                      |

(1) The number of authorized options and free shares along with their weighted exercise price differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1, page 355).

## 5.4.4 Employee share ownership plan: Shares4U

In countries that meet the Group's eligibility criteria and where permitted by local laws and regulations, Valeo offers its employee beneficiaries the possibility of becoming shareholders through an employee share issue carried out specifically for this purpose.

In 2016, a conventional plan was offered to employees, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chairman and Chief Executive Officer acting on the authority of the Board of Directors on September 19, 2016. The subscription price of 38.12 euros is the average of the Group's opening share price on the 20 trading days preceding the date of the decision, less a 20% discount. The shares are locked up for five years (except in the case of an early release event provided for by the applicable local law). Employees bear the risk of fluctuations in the share price relative to the subscription price.

By subscribing to shares within the scope of the Group Employee Savings Plan (*Plan d'Épargne de Groupe* - PEG), employees can benefit from a contribution from their employer. Outside France, employees are awarded free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan. Free shares awarded are existing Valeo shares repurchased on the market.

In all, 755,511 shares were subscribed at a price of 38.12 euros, representing a 29 million euro capital increase which took place on November 15, 2016 (see Note 10.1.1.2 and Note 10.1.2, page 355).

The cost of this plan was estimated in accordance with the aforementioned CNC statement, taking into account the applicable five-year lock-up period for the employees.

The assumptions used to value the equity instruments were as follows:

|                                    | 2016         |
|------------------------------------|--------------|
| Date rights granted                | September 19 |
| Reference price                    | €47.65       |
| Face value discount                | 20%          |
| Subscription price                 | €38.12       |
| Beneficiary's 5-year interest rate | 3.87%        |
| Risk-free interest rate            | -0.105%      |
| Repo rate                          | -0.147%      |

Including a discount to reflect the lock-up period requirement, the total cost of Shares4U 2016 is 14 million euros, of which 6 million euros were recognized in personnel expenses for the period (excluding social security charges).

## 5.5 Executive compensation (Related party transactions)

The Group's key management personnel include the Chairman and Chief Executive Officer, the members of the Board of Directors, and the members of the Operations Committee. At December 31, 2016, the Operations Committee had 15 members.

Valeo's Board of Directors approved a number of agreements resulting in the eligibility of the Chief Executive Officer – now the Chairman and Chief Executive Officer following his appointment as Chairman of the Board of Directors and following the combination of the roles of Chairman and Chief Executive Officer on February 18, 2016 – for the following benefits:

- life insurance covering death, disability, or any consequences of accidents during business travel;
- a non-competition payment over a period of 12 months in the event of his departure from Valeo. If this clause is adopted, the Chairman and Chief Executive Officer will receive a non-competition payment equal to 12 months of compensation. 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 Chairman and Chief Executive Officer leaves, in particular when he leaves Valeo to claim or after having claimed his pension rights;

- a defined benefit pension including the option of paying over benefits to the surviving beneficiary in the event of death if the main beneficiary is still working and if the event occurs after the legal voluntary retirement age. The supplementary pension is capped at 20% of the reference salary. The reference salary takes into account the basic fixed compensation and the portion of variable compensation actually paid for the periods after February 1, 2014. Since February 18, 2016, vesting of rights to this supplementary pension is subject to a performance condition, the attainment of which is reviewed each year.

On taking up the role of Chairman and Chief Executive Officer, Jacques Aschenbroich stated that he would waive the termination benefits for which he may have been eligible in respect of his duties as Chief Executive Officer. This was placed on record by the Board of Directors.

Compensation and other benefits accruing to the members of the Board of Directors and to the members of the Operations Committee can be analyzed as follows:

| (in millions of euros)                                | 2016 | 2015 |
|-------------------------------------------------------|------|------|
| <b>SHORT-TERM BENEFITS</b>                            |      |      |
| ■ Fixed, variable, exceptional and other compensation | 13   | 13   |
| ■ Attendance fees                                     | 1    | 1    |
| <b>Other benefits</b>                                 |      |      |
| ■ Post-employment benefits                            | 2    | 2    |
| ■ Share-based compensation                            | 5    | 4    |

At December 31, 2016, provisions included in the Group's statement of financial position in respect of pension obligations accruing to executive managers amounted to 14 million euros, compared with 15 million euros at December 31, 2015.

## 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 294.

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 2016 and 2015 were carried out as described in Note 6.4, pages 328 to 331.

Changes in goodwill in 2016 and 2015 are analyzed below:

| (in millions of euros)                                 | 2016         | 2015         |
|--------------------------------------------------------|--------------|--------------|
| <b>NET GOODWILL AT JANUARY 1</b>                       | <b>1,450</b> | <b>1,374</b> |
| Acquisitions during the year                           | 453          | 2            |
| Disposals during the year                              | (4)          | -            |
| Translation adjustment                                 | 23           | 74           |
| <b>NET GOODWILL AT DECEMBER 31</b>                     | <b>1,922</b> | <b>1,450</b> |
| Including accumulated impairment losses at December 31 | -            | -            |

The increase in goodwill during the year primarily relates to the acquisitions of peiker (see Note 2.2.1.1, page 295) and Spheros (see Note 2.2.1.2, page 296) and, to a lesser extent, the increase in the value of the yen over the period. These impacts were very slightly offset by the derecognition of goodwill related to the high-voltage powertrain systems business following the creation of the joint venture with Siemens (see Note 2.2.1.3, page 297).

The translation adjustment in 2015 primarily reflects the impacts of exchange rate fluctuations regarding the US dollar (37 million euros), Japanese yen (24 million euros) and Chinese renminbi (6 million euros).

Goodwill can be broken down by Business Group as follows:

| (in millions of euros)                                                                                                                                                                                                                                                                                      | December 31, 2016 | December 31, 2015 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|  <ul style="list-style-type: none"> <li>27% – Comfort &amp; Driving Assistance Systems</li> <li>18% – Powertrain Systems</li> <li>31% – Thermal Systems</li> <li>24% – Visibility Systems</li> <li>0% – Other</li> </ul> | 521               | 309               |
|                                                                                                                                                                                                                                                                                                             | 344               | 350               |
|                                                                                                                                                                                                                                                                                                             | 590               | 329               |
|                                                                                                                                                                                                                                                                                                             | 466               | 461               |
|                                                                                                                                                                                                                                                                                                             | 1                 | 1                 |
| <b>Goodwill</b>                                                                                                                                                                                                                                                                                             | <b>1,922</b>      | <b>1,450</b>      |



## 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, pages 328 to 331.

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. 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 based on their useful lives
- other intangible assets 3 to 5 years

Other intangible assets can be analyzed as follows:

| (in millions of euros)                             | December 31, 2016     |                                    |                     | December 31, 2015   |
|----------------------------------------------------|-----------------------|------------------------------------|---------------------|---------------------|
|                                                    | Gross carrying amount | Amortization and impairment losses | Net carrying amount | Net carrying amount |
| Software                                           | 308                   | (238)                              | 70                  | 43                  |
| Patents and licenses                               | 185                   | (95)                               | 90                  | 36                  |
| Capitalized development expenditure                | 2,300                 | (1,307)                            | 993                 | 893                 |
| Customer relationships and other intangible assets | 354                   | (148)                              | 206                 | 145                 |
| Intangible assets in progress                      | 23                    | -                                  | 23                  | 31                  |
| <b>Other intangible assets</b>                     | <b>3,170</b>          | <b>(1,788)</b>                     | <b>1,382</b>        | <b>1,148</b>        |

Changes in intangible assets in 2016 and 2015 are analyzed below:

### 2016

| (in millions of euros)                          | Software   | Patents and licenses | Capitalized development expenditure | Customer relationships and other intangible assets | Intangible assets in progress | Total        |
|-------------------------------------------------|------------|----------------------|-------------------------------------|----------------------------------------------------|-------------------------------|--------------|
| <b>GROSS CARRYING AMOUNT AT JANUARY 1, 2016</b> | <b>244</b> | <b>109</b>           | <b>1,973</b>                        | <b>272</b>                                         | <b>31</b>                     | <b>2,629</b> |
| Accumulated amortization and impairment         | (201)      | (73)                 | (1,080)                             | (127)                                              | -                             | (1,481)      |
| <b>NET CARRYING AMOUNT AT JANUARY 1, 2016</b>   | <b>43</b>  | <b>36</b>            | <b>893</b>                          | <b>145</b>                                         | <b>31</b>                     | <b>1,148</b> |
| Acquisitions                                    | 23         | 1                    | 437                                 | 3                                                  | 19                            | 483          |
| Disposals                                       | -          | -                    | (36)                                | -                                                  | -                             | (36)         |
| Changes in scope of consolidation               | 2          | 64                   | -                                   | 75                                                 | -                             | 141          |
| Impairment                                      | -          | -                    | (20)                                | 1                                                  | -                             | (19)         |
| Amortization                                    | (25)       | (14)                 | (238)                               | (18)                                               | -                             | (295)        |
| Translation adjustment                          | 1          | (1)                  | -                                   | 1                                                  | (1)                           | -            |
| Reclassifications                               | 26         | 4                    | (43)                                | (1)                                                | (26)                          | (40)         |
| <b>NET CARRYING AMOUNT AT DECEMBER 31, 2016</b> | <b>70</b>  | <b>90</b>            | <b>993</b>                          | <b>206</b>                                         | <b>23</b>                     | <b>1,382</b> |

Changes in the scope of consolidation result primarily from the acquisitions of peiker and Spheros (see Notes 2.2.1.1 and 2.2.1.2, respectively, pages 295 and 296).

Reclassifications chiefly relate to intangible assets contributed on creation of the joint venture with Siemens, which were recognized as held for sale (see Note 2.2.1.3, page 297).

## 2015

| <i>(in millions of euros)</i>                   | Software | Patents and licenses | Capitalized development expenditure | Customer relationships and other intangible assets | Intangible assets in progress | Total   |
|-------------------------------------------------|----------|----------------------|-------------------------------------|----------------------------------------------------|-------------------------------|---------|
| <b>GROSS CARRYING AMOUNT AT JANUARY 1, 2015</b> | 212      | 96                   | 1,792                               | 277                                                | 37                            | 2,414   |
| Accumulated amortization and impairment         | (185)    | (68)                 | (1,026)                             | (123)                                              | -                             | (1,402) |
| <b>NET CARRYING AMOUNT AT JANUARY 1, 2015</b>   | 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)    |
| <b>NET CARRYING AMOUNT AT DECEMBER 31, 2015</b> | 43       | 36                   | 893                                 | 145                                                | 31                            | 1,148   |

Reclassifications to “Capitalized development expenditure” and “Customer relationships and other intangible assets” in 2015 chiefly relate to intangible assets within the Engine Control business recognized as held for sale (see Note 2.2.1.4, page 298).

## 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, pages 328 to 331.

### 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.

### Tax credits

In certain countries, the government can contribute to the Group’s investment expenditure in the form of tax credits. The tax credits received are analyzed to determine whether they fall within the scope of IAS 12 – “Income Taxes” or whether they should be considered as a government subsidy. In the latter case, the tax credit is recognized in income over the period during which the subsidized assets are depreciated, as a deduction from depreciation expense.

Property, plant and equipment can be analyzed as follows:

| (in millions of euros)                    | December 31, 2016     |                                    |                     | December 31, 2015   |
|-------------------------------------------|-----------------------|------------------------------------|---------------------|---------------------|
|                                           | Gross carrying amount | Depreciation and impairment losses | Net carrying amount | Net carrying amount |
| Land                                      | 256                   | (13)                               | 243                 | 200                 |
| Buildings                                 | 1,360                 | (905)                              | 455                 | 439                 |
| Machinery and industrial equipment        | 5,649                 | (4,114)                            | 1,535               | 1,354               |
| Specific tooling                          | 1,837                 | (1,644)                            | 193                 | 176                 |
| Other property, plant and equipment       | 555                   | (493)                              | 62                  | 57                  |
| Property, plant and equipment in progress | 578                   | (1)                                | 577                 | 518                 |
| <b>Property, plant and equipment</b>      | <b>10,235</b>         | <b>(7,170)</b>                     | <b>3,065</b>        | <b>2,744</b>        |

Certain items of property, plant and equipment were pledged as security at December 31, 2016 (see Note 6.5.2, page 332).

Changes in property, plant and equipment in 2016 and 2015 are analyzed below:

## 2016

| (in millions of euros)                          | Land       | Buildings    | Machinery and industrial equipment | Specific tooling | Other property, plant and equipment | Property, plant and equipment in progress | Total        |
|-------------------------------------------------|------------|--------------|------------------------------------|------------------|-------------------------------------|-------------------------------------------|--------------|
| <b>GROSS CARRYING AMOUNT AT JANUARY 1, 2016</b> | <b>212</b> | <b>1,283</b> | <b>5,170</b>                       | <b>1,713</b>     | <b>488</b>                          | <b>522</b>                                | <b>9,388</b> |
| Accumulated depreciation and impairment         | (12)       | (844)        | (3,816)                            | (1,537)          | (431)                               | (4)                                       | (6,644)      |
| <b>NET CARRYING AMOUNT AT JANUARY 1, 2016</b>   | <b>200</b> | <b>439</b>   | <b>1,354</b>                       | <b>176</b>       | <b>57</b>                           | <b>518</b>                                | <b>2,744</b> |
| Acquisitions                                    | 6          | 32           | 259                                | 81               | 28                                  | 472                                       | 878          |
| Disposals                                       | -          | (2)          | (8)                                | (2)              | (1)                                 | (2)                                       | (15)         |
| Changes in scope of consolidation               | 8          | 22           | 23                                 | -                | 15                                  | 4                                         | 72           |
| Impairment                                      | -          | -            | (43)                               | (1)              | 3                                   | (2)                                       | (43)         |
| Depreciation                                    | -          | (57)         | (330)                              | (116)            | (42)                                | -                                         | (545)        |
| Translation adjustment                          | 5          | -            | 4                                  | -                | -                                   | -                                         | 9            |
| Reclassifications                               | 24         | 21           | 276                                | 55               | 2                                   | (413)                                     | (35)         |
| <b>NET CARRYING AMOUNT AT DECEMBER 31, 2016</b> | <b>243</b> | <b>455</b>   | <b>1,535</b>                       | <b>193</b>       | <b>62</b>                           | <b>577</b>                                | <b>3,065</b> |

Changes in the scope of consolidation result primarily from the acquisitions of peiker and Spheros (see Notes 2.2.1.1 and 2.2.1.2, respectively, pages 295 and 296).

Reclassifications chiefly relate to assets brought into service during the year along with property, plant and equipment contributed on creation of the joint venture with Siemens which were recognized as held for sale (see Note 2.2.1.3, page 297).

## 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        |
|-------------------------------------------------|------------|--------------|------------------------------------|------------------|-------------------------------------|-------------------------------------------|--------------|
| <b>GROSS CARRYING AMOUNT AT JANUARY 1, 2015</b> | <b>208</b> | <b>1,179</b> | <b>4,731</b>                       | <b>1,601</b>     | <b>480</b>                          | <b>458</b>                                | <b>8,657</b> |
| Accumulated depreciation and impairment         | (14)       | (776)        | (3,535)                            | (1,428)          | (406)                               | (1)                                       | (6,160)      |
| <b>NET CARRYING AMOUNT AT JANUARY 1, 2015</b>   | <b>194</b> | <b>403</b>   | <b>1,196</b>                       | <b>173</b>       | <b>74</b>                           | <b>457</b>                                | <b>2,497</b> |
| 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)         |
| <b>NET CARRYING AMOUNT AT DECEMBER 31, 2015</b> | <b>200</b> | <b>439</b>   | <b>1,354</b>                       | <b>176</b>       | <b>57</b>                           | <b>518</b>                                | <b>2,744</b> |

**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.

Finance leases included within property, plant and equipment can be analyzed as follows:

| (in millions of euros)              | December 31, 2016 | December 31, 2015 |
|-------------------------------------|-------------------|-------------------|
| Buildings                           | 12                | 6                 |
| Machinery and industrial equipment  | 4                 | 3                 |
| Other property, plant and equipment | 3                 | 3                 |
| <b>TOTAL</b>                        | <b>19</b>         | <b>12</b>         |

## 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. Two new CGUs were created in 2016 in connection with the acquisition of peiker (see Note 2.2.1.1, page 295) and Spheros (see Note 2.2.1.2, page 296). A total of 27 CGUs had been identified at the end of December 2016. 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.

Valeo may review the value in use of certain assets and recognize non-recurring 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 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%, which is the same as that used in 2015 and is in line with the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 9% (unchanged from 2015), calculated using the discount rate method reviewed by an independent expert in 2015. The sample of comparable companies 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 1.09 (1.10 in 2015).

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, model and powertrain, taking into account expected product developments in the CGU's order book.

The medium-term business plans for 2017-2021 are underpinned by the following assumptions:

- world automotive production of 104 million vehicles in 2021, representing average annual growth of 2.3% for 2016-2021. This assumption is consistent with several independent external forecasts available in April 2016, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 55% of global production, Europe and Africa 24%, North America 18% and South America 3%;
- 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: 1.25 US dollars, 8.06 Chinese renminbi, 144 Japanese yen, 1,425 South Korean won and 5.06 Brazilian real at the end of the plan;

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- 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 2016 or 2015 as a result of the impairment tests carried out at the level of Business Groups in line with the methodology described above.

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 2016 | 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 Business Group | 1,730                         | (478)                              | (207)                                   | (181)                                                                        | (779)                            |
| Powertrain Systems Business Group                   | 2,613                         | (574)                              | (245)                                   | (213)                                                                        | (930)                            |
| Thermal Systems Business Group                      | 2,604                         | (561)                              | (239)                                   | (225)                                                                        | (923)                            |
| Visibility Systems Business Group                   | 3,433                         | (639)                              | (272)                                   | (232)                                                                        | (1,030)                          |

#### 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 2016, a fall of more than 20% in 2016 sales compared to 2015, and a recurring substantial shortfall with respect to the objectives set in the medium-term plans.

The scope of the CGUs tested for impairment was defined at the end of October 2016 and remained unchanged at the end of the period, since no adverse events occurred. Five CGUs were selected:

- the Electronics Product Group (part of the Powertrain Systems Business Group);
- the Air Charging Systems Product Line (part of the Powertrain Systems Business Group);
- the Active Safety Systems Product Line (part of the Comfort & Driving Assistance Systems Business Group);
- the Access & Remote Control Product Line (part of the Comfort & Driving Assistance Systems Business Group);
- the Compressors Product Group (part of the Thermal Systems Business Group).

#### 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.

The following 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 assumptions used in the medium-term business plan for the Compressors Product Group were revised, mainly to take into account the downward revision of objectives under productivity plans aimed at significantly improving the profitability of certain products. The impairment test carried out on this basis led the Group to recognize an impairment loss of 49 million euros for this CGU in 2016.

The impairment test carried out on the Electronics Product Group led the Group to recognize an impairment loss of 12 million euros to reflect the operational difficulties of the Product Group in meeting its targets in terms of technical productivity gains.

These impairment losses were recognized in other income and expenses (see Note 4.6.2, pages 311 to 312).

#### 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 this headroom of changes in key assumptions is set out in the following table for each of the five CGUs tested for impairment:

|                                          | Headroom of the test          | Impact on the headroom of the test |                                         |                                                                              |                                  |
|------------------------------------------|-------------------------------|------------------------------------|-----------------------------------------|------------------------------------------------------------------------------|----------------------------------|
|                                          | Based on assumptions for 2016 | 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            | (12)                          | (23)                               | (10)                                    | (25)                                                                         | (51)                             |
| Air Charging Systems Product Line CGU    | 83                            | (22)                               | (10)                                    | (6)                                                                          | (33)                             |
| Active Safety Systems Product Line CGU   | 25                            | (42)                               | (20)                                    | (26)                                                                         | (79)                             |
| Access & Remote Control Product Line CGU | 4                             | (13)                               | (6)                                     | (7)                                                                          | (23)                             |
| Compressors Product Group CGU            | (50)                          | (26)                               | (12)                                    | (25)                                                                         | (55)                             |

#### 6.4.6 Impairment of Brazilian and Argentinian assets

Since cash flow forecasts remain very weak for the whole of the 2017-2021 period, the Group has maintained the impairment losses it recognized against its Brazilian and Argentinian assets which had been included in other income and expenses in the 2015 consolidated statement of income (see Note 4.6.2.4, page 312).

### 6.5 Off-balance sheet commitments relating to operating activities

#### 6.5.1 Leases

Future minimum lease payment commitments outstanding at December 31, 2016 and 2015 (excluding capital leases) are as follows:

| <i>(in millions of euros)</i> | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Less than 1 year              | 68                | 58                |
| 1 to 5 years                  | 173               | 102               |
| More than 5 years             | 87                | 30                |
| <b>TOTAL</b>                  | <b>328</b>        | <b>190</b>        |

Lease rentals recognized as expenses in the period in respect of outstanding lease agreements (excluding payments under finance leases) totaled 84 million euros in 2016 and 73 million euros in 2015.

Lease commitments in respect of capital leases are as follows at December 31, 2016 and 2015:

| <i>(in millions of euros)</i>                  | December 31, 2016 | December 31, 2015 |
|------------------------------------------------|-------------------|-------------------|
| <b>Future minimum lease payments:</b>          |                   |                   |
| Less than 1 year                               | 3                 | 2                 |
| 1 to 5 years                                   | 9                 | 7                 |
| More than 5 years                              | 7                 | 1                 |
| <b>TOTAL</b>                                   | <b>19</b>         | <b>10</b>         |
| Of which interest charges                      | -                 | (1)               |
| <b>Present value of future lease payments:</b> |                   |                   |
| Less than 1 year                               | 3                 | 1                 |
| 1 to 5 years                                   | 9                 | 7                 |
| More than 5 years                              | 7                 | 1                 |
| <b>TOTAL</b>                                   | <b>19</b>         | <b>9</b>          |

### 6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 401 million euros at December 31, 2016, versus 253 million euros at December 31, 2015.

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, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | 11                | 11                |
| Financial assets              | 2                 | 2                 |
| <b>TOTAL</b>                  | <b>13</b>         | <b>13</b>         |

## Note 7 Other provisions and contingent liabilities

### 7.1 Other provisions

A provision is recognized when:

- the Group has a present legal, contractual 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 at the end of the reporting period.

Provisions for customer 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 for tax disputes relate to probable risks arising on positions taken by the Group or its subsidiaries. Each position is assessed individually and not offset, and reflects the best estimate of the risk at the end of the reporting period. Where applicable, it includes any late-payment interest and fines.

Provisions intended to cover commercial risks and disputes arising in the ordinary course of operations are also included in this caption.

Provisions relating to events that are expected to materialize in more than one year or whose timing cannot be reliably determined are classified within "Other provisions – long-term portion".

Movements in provisions in 2016 and 2015 are shown in the table below:

| <i>(in millions of euros)</i>                 | Provisions for product warranties | Provisions for restructuring costs | Other provisions | Total      |
|-----------------------------------------------|-----------------------------------|------------------------------------|------------------|------------|
| <b>PROVISIONS AT JANUARY 1</b>                | <b>183</b>                        | <b>82</b>                          | <b>180</b>       | <b>445</b> |
| Additions                                     | 125                               | 20                                 | 153              | 298        |
| Amounts utilized during the year              | (65)                              | (20)                               | (31)             | (116)      |
| Reversals                                     | (21)                              | (1)                                | (24)             | (46)       |
| Changes in scope                              | 20                                | -                                  | 32               | 52         |
| Translation adjustment and other movements    | -                                 | 3                                  | 15               | 18         |
| <b>PROVISIONS AT DECEMBER 31, 2016</b>        | <b>242</b>                        | <b>84</b>                          | <b>325</b>       | <b>651</b> |
| Of which current portion (less than one year) | 132                               | 63                                 | 105              | 300        |

At December 31, 2016, the Group did not recognize any individually material income offsetting expected outflows of resources in respect of the above provisions.

At December 31, 2016 and 2015, provisions break down as follows:

| <i>(in millions of euros)</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                           | December 31, 2016 | December 31, 2015 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|  <p><b>651</b><br/>in 2016</p> <ul style="list-style-type: none"> <li>■ 37% – Provisions for product warranties</li> <li>■ 14% – Provisions for tax-related disputes</li> <li>■ 13% – Provisions for restructuring costs</li> <li>■ 2% – Environmental provisions</li> <li>■ 6% – Provisions for loss-making contracts</li> <li>■ 28% – Provisions for employee-related and other disputes</li> </ul> | 242               | 183               |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 89                | 79                |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 84                | 82                |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 14                | 14                |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 40                | 9                 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 182               | 78                |
| <b>Provisions for other contingencies</b>                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>651</b>        | <b>445</b>        |

“Provisions for employee-related and other disputes”, which totaled 182 million euros at December 31, 2016, cover risks arising in connection with former employees (in particular relating to asbestos), intellectual property disputes and various other disputes related to Valeo’s operating activities across the globe, as well as the main risks relating to antitrust investigations. The increase during the period results mainly from developments in ongoing antitrust proceedings (see Note 7.2, page 333).

## 7.2 Antitrust investigations

At the end of July 2011, antitrust investigations were initiated against several automotive suppliers (including Valeo) by the US and European antitrust authorities in the area of components and systems supplied to the automotive industry.

In the United States, a 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. This agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings instituted or likely to be instituted by the US federal authorities against the Valeo Group for practices that came to light during their investigations.

Three class actions were filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, which Valeo has settled. The first class action, which was brought by automotive dealers, was settled on August 25, 2016 and was definitively approved by the competent court on November 30, 2016. The second, which was brought by automotive end purchasers, was settled on September 28, 2016 (pending definitive approval by the competent court in 2017). The third class action in the United States, which was brought by a purported group of direct purchasers, was recently settled (pending definitive approval by the United States District Court for the Eastern District of Michigan in 2017). Separately, two class actions are still ongoing in Canada.

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

In 2016, Valeo recognized an expense of 99 million euros to cover the main risks associated with its global antitrust proceedings and cases.

### 7.3 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 provisions deemed necessary have been made to cover the related risks.

## Note 8 Financing and financial instruments

### 8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- long-term debt, liabilities relating to put options granted to holders of non-controlling interests, and short-term debt and bank overdrafts, which make up gross debt (see Note 8.1.2, page 336);
- loans and other non-current financial assets (see Note 8.1.3.1, page 341);
- cash and cash equivalents (see Note 8.1.3.2, page 341);
- derivative instruments (see Note 8.1.4, page 342);
- other current and non-current financial assets and liabilities (see Note 8.1.5, page 349).

## 8.1.1 Fair value of financial assets and liabilities

| (in millions of euros)                                                                  | 2016 carrying amount under IAS 39 |                           |                           | December 31, 2016 | December 31, 2015 |
|-----------------------------------------------------------------------------------------|-----------------------------------|---------------------------|---------------------------|-------------------|-------------------|
|                                                                                         | Amortized cost                    | Fair value through equity | Fair value through income | Carrying amount   | Carrying amount   |
| <b>ASSETS</b>                                                                           |                                   |                           |                           |                   |                   |
| Non-current financial assets:                                                           |                                   |                           |                           |                   |                   |
| ■ Available-for-sale financial assets                                                   | -                                 | 44                        | -                         | 44                | 31                |
| ■ Loans                                                                                 | 24                                | -                         | -                         | 24                | 1                 |
| ■ Deposits and guarantees                                                               | 24                                | -                         | -                         | 24                | 19                |
| ■ Other non-current financial assets                                                    | 3                                 | -                         | -                         | 3                 | 4                 |
| ■ Hedging derivatives                                                                   | -                                 | 17                        | -                         | 17                | -                 |
| ■ Trading derivatives                                                                   | -                                 | -                         | 111                       | 111               | -                 |
| Assets relating to pensions and other employee benefits                                 | -                                 | -                         | -                         | -                 | 1                 |
| Accounts and notes receivable                                                           | 2,462                             | -                         | -                         | 2,462             | 1,964             |
| Other current financial assets:                                                         |                                   |                           |                           |                   |                   |
| ■ Hedging derivatives                                                                   | -                                 | 15                        | -                         | 15                | 8                 |
| ■ Trading derivatives                                                                   | -                                 | -                         | 5                         | 5                 | 17                |
| Cash and cash equivalents                                                               | -                                 | -                         | 2,359                     | 2,359             | 1,725             |
| <b>LIABILITIES</b>                                                                      |                                   |                           |                           |                   |                   |
| Non-current financial liabilities:                                                      |                                   |                           |                           |                   |                   |
| ■ Hedging derivatives                                                                   | -                                 | 4                         | -                         | 4                 | -                 |
| ■ Trading derivatives                                                                   | -                                 | -                         | 110                       | 110               | -                 |
| Bonds                                                                                   | 2,131                             | -                         | -                         | 2,131             | 1,138             |
| Syndicated loan                                                                         | -                                 | -                         | -                         | -                 | 250               |
| EIB (European Investment Bank) loans                                                    | 47                                | -                         | -                         | 47                | 122               |
| Other long-term debt                                                                    | 117                               | -                         | -                         | 117               | 107               |
| Liabilities associated with put options granted to holders of non-controlling interests | -                                 | 79                        | -                         | 79                | 39                |
| Accounts and notes payable                                                              | 3,884                             | -                         | -                         | 3,884             | 3,224             |
| Other current financial liabilities:                                                    |                                   |                           |                           |                   |                   |
| ■ Hedging derivatives                                                                   | -                                 | 9                         | -                         | 9                 | 8                 |
| ■ Trading derivatives                                                                   | -                                 | -                         | 17                        | 17                | 82                |
| Short-term debt                                                                         | 542                               | -                         | -                         | 542               | 128               |

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 the European Investment Bank (EIB) loan 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.

| (in millions of euros)                                      | December 31, 2016 |              |       | December 31, 2015 |              |       |
|-------------------------------------------------------------|-------------------|--------------|-------|-------------------|--------------|-------|
|                                                             | Carrying amount   | Fair value   | Level | Carrying amount   | Fair value   | Level |
| <b>ASSETS</b>                                               |                   |              |       |                   |              |       |
| Cash and cash equivalents                                   | 2,359             | 2,359        | 1     | 1,725             | 1,725        | 1     |
| Derivative financial instruments <sup>(1)</sup>             | 148               | 148          | 2-3   | 25                | 25           | 2     |
| <b>LIABILITIES</b>                                          |                   |              |       |                   |              |       |
| Bonds                                                       | 2,131             | 2,190        | 1     | 1,138             | 1,341        | 1     |
| Syndicated loan                                             | -                 | -            | -     | 250               | 252          | 2     |
| EIB (European Investment Bank) loan                         | 47                | 47           | 2     | 122               | 129          | 2     |
| Other long-term debt                                        | 117               | 117          | 2     | 107               | 107          | 1     |
| <b>Loans recognized at amortized cost</b>                   | <b>2,295</b>      | <b>2,354</b> |       | <b>1,617</b>      | <b>1,829</b> |       |
| Short-term debt                                             | 542               | 542          | 1-2   | 128               | 128          | 1     |
| Derivative financial instruments <sup>(1)</sup>             | 140               | 140          | 2-3   | 90                | 90           | 2     |
| Put options granted to holders of non-controlling interests | 79                | 79           | 3     | 39                | 39           | 3     |

(1) The method used to estimate the fair value of derivative financial instruments recorded in assets and liabilities corresponds to Level 2 in the fair value hierarchy for derivatives hedging foreign currency, commodity and interest rate risks (see Notes 8.1.4.1, 8.1.4.2 and 8.1.4.3, respectively, pages 343, 346 and 347). The method used to estimate the fair value of other derivative financial instruments corresponds to Level 2 or Level 3 in the fair value hierarchy (see Note 8.1.4.4, page 348).

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 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 2016, this has only a minimal impact on the Group.

### 8.1.2 Gross debt

Gross debt includes long-term debt, liabilities relating to put options granted to holders of non-controlling interests, and short-term debt and bank overdrafts.

At December 31, 2016, the Group's gross debt can be analyzed as follows:

| (in millions of euros)                                      | December 31, 2016 |            |              | December 31, 2015 |            |              |
|-------------------------------------------------------------|-------------------|------------|--------------|-------------------|------------|--------------|
|                                                             | Non-current       | Current    | Total        | Non-current       | Current    | Total        |
| Long-term debt                                              | 2,070             | 225        | 2,295        | 1,145             | 472        | 1,617        |
| Put options granted to holders of non-controlling interests | 23                | 56         | 79           | -                 | 39         | 39           |
| Short-term debt                                             | -                 | 542        | 542          | -                 | 128        | 128          |
| <b>Gross debt</b>                                           | <b>2,093</b>      | <b>823</b> | <b>2,916</b> | <b>1,145</b>      | <b>639</b> | <b>1,784</b> |



## 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.

## Analysis of long-term debt

| <i>(in millions of euros)</i>        | December 31, 2016 | December 31, 2015 |
|--------------------------------------|-------------------|-------------------|
| Bonds                                | 2,131             | 1,138             |
| Syndicated loan                      | -                 | 250               |
| EIB (European Investment Bank) loans | 47                | 122               |
| Lease obligations                    | 19                | 9                 |
| Other borrowings                     | 51                | 58                |
| Accrued interest                     | 47                | 40                |
| <b>Long-term debt</b>                | <b>2,295</b>      | <b>1,617</b>      |

## Change in and characteristics of long-term debt

| <i>(in millions of euros)</i>     | Bonds        | Syndicated loan | EIB (European Investment Bank) loans | Other loans and lease obligations | Accrued interest | Total        |
|-----------------------------------|--------------|-----------------|--------------------------------------|-----------------------------------|------------------|--------------|
| <b>CARRYING AMOUNT</b>            |              |                 |                                      |                                   |                  |              |
| <b>AT JANUARY 1, 2016</b>         | <b>1,138</b> | <b>250</b>      | <b>122</b>                           | <b>67</b>                         | <b>40</b>        | <b>1,617</b> |
| Increases/subscriptions           | 1,110        | -               | -                                    | 4                                 | -                | 1,114        |
| Redemptions/repayments            | (100)        | (250)           | (80)                                 | (39)                              | -                | (469)        |
| Changes in scope of consolidation | -            | -               | -                                    | 36                                | -                | 36           |
| Value adjustments                 | (49)         | -               | 3                                    | 1                                 | -                | (45)         |
| Translation adjustment            | 32           | -               | 2                                    | 1                                 | -                | 35           |
| Other movements                   | -            | -               | -                                    | -                                 | 7                | 7            |
| <b>CARRYING AMOUNT</b>            |              |                 |                                      |                                   |                  |              |
| <b>AT DECEMBER 31, 2016</b>       | <b>2,131</b> | <b>-</b>        | <b>47</b>                            | <b>70</b>                         | <b>47</b>        | <b>2,295</b> |

The Group carried out the following debt issues during the period:

- on March 18, 2016, Valeo issued 600 million euros' worth of ten-year bonds maturing in 2026 and paying a fixed coupon of 1.625%, under the Euro Medium Term Note program;
- on June 16, 2016, Valeo issued 450 million US dollars' worth of five-year non-dilutive convertible bonds paying a coupon of 0%. A further 125 million US dollars were added to this issue in November 2016, subject to the same terms and conditions. As the conversion rights (exercise price of 64.6137 euros) in respect of the bonds will be settled solely in cash, the bonds will not result in the issuance of new shares or the delivery of existing Valeo shares. To coincide with the bond issue, Valeo purchased cash-settled call options on its own shares to hedge the Group's exposure in the event that the bond conversion rights are exercised. The purchase of these options is shown under "Loan issue costs and premiums" within financing activities in the consolidated statement of cash flows.

In accordance with IAS 39, the embedded conversion options were deemed to be derivative instruments and were recorded separately on initial recognition, with any subsequent change in value taken to income as an offsetting entry to the call options purchased. The bond debt excluding the option component was recognized at amortized cost.

Euro/dollar currency swaps for 575 million US dollars were set up on inception of the transactions and with similar maturities. These currency swaps were designated as cash flow hedges (CFH).

The Group also made the following redemptions and repayments in the period:

- the 250 million euro syndicated loan taken out in 2011 to finance the acquisition of the Niles group was repaid in full on June 27, 2016;

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- the two subscriptions to private placements in June 2015 were repaid in full for an aggregate amount of 100 million euros on July 1, 2016 and December 1, 2016, respectively. The matching interest rate swaps matured at the same dates;
- the two annual installments on the EIB loans were paid in August 2016 for 56 million euros and in November 2016 for 24 million euros (25 million US dollars). The matching interest rate swap matured in August 2016.

At December 31, 2016, the key terms and conditions of long-term debt were as shown below:

| Type                                         | Outstanding at Dec. 31, 2016<br>(in millions) | Issuance           | Maturity      | Nominal<br>(in millions) | Currency | Nominal interest rate    | Other information                                                                                                 |
|----------------------------------------------|-----------------------------------------------|--------------------|---------------|--------------------------|----------|--------------------------|-------------------------------------------------------------------------------------------------------------------|
| European Investment Bank Bond (EMTN program) | 47                                            | November 2011      | November 2018 | 103                      | USD      | 6-month USD Libor +1.90% | Euro/dollar currency swaps for a total of 51 million US dollars with the same maturity                            |
| Bond (EMTN program)                          | 145                                           | January 2012       | January 2017  | 500                      | EUR      | 5.75%                    | -                                                                                                                 |
| Bond (EMTN program)                          | 273                                           | May 2011           | May 2018      | 500                      | EUR      | 4.875%                   | -                                                                                                                 |
| Convertible bond                             | 493                                           | June/November 2016 | June 2021     | 575                      | USD      | 0%                       | Euro/dollar currency swaps set up for each operation for a total of 575 million US dollars with the same maturity |
| Bond (EMTN program)                          | 629                                           | January 2014       | January 2024  | 700                      | EUR      | 3.25%                    | -                                                                                                                 |
| Bond (EMTN program)                          | 591                                           | March 2016         | March 2026    | 600                      | EUR      | 1.625%                   | -                                                                                                                 |
| Other long-term debt <sup>(1)</sup>          | 117                                           | -                  | -             | -                        | -        | -                        | -                                                                                                                 |
| <b>TOTAL LONG-TERM DEBT</b>                  | <b>2,295</b>                                  |                    |               |                          |          |                          |                                                                                                                   |

(1) Other loans chiefly comprise debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.

Covenants relating to borrowings and debt are detailed in Note 8.3.2.2, page 351.

In accordance with IAS 20, when the Group receives public financing at lower-than-market interest rates, a subsidy is 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 lender.

The amount of the subsidy is recognized in liabilities in the statement of financial position. It is subsequently taken to income as a deduction of the costs financed by the subsidy as and when the costs are themselves recognized in income.

In previous years, the EIB had granted Valeo two reduced-rate loans to finance its Research and Development activities:

- for the first 225 million euro loan, the subsidy was initially estimated at 28 million euros. The impact of this loan on the 2016 statement of income was a gain of 1 million euros;
- for the second 103 million US dollar loan, the subsidy was estimated at 6 million euros for the new drawdown. Its impact on the 2016 statement of income was minimal.

## Maturity of long-term debt

| (in millions of euros)               | Carrying amount | Maturity   |                        |          |           |            |                 |
|--------------------------------------|-----------------|------------|------------------------|----------|-----------|------------|-----------------|
|                                      |                 | < 1 year   | ≥ 1 year and ≤ 5 years |          |           |            | > 5 years       |
|                                      |                 |            | 2018                   | 2019     | 2020      | 2021       | 2022 and beyond |
| Bonds                                | 2,131           | 145        | 273                    | -        | -         | 493        | 1,220           |
| EIB (European Investment Bank) loans | 47              | 23         | 24                     | -        | -         | -          | -               |
| Lease obligations                    | 19              | 3          | 2                      | 1        | 6         | 1          | 6               |
| Other borrowings                     | 51              | 7          | 6                      | 6        | 5         | 6          | 21              |
| Accrued interest                     | 47              | 47         | -                      | -        | -         | -          | -               |
| <b>Long-term debt</b>                | <b>2,295</b>    | <b>225</b> | <b>305</b>             | <b>7</b> | <b>11</b> | <b>500</b> | <b>1,247</b>    |

At December 31, 2016, the current portion of long-term debt primarily includes:

- the redemption of the 145 million euro bond in January 2017; and
- the repayment of an installment on the EIB loan drawn in US dollars in November 2017 for 23 million euros.

## Contractual maturity of long-term debt

The future cash flows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2016 was used for variable-rate interest.

| (in millions of euros)               | Carrying amount | Contractual cash flows |                        |           |           |            |                 | Total        |
|--------------------------------------|-----------------|------------------------|------------------------|-----------|-----------|------------|-----------------|--------------|
|                                      |                 | < 1 year               | ≥ 1 year and ≤ 5 years |           |           |            | > 5 years       |              |
|                                      |                 |                        | 2018                   | 2019      | 2020      | 2021       | 2022 and beyond |              |
| Bonds                                | 2,131           | 200                    | 319                    | 33        | 33        | 578        | 1,417           | 2,580        |
| EIB (European Investment Bank) loans | 47              | 24                     | 25                     | -         | -         | -          | -               | 49           |
| Other long-term debt                 | 117             | 57                     | 8                      | 7         | 11        | 7          | 27              | 117          |
| <b>Long-term debt</b>                | <b>2,295</b>    | <b>281</b>             | <b>352</b>             | <b>40</b> | <b>44</b> | <b>585</b> | <b>1,444</b>    | <b>2,746</b> |

## 8.1.2.2 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.

| <i>(in millions of euros)</i>                                                               | <b>Total</b> | <b>Valeo Shanghai Automotive<br/>Electric Motors &amp; Wiper<br/>Systems Co. Ltd</b> | <b>Spheros<br/>Climatização do<br/>Brasil SA</b> |
|---------------------------------------------------------------------------------------------|--------------|--------------------------------------------------------------------------------------|--------------------------------------------------|
| <b>PUT OPTIONS GRANTED TO HOLDERS OF NON-CONTROLLING INTERESTS<br/>AT JANUARY 1, 2016</b>   | <b>39</b>    | <b>39</b>                                                                            | <b>-</b>                                         |
| New transactions                                                                            | 19           | -                                                                                    | 19                                               |
| Fair value adjustments recognized against non-controlling interests                         | 3            | 1                                                                                    | 2                                                |
| Fair value adjustments recognized in retained earnings                                      | 18           | 16                                                                                   | 2                                                |
| Other movements                                                                             | -            | -                                                                                    | -                                                |
| <b>PUT OPTIONS GRANTED TO HOLDERS OF NON-CONTROLLING INTERESTS<br/>AT DECEMBER 31, 2016</b> | <b>79</b>    | <b>56</b>                                                                            | <b>23</b>                                        |

At December 31, 2016, 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, 2016, Valeo recognized debt at the present value of the option exercise price, i.e., 56 million euros.

At December 31, 2016, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. The Group's partner, Marco Polo, was granted a put option

which it may exercise at any time following an agreed period of one year. In the opening balance sheet after the acquisition of Spheros (see Note 2.2.1.2, page 296), a debt corresponding to the present value of the exercise price of this put option was recognized in an amount of 19 million euros. The remeasurement of this option at December 31, 2016 led to a 2 million euro decrease in the related non-controlling interests and a 2 million euro decrease in consolidated retained earnings attributable to owners of the Company.

The maturity of these financial liabilities is as follows:

| (in millions of euros)                                                                  | Carrying amount | On demand | < 1 year | Maturity               |      |      |      | > 5 years<br>2022 and beyond |
|-----------------------------------------------------------------------------------------|-----------------|-----------|----------|------------------------|------|------|------|------------------------------|
|                                                                                         |                 |           |          | ≥ 1 year and ≤ 5 years |      |      |      |                              |
|                                                                                         |                 |           |          | 2018                   | 2019 | 2020 | 2021 |                              |
| Liabilities associated with put options granted to holders of non-controlling interests | 79              | 56        | -        | 23                     | -    | -    | -    |                              |

### 8.1.2.3 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 maturity of between 3 and 12 months and is valued at amortized cost.

| <i>(in millions of euros)</i>   | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|---------------------------------|--------------------------|--------------------------|
| Commercial paper                | 515                      | 40                       |
| Short-term loans and overdrafts | 27                       | 88                       |
| <b>Short-term debt</b>          | <b>542</b>               | <b>128</b>               |

The 27 million euros in short-term bank loans relate mainly to overdraft facilities.

### 8.1.3 Net debt

Net debt includes all long-term debt, liabilities relating to put options granted to non-controlling interests (see Note 8.1.2.2, page 339), and 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 interest rate and currency risks associated with these items (see Note 8.1.4, page 342).

| (in millions of euros)                                                                       | December 31, 2016 |                |              | December 31, 2015 |                |              |
|----------------------------------------------------------------------------------------------|-------------------|----------------|--------------|-------------------|----------------|--------------|
|                                                                                              | Non-current       | Current        | Total        | Non-current       | Current        | Total        |
| Long-term debt                                                                               | 2,070             | 225            | 2,295        | 1,145             | 472            | 1,617        |
| Put options granted to holders of non-controlling interests                                  | 23                | 56             | 79           | -                 | 39             | 39           |
| Short-term debt                                                                              | -                 | 542            | 542          | -                 | 128            | 128          |
| <b>Gross debt</b>                                                                            | <b>2,093</b>      | <b>823</b>     | <b>2,916</b> | <b>1,145</b>      | <b>639</b>     | <b>1,784</b> |
| Long-term loans and receivables                                                              | (24)              | -              | (24)         | (1)               | -              | (1)          |
| Cash and cash equivalents                                                                    | -                 | (2,359)        | (2,359)      | -                 | (1,725)        | (1,725)      |
| <b>Derivative instruments associated with interest rate and currency risks<sup>(1)</sup></b> | <b>-</b>          | <b>(7)</b>     | <b>(7)</b>   | <b>-</b>          | <b>66</b>      | <b>66</b>    |
| <b>Net debt</b>                                                                              | <b>2,069</b>      | <b>(1,543)</b> | <b>526</b>   | <b>1,144</b>      | <b>(1,020)</b> | <b>124</b>   |

(1) At December 31, 2016, the fair value of derivatives hedging financial currency risk was 7 million euros compared to a negative 65 million euros at end-2015 (see Note 8.1.4.1, page 343). Derivatives hedging interest rate risk matured in 2016; the fair value of these instruments at December 31, 2015 was a negative 1 million euros (see Note 8.1.4.3, page 347).

#### 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 which can be readily sold or converted into cash, and cash at bank.

The 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, 2016 | December 31, 2015 |
|----------------------------------|-------------------|-------------------|
| Marketable securities            | 1,691             | 1,025             |
| Cash                             | 668               | 700               |
| <b>Cash and cash equivalents</b> | <b>2,359</b>      | <b>1,725</b>      |

Marketable securities consist of money market funds (SICAV) for 1,691 million euros. Cash equivalents consist solely of bank deposits.

These items were measured using Level 1 inputs of the fair value hierarchy.

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 57 million euros at December 31, 2016 and 48 million euros at December 31, 2015.

### 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, 2016 | December 31, 2015 |
|------------------------|-------------------|-------------------|
| Euro                   | 487               | 420               |
| US dollar              | 497               | 75                |
| Japanese yen           | (21)              | (59)              |
| Brazilian real         | 23                | (1)               |
| South Korean won       | (37)              | (46)              |
| Chinese renminbi       | (245)             | (209)             |
| Other currencies       | (178)             | (56)              |
| <b>TOTAL</b>           | <b>526</b>        | <b>124</b>        |

### 8.1.4 Derivative financial instruments

The Group uses derivative financial instruments to manage and reduce its exposure to foreign exchange, commodity and interest rate risks.

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. The amounts recognized in other comprehensive income are recycled to income when the hedged risk itself affects income.

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 hedging balance sheet positions and foreign currency financing do not always meet the criteria for hedge accounting (automatic hedging). In these cases, changes in the fair value of the 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 cash flow hedge accounting to commodity derivatives. 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 themselves 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 in the fair value hierarchy is generally used to measure the fair value of the Group's derivative financial instruments.

The Group's operating entities are responsible for identifying, measuring and hedging financial risks. However, the Group's Finance Department is responsible for managing derivatives on behalf of subsidiaries with risk exposure. At monthly Treasury Committee meetings, the main risks and exposures

are assessed, the required hedges are approved (in accordance with the strategy described in Chapter 2, section 2.1.4 "Financial risks", pages 81 to 84), and the results of these hedges are analyzed.

To reduce its exposure to market risk, the Group uses derivative financial instruments which had the following fair values at December 31, 2016 and December 31, 2015:

| (in millions of euros)                                | Other financial assets |           | Other financial liabilities |             | December 31, 2016 | December 31, 2015 |
|-------------------------------------------------------|------------------------|-----------|-----------------------------|-------------|-------------------|-------------------|
|                                                       | Non-current            | Current   | Non-current                 | Current     | Total             | Total             |
| Cash flow hedge                                       | 17                     | 8         | (4)                         | (8)         | 13                | 7                 |
| Fair value hedge                                      | -                      | -         | -                           | -           | -                 | -                 |
| Non-hedging derivatives and trading derivatives       | 3                      | 5         | -                           | (17)        | (9)               | (65)              |
| <b>Total foreign currency derivatives</b>             | <b>20</b>              | <b>13</b> | <b>(4)</b>                  | <b>(25)</b> | <b>4</b>          | <b>(58)</b>       |
| Cash flow hedge                                       | -                      | 7         | -                           | (1)         | 6                 | (6)               |
| Fair value hedge                                      | -                      | -         | -                           | -           | -                 | -                 |
| Non-hedging derivatives and trading derivatives       | -                      | -         | -                           | -           | -                 | -                 |
| <b>Total commodity derivatives</b>                    | <b>-</b>               | <b>7</b>  | <b>-</b>                    | <b>(1)</b>  | <b>6</b>          | <b>(6)</b>        |
| Cash flow hedge                                       | -                      | -         | -                           | -           | -                 | -                 |
| Fair value hedge                                      | -                      | -         | -                           | -           | -                 | (1)               |
| Non-hedging derivatives and trading derivatives       | -                      | -         | -                           | -           | -                 | -                 |
| <b>Total interest rate derivatives</b>                | <b>-</b>               | <b>-</b>  | <b>-</b>                    | <b>-</b>    | <b>-</b>          | <b>(1)</b>        |
| Other non-hedging derivatives and trading derivatives | 108                    | -         | (110)                       | -           | (2)               | -                 |
| <b>Total other derivatives</b>                        | <b>108</b>             | <b>-</b>  | <b>(110)</b>                | <b>-</b>    | <b>(2)</b>        | <b>-</b>          |
| <b>TOTAL DERIVATIVE FINANCIAL INSTRUMENTS</b>         | <b>128</b>             | <b>20</b> | <b>(114)</b>                | <b>(26)</b> | <b>8</b>          | <b>(65)</b>       |

#### 8.1.4.1 Fair value of foreign currency derivatives

A detailed description of the Group's foreign currency risk management policy is set out in Chapter 2, section 2.1.4 "Foreign currency risk", page 81.

#### Operational currency risk management

The Group's subsidiaries are exposed to foreign currency risk arising within the scope of their industrial and commercial activities. These risks and the related hedges are monitored by the Financing and Treasury Department.

Balance sheet exposure is systematically hedged. 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 hedging instruments used by the Group are forward purchases and sales of foreign currencies.

The fair value of derivative financial instruments associated with operational currency risk is shown below:

| (in millions of euros)             | December 31, 2016 |             | December 31, 2015 |             |
|------------------------------------|-------------------|-------------|-------------------|-------------|
|                                    | Nominal           | Fair value  | Nominal           | Fair value  |
| Forward foreign currency purchases | 297               | 11          | 484               | 17          |
| Forward foreign currency sales     | (18)              | 1           | (148)             | 1           |
| <b>Total assets</b>                | <b>279</b>        | <b>12</b>   | <b>336</b>        | <b>18</b>   |
| Forward foreign currency purchases | 455               | (12)        | 220               | (8)         |
| Forward foreign currency sales     | (264)             | (3)         | (218)             | (3)         |
| <b>Total liabilities</b>           | <b>191</b>        | <b>(15)</b> | <b>2</b>          | <b>(11)</b> |
| <b>Net impact</b>                  |                   | <b>(3)</b>  |                   | <b>7</b>    |

The fair value of these derivatives 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.

In 2016, an unrealized loss of 4 million euros related to these hedges of operational currency risk was recognized directly in other comprehensive income. In 2015, an unrealized gain of 7 million euros related to these hedges was recognized directly in other comprehensive income; a portion of this gain was reclassified to operating income during 2016.

### Financial currency risk management

Centralizing cash surpluses, the financing needs of foreign subsidiaries and certain Group financing transactions exposes the Group 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. This currency risk is primarily hedged by currency swaps.

The 575 million US dollar convertible bond was hedged by currency swaps on the issuance of each tranche. The swaps had matching maturities with the bonds and were documented as cash flow hedges.

At December 31, 2016, derivative instruments hedging currency risk on debt essentially relate to currency swaps, with the following fair values:

| (in millions of euros)   | December 31, 2016 |             | December 31, 2015 |             |
|--------------------------|-------------------|-------------|-------------------|-------------|
|                          | Nominal           | Fair value  | Nominal           | Fair value  |
| Currency swaps           | 415               | 21          | 615               | 6           |
| <b>Total assets</b>      | <b>415</b>        | <b>21</b>   | <b>615</b>        | <b>6</b>    |
| Currency swaps           | 252               | (14)        | (415)             | (71)        |
| <b>Total liabilities</b> | <b>252</b>        | <b>(14)</b> | <b>(415)</b>      | <b>(71)</b> |
| <b>Net impact</b>        |                   | <b>7</b>    |                   | <b>(65)</b> |

Changes in the fair value of derivatives not designated as hedges are recognized in other financial income and expenses and are offset by changes in the fair value of the underlying debt.

In 2016, an unrealized loss of 15 million euros related to hedges of the currency risk on the convertible bond was recognized directly in other comprehensive income.

### Analysis of the Group's overall net exposure

The Group's overall net exposure (on its balance sheet positions) based on notional amounts arises on the following main currencies (excluding entities' functional currencies):

| (in millions of euros)        | December 31, 2016 |             |              |                | December 31, 2015 |
|-------------------------------|-------------------|-------------|--------------|----------------|-------------------|
|                               | USD               | JPY         | EUR          | Total          | Total             |
| Accounts and notes receivable | 142               | 10          | 416          | 568            | 506               |
| Other financial assets        | 122               | 6           | 115          | 243            | 183               |
| Accounts and notes payable    | (253)             | (47)        | (571)        | (871)          | (703)             |
| Long-term debt                | (791)             | (10)        | (350)        | (1,151)        | (462)             |
| <b>Gross exposure</b>         | <b>(780)</b>      | <b>(41)</b> | <b>(390)</b> | <b>(1,211)</b> | <b>(476)</b>      |
| Forward sales                 | (404)             | (25)        | (38)         | (467)          | (830)             |
| Forward purchases             | 1,076             | 104         | 146          | 1,326          | 1,326             |
| <b>Net exposure</b>           | <b>(108)</b>      | <b>38</b>   | <b>(282)</b> | <b>(352)</b>   | <b>20</b>         |

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, 2015, the breakdown by currency of the net exposure in the statement of financial position (20 million euros) was as follows:

- a positive amount of 305 million euros relating to the US dollar;

- a positive amount of 75 million euros relating to the Japanese yen;
- a negative amount of 360 million euros relating to the euro.

#### Analysis of the sensitivity of net foreign currency risk exposure

The sensitivity analysis was based on an exchange rate of 1.05 US dollars, 124.4 yen, and 27.02 Czech koruna for 1 euro at December 31, 2016 (1.09 US dollars, 131.07 yen and 27.02 Czech koruna, respectively, at December 31, 2015).

An increase of 10% in the value of the euro against these currencies at December 31, 2016 and December 31, 2015 would have had the following pre-tax impacts:

| (in millions of euros) | December 31, 2016  |                    | December 31, 2015  |                    |
|------------------------|--------------------|--------------------|--------------------|--------------------|
|                        | Income Gain (loss) | Equity Gain (loss) | Income Gain (loss) | Equity Gain (loss) |
| Exposure US dollar     | 5                  | 6                  | (6)                | (24)               |
| Exposure Japanese yen  | -                  | (4)                | (5)                | (3)                |
| Exposure euro          | (10)               | (5)                | (11)               | (6)                |
| <b>TOTAL</b>           | <b>(5)</b>         | <b>(3)</b>         | <b>(22)</b>        | <b>(33)</b>        |

For the purpose of these analyses, it is assumed that all other variables, particularly 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, 2016 would have the opposite effect to the one shown above.

#### Remaining contractual maturities of foreign currency derivatives

The European Central Bank (ECB) closing rates and forward rates at December 31, 2016 were used to value foreign currency derivatives.

| (in millions of euros)                             | Carrying amount | Contractual cash flows |                        |      |      |      |                 | Total |
|----------------------------------------------------|-----------------|------------------------|------------------------|------|------|------|-----------------|-------|
|                                                    |                 | < 1 year               | ≥ 1 year and ≤ 5 years |      |      |      | > 5 years       |       |
|                                                    |                 |                        | 2018                   | 2019 | 2020 | 2021 | 2022 and beyond |       |
| Forward foreign currency contracts used as hedges: |                 |                        |                        |      |      |      |                 |       |
| ■ Assets                                           | 12              | 11                     | 1                      | -    | -    | -    | -               | 12    |
| ■ Liabilities                                      | (15)            | (11)                   | (2)                    | (1)  | (1)  | -    | -               | (15)  |
| Currency swaps used as hedges:                     |                 |                        |                        |      |      |      |                 |       |
| ■ Assets                                           | 21              | 2                      | 2                      | -    | -    | 17   | -               | 21    |
| ■ Liabilities                                      | (14)            | (14)                   | -                      | -    | -    | -    | -               | (14)  |

#### 8.1.4.2 Fair value of commodity (non-ferrous metals) derivatives

The Group's commodity risk management policy is described in Chapter 2, section 2.1.4 "Commodity risk", page 81.

##### Commodity risk management

To hedge its commodity risk, Valeo favors hedging instruments which do not involve physical delivery of the underlying commodity, chiefly swaps based on the average monthly price.

Volumes of non-ferrous metals hedged at December 31, 2016 and December 31, 2015 break down as follows:

| (in tons)          | December 31, 2016 | December 31, 2015 |
|--------------------|-------------------|-------------------|
| Aluminum           | 19,882            | 29,708            |
| Secondary aluminum | 9,102             | 11,904            |
| Copper             | 8,556             | 13,906            |
| Zinc               | 816               | 684               |
| <b>TOTAL</b>       | <b>38,356</b>     | <b>56,202</b>     |

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 6 million euros related to existing hedges was recognized directly in other comprehensive income for 2016 in accordance with IAS 39.

An unrealized loss of 6 million euros recognized in other comprehensive income in 2015 and arising on commodity hedges purchased in first-half 2016 was reclassified in full within operating income in 2016.

##### Fair value of commodity (non-ferrous metals) derivatives

| (in millions of euros)   | December 31, 2016 |            | December 31, 2015 |            |
|--------------------------|-------------------|------------|-------------------|------------|
|                          | Nominal           | Fair value | Nominal           | Fair value |
| Swaps – Purchases        | 80                | 7          | 31                | 1          |
| Swaps – Sales            | -                 | -          | -                 | -          |
| <b>Total assets</b>      | <b>80</b>         | <b>7</b>   | <b>31</b>         | <b>1</b>   |
| Swaps – Purchases        | 5                 | (1)        | 97                | (7)        |
| Swaps – Sales            | -                 | -          | -                 | -          |
| <b>Total liabilities</b> | <b>5</b>          | <b>(1)</b> | <b>97</b>         | <b>(7)</b> |
| <b>Net impact</b>        |                   | <b>6</b>   |                   | <b>(6)</b> |

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.

##### Analysis of the sensitivity of the net exposure 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, 2016 and 2015:

| (in millions of euros)                       | December 31, 2016  |                    | December 31, 2015  |                    |
|----------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                              | Income Gain (loss) | Equity Gain (loss) | Income Gain (loss) | Equity Gain (loss) |
| Impact of a 10% rise in metal futures prices | -                  | 7                  | -                  | 9                  |
| Impact of a 10% fall in metal futures prices | -                  | (7)                | -                  | (9)                |

For the purposes of the sensitivity analysis, it is assumed that all other variables remain unchanged over the period.

**Remaining contractual maturities of commodity derivatives**

Forward prices on the London Metal Exchange (LME) at December 31, 2016 were used to determine contractual maturities for commodity derivatives.

| (in millions of euros) | Carrying amount | Contractual cash flows |                        |      |      |      |                 | Total |
|------------------------|-----------------|------------------------|------------------------|------|------|------|-----------------|-------|
|                        |                 | < 1 year               | ≥ 1 year and ≤ 5 years |      |      |      | > 5 years       |       |
|                        |                 |                        | 2018                   | 2019 | 2020 | 2021 | 2022 and beyond |       |
| Commodity derivatives: |                 |                        |                        |      |      |      |                 |       |
| ■ Assets               | 7               | 7                      | -                      | -    | -    | -    | -               | 7     |
| ■ Liabilities          | (1)             | (1)                    | -                      | -    | -    | -    | -               | (1)   |

**8.1.4.3 Fair value of interest rate derivatives**

The Group's interest rate risk management policy is described in Chapter 2, section 2.1.4 "Interest rate risk", page 83.

**Interest rate risk management**

The Group uses interest rate swaps to convert the interest rates on its debt into either a variable or a fixed rate, either at origination or during the term of the loan. Cash and cash equivalents are mainly invested in variable-rate instruments. Debt is essentially at fixed rates.

The interest rate derivatives used by the Group to hedge changes in the value of its fixed-rate debt are designated as fair value hedges under IAS 39.

The interest rate swaps set up in August 2009 to hedge variable interest on the EIB loan matured in August 2016. The interest rate swaps hedging private placements matured in July 2016 and December 2016, respectively. The Group had no further outstanding interest rate swaps at December 31, 2016.

**Fair value of interest rate derivatives**

| (in millions of euros)              | December 31, 2016 |            | December 31, 2015 |            |
|-------------------------------------|-------------------|------------|-------------------|------------|
|                                     | Nominal           | Fair value | Nominal           | Fair value |
| Interest rate swaps:                |                   |            |                   |            |
| EIB (European Investment Bank) loan | -                 | -          | 56                | (1)        |
| Private placements                  | -                 | -          | 100               | -          |
| <b>Total liabilities</b>            | -                 | -          | 156               | (1)        |

The fair value of interest rate swaps is computed by discounting future cash flows at the market interest rate at the end of the reporting period. This method corresponds to Level 2 in the fair value hierarchy.

**Analysis of the Group's net exposure**

At the end of the reporting period, the Group's net interest rate position based on nominal values can be analyzed as follows:

**2016**

| (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              | 200              | 569              | 841           | 35               | 1,321             | 6                | 2,362                | 610              | 2,972   |
| Loans                              | -                | -                | -             | (24)             | -                 | -                | -                    | (24)             | (24)    |
| Cash and cash equivalents          | -                | (2,359)          | -             | -                | -                 | -                | -                    | (2,359)          | (2,359) |
| <b>Net position before hedging</b> | 200              | (1,790)          | 841           | 11               | 1,321             | 6                | 2,362                | (1,773)          | 589     |
| Derivative instruments             | -                | -                | -             | -                | -                 | -                | -                    | -                | -       |
| <b>Net position after hedging</b>  | 200              | (1,790)          | 841           | 11               | 1,321             | 6                | 2,362                | (1,773)          | 589     |

## 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)    |
| <b>Net position before hedging</b> | <b>46</b>        | <b>(1,167)</b>   | <b>457</b>    | <b>46</b>        | <b>724</b>        | <b>0</b>         | <b>1,227</b>         | <b>(1,121)</b>   | <b>106</b> |
| Derivative instruments             | 156              | (156)            | -             | -                | -                 | -                | 156                  | (156)            | -          |
| <b>Net position after hedging</b>  | <b>202</b>       | <b>(1,323)</b>   | <b>457</b>    | <b>46</b>        | <b>724</b>        | <b>-</b>         | <b>1,383</b>         | <b>(1,277)</b>   | <b>106</b> |

Financial liabilities include the nominal amount of long- and short-term debt and bank overdrafts.

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.

### Analysis of sensitivity to interest rate risk

At December 31, 2016, 98% of long-term debt is at fixed rates (75% at December 31, 2015).

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, 2016  |                    | December 31, 2015  |                    |
|------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                | Income Gain (loss) | Equity Gain (loss) | Income Gain (loss) | Equity Gain (loss) |
| Impact of a 1-point increase in interest rates | 18                 | -                  | 11                 | -                  |

Similarly, at December 31, 2016, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

#### 8.1.4.4 Fair value of other derivative financial instruments

At December 31, 2016, other derivative financial instruments included mainly the following:

- conversion options embedded in the June 2016 and November 2016 bond issues, along with call options purchased. These options are perfectly matched. They had a fair value of 73 million euros at December 31, 2016;

- put and call options granted by Valeo and Siemens on the creation of their joint venture (see Note 2.2.1.3, pages 297 to 298):

- Valeo has a call option by virtue of which Siemens is required to sell part or all of its stake in the joint venture on exercise of the option. The fair value of this call option was 35 million euros at December 31, 2016,
- Siemens has a put option by virtue of which Valeo is required to purchase its entire stake in the joint venture on exercise of the option. The fair value of this put option was 37 million euros at December 31, 2016.

These options are not perfectly matched given the specific contractual terms that govern their exercise.

### Contractual maturities of other derivative financial instruments

| (in millions of euros)                                                          | Carrying amount | < 1 year | Contractual cash flows |      |      |      |                 |
|---------------------------------------------------------------------------------|-----------------|----------|------------------------|------|------|------|-----------------|
|                                                                                 |                 |          | ≥ 1 year and ≤ 5 years |      |      |      | > 5 years       |
|                                                                                 |                 |          | 2018                   | 2019 | 2020 | 2021 | 2022 and beyond |
| Convertible bond options                                                        |                 |          |                        |      |      |      |                 |
| ■ Assets                                                                        | 73              | -        | -                      | -    | -    | 73   | -               |
| ■ Liabilities                                                                   | (73)            | -        | -                      | -    | -    | (73) | -               |
| Put and call options relating to the Valeo-Siemens joint venture <sup>(1)</sup> |                 |          |                        |      |      |      |                 |
| ■ Assets                                                                        | 35              | -        | -                      | -    | -    | 35   | -               |
| ■ Liabilities                                                                   | (37)            | -        | -                      | (37) | -    | -    | -               |

(1) Options that can be exercised as from the date indicated if certain contractually specified criteria are met.



### 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 valued at amortized cost.

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 income on the sale of the shares, unless the decline in value relative to the historical cost was considered prolonged or significant enough to entail an impairment loss, which is recognized in income.

The fair value of securities listed on an active market is their market value. Unlisted securities whose fair value cannot be estimated reliably are carried at cost, and are classified in non-current financial assets.

Available-for-sale financial assets amounted to 44 million euros at December 31, 2016. Movements in this item were as follows:

| <i>(in millions of euros)</i>                       | 2016      | 2015      |
|-----------------------------------------------------|-----------|-----------|
| <b>AVAILABLE-FOR-SALE SECURITIES AT JANUARY 1</b>   | <b>31</b> | <b>4</b>  |
| Acquisitions                                        | 12        | 27        |
| Changes in scope of consolidation                   | -         | -         |
| Changes in fair value recognized in equity          | -         | -         |
| Translation adjustment                              | 1         | -         |
| <b>AVAILABLE-FOR-SALE SECURITIES AT DECEMBER 31</b> | <b>44</b> | <b>31</b> |

The main changes in 2016 related to the following:

- acquisition of a stake in Navya for 5 million euros by subscribing to Navya's capital increase. This capital increase allows Valeo to take on a role as observer in order to track the development of this company, which specializes in autonomous, driverless shuttles;
- acquisition of a stake in US-based Trucks Venture Fund 1, LP for 4 million US dollars, of which 2 million US dollars have been called and paid up. The purpose of this fund is to invest in start-ups that respond to the latest trends in the transport industry such as autonomous, connected and shared vehicles;
- acquisition of an additional stake in Cathay Capital's Sino-French Innovation Fund for 3 million euros.

Acquisitions totaling 27 million euros in 2015 related to the following:

- acquisition of 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;
- acquisition of a stake 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 in 2015. The fund is a cross-border investment vehicle active across France, China and the United States, providing 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. 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, 2016, these

instruments represented 140 million euros of accounts and notes receivable and 91 million euros of accounts and notes payable (54 million euros and 92 million euros, respectively, at December 31, 2015).

Valeo also operates a reverse factoring program, which has been in place since 2014. This program involves a sale of accounts and notes receivable to a financial institution

("factor") initiated by Valeo (and not by the supplier). Relations between the parties are governed by two separate signed agreements:

- Valeo suppliers enter into a sale agreement with the factor for the amounts they are owed by Valeo;
- Valeo enters into an agreement with the factor under which it agrees to pay the invoices sold by its suppliers to the factor at the date they fall due (pre-approved invoices), without recourse.

This program allows the suppliers concerned to ensure that their receivables will be promptly settled by the financial institution. Valeo settles the invoices with the factor at their contractual due dates.

An analysis by the Group indicates that the reverse factoring arrangement does not alter the substance of its payables, which continue to be included in working capital.

## 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)          | 2016        | 2015        |
|---------------------------------|-------------|-------------|
| Interest expense <sup>(1)</sup> | (90)        | (92)        |
| Interest income                 | 7           | 8           |
| <b>Cost of net debt</b>         | <b>(83)</b> | <b>(84)</b> |

(1) Including in 2016 finance costs for 2 million euros on undrawn credit lines and financial expenses for 4 million euros arising on discounting arrangements for accounts and notes receivable and amounts receivable under French research and CICE tax credits.

### 8.2.2 Other financial income and expenses

Other financial income and expenses notably include:

- gains and losses on interest rate hedging transactions;
- gains and losses on foreign exchange transactions or non-ferrous metals purchases that do not meet the definition of hedges under IAS 39 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)                                                    | 2016        | 2015        |
|---------------------------------------------------------------------------|-------------|-------------|
| Net interest cost on provisions for pensions and other employee benefits  | (27)        | (25)        |
| Currency gains (losses)                                                   | (6)         | (6)         |
| Gains (losses) on commodity derivatives (trading and ineffective portion) | (1)         | (1)         |
| Gains (losses) on interest rate derivatives (ineffective portion)         | (1)         | (1)         |
| Other                                                                     | (11)        | (2)         |
| <b>Other financial income and expenses</b>                                | <b>(46)</b> | <b>(35)</b> |

## 8.3 Risk management policy

A detailed description of the Group's risk management policy is set out in Chapter 2, section 2.1 "Risk factors", pages 70 to 84.

### 8.3.1 Market risks

#### 8.3.1.1 Foreign currency, commodity and interest rate risks

A detailed description of the Group's foreign currency, commodity and interest rate risk management policy is set out in Note 8.1.4, "Derivative financial instruments" as well as in Chapter 2, section 2.1.4 "Foreign currency risk", "Commodity risk" and "Interest rate risk", respectively, pages 81 and 83.

#### 8.3.1.2 Equity risk

The Group's equity risk management policy is described in Chapter 2, section 2.1.4 "Equity risk", page 84.

Assets financing pension plans (plan assets) are detailed in Note 5.3.5, pages 317 to 318.

The Group's cash and cash equivalents are set out in Note 8.1.3.2, page 341.

### 8.3.2 Liquidity risk

The Group's liquidity risk management policy is described in Chapter 2, section 2.1.4 "Liquidity risk", pages 82 to 83.

#### 8.3.2.2 Financial covenants and credit ratings

##### Financial covenants

Certain financing contracts include early repayment clauses in the event of a failure to comply with specified financial ratios. The table below sets out the main covenants:

| Financing agreements                 | Ratios                                        | Thresholds | Ratio at December 31, 2016 <sup>(1)</sup> |
|--------------------------------------|-----------------------------------------------|------------|-------------------------------------------|
| Credit lines                         | Consolidated net debt/<br>consolidated EBITDA | < 3.25     | 0.25                                      |
| EIB (European Investment Bank) loans |                                               |            |                                           |

(1) Calculated over 12 months.

Bonds issued within the scope of the Euro Medium Term Note financing program 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 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.

#### 8.3.2.1 Analysis of available sources of funds

At December 31, 2016, Valeo had 2.4 billion euros in cash and cash equivalents (1.7 billion euros at December 31, 2015). Cash comprises bank deposits for 668 million euros and cash equivalents (mainly money market funds) for 1,691 million euros.

Other sources of liquidity were as follows:

- confirmed bank credit lines with an average maturity of three years, representing an aggregate amount of 1.2 billion euros. None of these credit lines had been drawn down at December 31, 2016. 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;
- a Euro Medium Term Note financing program for a maximum amount of 3 billion euros, on which 1.7 billion euros had been drawn at December 31, 2016.

For the outstanding EIB loan, the Bank may ask the borrower to put up security or collateral in the event of a change of control, or otherwise request early repayment of the loan.

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 and early repayment called.

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.

**Credit ratings**

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status and were as follows at December 31, 2016:

| Rating agency     | Publication date | Long-term debt | Outlook  | Short-term debt |
|-------------------|------------------|----------------|----------|-----------------|
| Standard & Poor's | January 31, 2017 | BBB            | Positive | A-2             |
| Moody's           | May 9, 2016      | Baa2           | Stable   | P-2             |

**8.3.3 Credit risk**

The Group's credit risk management policy is described in Chapter 2, section 2.1.1 "Customer credit risk", page 74.

**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 primarily in the automotive industry and works with all automakers. Valeo continued to closely monitor credit risk notwithstanding the broadly upbeat economic climate in 2016.

Note 4.2, page 304 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 351 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)    | 2016         | 2015         |
|---------------------------|--------------|--------------|
| Current taxes             | (253)        | (268)        |
| Deferred taxes            | 64           | 162          |
| <b>Income tax expense</b> | <b>(189)</b> | <b>(106)</b> |

The Group recognized income tax expense of 189 million euros in 2016, corresponding to an effective tax rate of 17%.

This includes a positive impact of 89 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 had recognized a deferred tax asset of 175 million euros on this tax consolidation group in 2015, and 73 million euros in prior periods.

This positive impact on income tax expense was partly offset by the cancellation of deferred taxes previously recognized in the Czech Republic in an amount of 10 million euros, in order to reflect the revised five-year profitability outlook.

### 9.1.2 Tax proof

| (in millions of euros)                                                                                       | 2016         | 2015         |
|--------------------------------------------------------------------------------------------------------------|--------------|--------------|
| <b>Net income before income taxes excluding share in net earnings (losses) of equity-accounted companies</b> | <b>1,111</b> | <b>824</b>   |
| Standard tax rate in France                                                                                  | 34.43%       | 34.43%       |
| <b>Theoretical income tax expense</b>                                                                        | <b>(383)</b> | <b>(284)</b> |
| Impact of:                                                                                                   |              |              |
| ■ Unrecognized deferred tax assets and unused tax losses (current year)                                      | (95)         | (80)         |
| ■ Recognition of previously unrecognized deferred tax assets                                                 | 100          | 193          |
| ■ Other tax rates                                                                                            | 34           | 40           |
| ■ Utilization of prior-year tax losses                                                                       | 84           | 85           |
| ■ Permanent differences between accounting income and taxable income                                         | 87           | (47)         |
| ■ Tax credits                                                                                                | 3            | 5            |
| ■ <i>Cotisation sur la Valeur Ajoutée des Entreprises (CVAE)</i>                                             | (19)         | (18)         |
| <b>Group income tax expense</b>                                                                              | <b>(189)</b> | <b>(106)</b> |

- In 2016, unrecognized deferred tax assets and tax losses for the period not utilized by the Group's main countries result essentially from France for 34 million euros, Germany for 10 million euros and South America for 9 million euros, and from the write-down of deferred taxes in the Czech Republic in an amount of 10 million euros.
- Previously unrecognized deferred tax assets for 100 million euros essentially relate to deferred tax assets recognized for the US tax consolidation in 2016.
- The positive 34 million euro impact relating to other tax rates is broken down by major country in the table below:

| Country         | Current tax rate <sup>(1)</sup> | 2016      | 2015      |
|-----------------|---------------------------------|-----------|-----------|
| China           | 25.0%                           | 14        | 8         |
| Poland          | 19.0%                           | 14        | 14        |
| South Korea     | 24.2%                           | 12        | 12        |
| Thailand        | 20.0%                           | 4         | 5         |
| Turkey          | 20.0%                           | 4         | 5         |
| Spain           | 25.0%                           | 7         | -         |
| Czech Republic  | 19.0%                           | 1         | 4         |
| Japan           | 32.8%                           | (2)       | (3)       |
| United States   | 40.0%                           | (7)       | (9)       |
| Germany         | 27.8%                           | (8)       | 3         |
| Other countries |                                 | (5)       | 4         |
| <b>TOTAL</b>    |                                 | <b>34</b> | <b>43</b> |

(1) The current tax rate shown is the effective tax rate at the end of the reporting period. 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 56 million euros in tax losses on the US tax consolidation group.
- Permanent differences between accounting income and taxable income mainly result from the impact of the disposal gain relating to the creation of the joint venture with Siemens (see Note 2.2.1.3, page 297).
- The Group considers that the *Cotisation sur la Valeur Ajoutée des Entreprises (CVAE)* tax on company value-added meets the definition of income tax set out in IAS 12. Income tax in 2016 therefore includes a net expense of 19 million euros in respect of the CVAE tax (18 million euros in 2015).

## 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, where appropriate, 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 has 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, 2016 | December 31, 2015 |
|--------------------------------------|-------------------|-------------------|
| Loss carryforwards                   | 872               | 1,038             |
| Capitalized development expenditure  | (187)             | (213)             |
| Pensions and other employee benefits | 259               | 242               |
| Other provisions                     | 112               | 59                |
| Inventories                          | 61                | 47                |
| Provisions for restructuring costs   | 17                | 19                |
| Tooling                              | (3)               | (3)               |
| Non-current assets                   | 30                | 42                |
| Other                                | 130               | 144               |
| <b>Total deferred taxes, gross</b>   | <b>1,291</b>      | <b>1,375</b>      |
| Unrecognized deferred tax assets     | (731)             | (888)             |
| <b>Total deferred taxes</b>          | <b>560</b>        | <b>487</b>        |
| Of which:                            |                   |                   |
| ■ Deferred tax assets                | 626               | 526               |
| ■ Deferred tax liabilities           | (66)              | (39)              |

No net deferred tax assets were recognized on tax loss carryforwards or on the temporary differences linked to tax consolidation in France, resulting in an amount of 450 million euros at December 31, 2016.

In the United States, 381 million euros in deferred tax assets was recognized at December 31, 2016 as a result of tax consolidation (297 million euros at end-December 2015), reflecting a favorable economic outlook.

In contrast, due to particularly tough economic conditions, no deferred tax assets were recognized for Brazil. Residual unrecognized net deferred tax assets stood at 74 million euros at December 31, 2016.

Similarly, no deferred tax assets were recognized for Germany at December 31, 2016, since they were canceled in 2015 in order to reflect the five-year profitability outlook as per the fiscal plan. Residual unrecognized net deferred tax assets represented 62 million euros at December 31, 2016.



At December 31, 2016, 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 2017 through 2021 | 64           | 15                   |
| Tax losses available for carryforward in 2021 and thereafter | 155          | 49                   |
| Tax losses available for carryforward indefinitely           | 1,742        | 473                  |
| <b>Current tax loss carryforwards</b>                        | <b>1,961</b> | <b>537</b>           |
| Unrecognized deferred tax assets on temporary differences    |              | 194                  |
| <b>TOTAL</b>                                                 |              | <b>731</b>           |

## Note 10 Stockholders' equity and earnings per share

### 10.1 Stockholders' equity

#### 10.1.1 Change in share capital

##### 10.1.1.1 Three-for-one stock split

At the Ordinary and Extraordinary Shareholders' meeting of May 26, 2016, shareholders adopted the nineteenth resolution to carry out a three-for-one stock split and, as a result, to exchange each existing share (with a par value of 3 euros) for three new shares with a par value of 1 euro, with the same dividend rights. The operation will make the stock more accessible to new shareholders, particularly individual investors, thereby increasing its liquidity. The share's new par value took effect on June 6, 2016.

##### 10.1.1.2 Capital increase reserved for employees

Pursuant to the delegation of authority granted by the Shareholders' Meeting of May 26, 2015 and to the decision of the Board of Directors of January 21, 2016, on November 15, 2016 the Chairman and Chief Executive Officer implemented a capital increase reserved for employees by issuing 755,511 new shares, each with a par value of 1 euro.

##### 10.1.1.3 Position at December 31, 2016

Following these operations, Valeo's share capital totaled 239 million euros, divided into 239,143,131 shares with a par value of 1 euro each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (5,960,420 shares at December 31, 2016).

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. The 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, 2016, 44,364 shares and 23,171,495 euros had been allocated to the liquidity agreement (after taking into account the three-for-one stock split), compared with 79,500 shares and 18,958,006 euros at December 31, 2015. On the date the liquidity agreement was signed, 660,000 Valeo shares (taking account of the three-for-one stock split) and 6,600,000 euros were allocated for its implementation.

#### 10.1.2 Additional paid-in capital

Under the Shares4U 2016 employee share ownership plan (see Note 5.4, page 322), the Group's employees subscribed to 755,511 shares with a par value of 1 euro, at a per-share subscription price of 38.12 euros. Additional paid-in capital represents the difference between the par value of the shares issued and the net amount received by Valeo, either in cash or in assets, at the time of the issue. Additional paid-in capital represented 28 million euros in 2016.

#### 10.1.3 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized gain of 37 million euros (unrealized gain of 100 million euros at December 31, 2015). In 2016, this essentially reflected (i) the rise in the value of the US dollar (43 million euros), Japanese yen (21 million euros) and to a lesser extent the Brazilian real (11 million euros), and (ii) the fall in the value of the renminbi (36 million euros) during the year.

**10.1.4 Consolidated retained earnings**

Consolidated retained earnings include attributable income for the year of 925 million euros prior to distribution.

**10.1.5 Dividend per share**

Parent company reserves available for distribution prior to the appropriation of 2016 earnings amounted to 1,999 million euros after deduction of the carrying amount of treasury shares held at December 31, 2016 for 27 million euros (67 million euros at December 31, 2015). Parent company reserves available for distribution amounted to 1,934 million euros in 2015.

A dividend of 3 euros per share was paid in 2016, representing a total payout of 236 million euros. The dividend paid in 2015 was 2.20 euros per share, representing a total payout of 172 million euros.

**10.1.6 Treasury shares and share buyback program**

At December 31, 2016, Valeo owned 1,240,865 of its own shares representing 0.5% of its share capital, compared with 3,025,065 shares (after taking into account the three-for-one stock split) representing 1.3% of its share capital at December 31, 2015.

**10.1.7 Non-controlling interests**

Changes in non-controlling interests can be analyzed as follows:

| <i>(in millions of euros)</i>                                                                        | 2016       | 2015       |
|------------------------------------------------------------------------------------------------------|------------|------------|
| <b>Non-controlling interests at January 1</b>                                                        | <b>219</b> | <b>209</b> |
| Equity in net earnings                                                                               | 58         | 45         |
| Dividends paid                                                                                       | (27)       | (29)       |
| Changes in scope of consolidation                                                                    | (12)       | (12)       |
| Fair value adjustments to put options granted to holders of non-controlling interests <sup>(1)</sup> | (3)        | -          |
| Other movements                                                                                      | (1)        | -          |
| Translation adjustment                                                                               | 2          | 6          |
| <b>Non-controlling interests at December 31</b>                                                      | <b>236</b> | <b>219</b> |

<sup>(1)</sup> See Note 8.1.2.2, pages 339 to 340.

Changes in the scope of consolidation during the year primarily reflect the impacts of the acquisition of Hitachi's stake in Valeo Unisia Transmissions (see Note 2.2.1.6, page 298).

Changes in the scope of consolidation in 2015 chiefly reflected the impacts of the reorganization of the Wiper Systems business in China (see Note 2.2.2.1, page 299) and changes in the percent interest held in Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd and Taizhou Valeo – Wenling Automotive Systems Company Ltd.

Non-controlling interests can be analyzed as follows:

| Partner                          | Carrying amount<br>of non-controlling interests<br><i>(in millions of euros)</i> |                   |
|----------------------------------|----------------------------------------------------------------------------------|-------------------|
|                                  | December 31, 2016                                                                | December 31, 2015 |
| Pyeong Hwa Company               | 143                                                                              | 118               |
| Ichikoh Alliance entities        | 36                                                                               | 32                |
| Other                            | 57                                                                               | 69                |
| <b>Non-controlling interests</b> | <b>236</b>                                                                       | <b>219</b>        |

## 10.2 Earnings per share

Earnings per share (before dilution) is 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.

|                                                                                                                                      | 2016           | 2015 <sup>(1)</sup> |
|--------------------------------------------------------------------------------------------------------------------------------------|----------------|---------------------|
| Net income attributable to owners of the Company <i>(in millions of euros)</i>                                                       | 925            | 729                 |
| Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>                                               | 236,352        | 234,332             |
| <b>Basic earnings per share <i>(in euros)</i></b>                                                                                    | <b>3.91</b>    | <b>3.11</b>         |
|                                                                                                                                      |                |                     |
|                                                                                                                                      | 2016           | 2015 <sup>(1)</sup> |
| Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>                                               | 236,352        | 234,332             |
| Dilutive effect from <i>(in thousands)</i> :                                                                                         |                |                     |
| ■ Stock options                                                                                                                      | 860            | 1,842               |
| ■ Free shares                                                                                                                        | 2,159          | 2,797               |
| <b>Weighted average number of ordinary shares outstanding adjusted for impact of dilutive shares <i>(in thousands of shares)</i></b> | <b>239,371</b> | <b>238,971</b>      |
| <b>Diluted earnings per share <i>(in euros)</i></b>                                                                                  | <b>3.86</b>    | <b>3.05</b>         |

(1) Earnings per share shown for 2015 differs from the amount presented in the 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split (see Note 10.1.1.1, page 355).

## 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 2016 and 2015:

| <i>(in millions of euros)</i>                                   | 2016       | 2015 <sup>(1)</sup> |
|-----------------------------------------------------------------|------------|---------------------|
| Depreciation, amortization and impairment of non-current assets | 890        | 764                 |
| Net additions to (reversals from) provisions                    | 107        | 51                  |
| Losses (gains) on sales of non-current assets                   | (2)        | 10                  |
| Expenses related to share-based payment                         | 21         | 17                  |
| Impairment of assets and liabilities held for sale              | -          | 8                   |
| Losses (gains) on remeasurement of previously held interests    | (162)      | -                   |
| <b>TOTAL</b>                                                    | <b>854</b> | <b>850</b>          |

(1) The 6 million euro decrease in the depreciation, amortization and impairment of non-current assets in relation to the amount shown in the 2015 consolidated financial statements published in February 2016 reflects the impact of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

Depreciation, amortization and impairment of non-current assets takes into account the 13 million euro gain recognized in the year in relation to government subsidies and grants on non-current assets (see Note 3.2, page 302).

The 162 million euro capital gain recognized in 2016 relates to the creation of the joint venture with Siemens and does not include transaction costs (see Note 2.2.1.3, page 297).

In 2015, Valeo had recognized an 8 million euro impairment loss against assets classified as held for sale relating to its Engine Control business (see Note 2.2.1.4, page 298).

## 11.2 Changes in working capital

Changes in the main components of working capital in 2016 and 2015 are shown in the table below:

| (in millions of euros)         | 2016      | 2015 <sup>(1)</sup> |
|--------------------------------|-----------|---------------------|
| Inventories                    | (155)     | (201)               |
| Accounts and notes receivable  | (425)     | (207)               |
| Accounts and notes payable     | 608       | 409                 |
| Other receivables and payables | 28        | 93                  |
| <b>TOTAL</b>                   | <b>56</b> | <b>94</b>           |

(1) Other receivables and payables shown for 2015 differ from those shown in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

Accounts and notes receivable falling due after December 31, 2016 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position are detailed in Note 4.2, page 304 (accounts receivable) and in Note 4.5.2, page 308 (French research and CICE tax credit receivables).

## 11.3 Acquisitions of investments with gain of control, net of cash acquired

In 2016, the net cash outflow of 630 million euros mainly relates to the impacts of acquiring peiker (301 million euros – see Note 2.2.1.1, page 295) and Spheros (326 million euros – see Note 2.2.1.2, page 296).

Acquisitions of controlling interests in 2015 resulted in a cash outflow of 8 million euros.

## 11.4 Acquisitions of investments in associates and/or joint ventures

In 2016, the net cash outflow of 17 million euros mainly relates to the acquisition of a stake in CloudMade (16 million euros – see Note 2.2.1.5, page 298).

## 11.5 Disposals of investments with loss of control, net of cash acquired

In 2016, the net cash inflow of 22 million euros chiefly relates to the impact of the sale of the Engine Control business on February 29, 2016 (see Note 2.2.1.4, page 298).

## 11.6 Issuance and repayment of long-term debt

On March 18, 2016, the Group issued 600 million euros' worth of ten-year bonds maturing in 2026 and paying a fixed coupon of 1.625%. On June 16, 2016, the Group issued 450 million US dollars' worth of five-year non-dilutive convertible bonds maturing in 2021. The Group added 125 million US dollars to the issue in November 2016. Repayments during the period mainly relate to the syndicated loan for 250 million euros, two subscriptions to private placements for 100 million euros, and two annual installments on loans contracted with the European Investment Bank (EIB) (see Note 8.1.2.1, page 337).

Loan issue costs and premiums amount to 64 million euros in 2016, and mainly concerned the two bond issues carried out.

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 concern the partial repayment of EIB loans for 56 million euros on August 5, 2015 and for 26 million US dollars on November 3, 2015.

## 11.7 Acquisitions of investments without gain of control

The net cash outflow of 24 million euros chiefly relates to the impact of acquiring non-controlling interests in Valeo Unisia Transmissions from Hitachi (see Note 2.2.1.6, page 298).

## 11.8 Free cash flow and net cash flow

Free cash flow corresponds to net cash from operating activities (excluding the change 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 its operations 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 from investing activities, relating to acquisitions and disposals of investments and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities relating to share capital, dividends paid, treasury share purchases and sales, interest paid and received, loan issue costs and premiums and acquisitions of investments without gain 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 2016 and 2015:

| (in millions of euros)                                                                                | 2016         | 2015         |
|-------------------------------------------------------------------------------------------------------|--------------|--------------|
| Gross operating cash flows <sup>(1)</sup>                                                             | 2,091        | 1,802        |
| Income taxes paid                                                                                     | (257)        | (190)        |
| Changes in working capital <sup>(1)</sup>                                                             | 56           | 94           |
| <b>Net cash flows from operating activities</b>                                                       | <b>1,890</b> | <b>1,706</b> |
| Net payments for purchases of intangible assets and property, plant and equipment <sup>(1)</sup>      | (1,249)      | (1,086)      |
| Elimination of change in non-recurring sales of accounts and notes receivable <sup>(2)</sup>          | 20           | (55)         |
| <b>FREE CASH FLOW</b>                                                                                 | <b>661</b>   | <b>565</b>   |
| Change in non-recurring sales of accounts and notes receivable <sup>(2)</sup>                         | (20)         | 55           |
| Net change in non-current financial assets                                                            | (38)         | (10)         |
| Acquisitions of investments with gain of control, net of cash acquired                                | (630)        | (8)          |
| Acquisitions of investments in associates and/or joint ventures                                       | (17)         | -            |
| Disposals of investments with loss of control, net of cash transferred                                | 22           | -            |
| Acquisitions of investments without gain of control                                                   | (24)         | (3)          |
| Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries | (263)        | (201)        |
| Capital increase in cash                                                                              | 29           | -            |
| Sale (purchase) of treasury stock                                                                     | 13           | 18           |
| Net interest paid/received                                                                            | (58)         | (70)         |
| Loan issue costs and premiums                                                                         | (64)         | -            |
| <b>NET CASH FLOW</b>                                                                                  | <b>(389)</b> | <b>346</b>   |

(1) Gross operating cash flows, changes in working capital and net payments for purchases of intangible assets and property, plant and equipment shown for 2015 differ from the amounts presented in the 2015 consolidated financial statements published in February 2016 since they have been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

(2) 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 304).

## Note 12 Fees paid to the Statutory Auditors

Fees paid to the Group's Statutory Auditors in France and recognized in the consolidated statement of income are as follows:

| (in millions of euros)                                                                            | Ernst & Young |            | Mazars     |            |
|---------------------------------------------------------------------------------------------------|---------------|------------|------------|------------|
|                                                                                                   | 2016          | 2015       | 2016       | 2015       |
| <b>AUDIT</b>                                                                                      |               |            |            |            |
| Statutory audit, certification and review of the individual and consolidated financial statements | 1.8           | 1.8        | 1.3        | 1.3        |
| Non-audit services                                                                                | 0.4           | 0.2        | 0.2        | 0.1        |
| <b>TOTAL AUDIT</b>                                                                                | <b>2.2</b>    | <b>2.0</b> | <b>1.5</b> | <b>1.4</b> |
| <b>OTHER SERVICES</b>                                                                             | -             | -          | -          | -          |
| <b>TOTAL OTHER SERVICES</b>                                                                       | -             | -          | -          | -          |
| <b>TOTAL FEES</b>                                                                                 | <b>2.2</b>    | <b>2.0</b> | <b>1.5</b> | <b>1.4</b> |

## Note 13 Subsequent events

### Bond issue

On January 4, 2017, the Group issued 500 million euros' worth of bonds paying a coupon of 0.625% and maturing on January 11, 2023.

### Takeover of Ichikoh

Following the settlement on January 20, 2017 further to Valeo's takeover bid, the Group holds 55.08% of Ichikoh's capital and controls Japan's leading automotive lighting company (see Note 2.2.1.7, page 299).

### Creation of a 50/50 joint venture: Valeo-Kapec

On February 6, 2017, Valeo signed an agreement with its long-standing South Korean partner, Pyeong Hwa Group, to create a 50/50 joint venture in transmission manufacturing. Valeo-Kapec, headquartered in Daegu in South Korea, will have

a global manufacturing footprint and aims to become the world leader in torque converters for automatic and continuously variable transmissions. The partners will contribute their respective torque converter businesses, located for Valeo at Nanjing (China), Atsugi (Japan), San Louis Potosi (Mexico) and Troy (United States), and for Kapec in Daegu, Waegwan and Seongju (South Korea).

The new company will employ some 3,000 people and will be controlled and therefore fully consolidated by Valeo. It is forecast to generate sales of around 1 billion euros in 2017 on an annualized basis and will be accretive to Valeo's operating margin from year one.

Valeo-Kapec will capitalize on strong geographic, product and business complementarity to create purchasing, manufacturing and above all Research and Development synergies.

The agreement is subject to approval by the competent authorities.



## Note 14 List of consolidated companies

| Company                                                                      | December 31, 2016    |            | December 31, 2015    |            |
|------------------------------------------------------------------------------|----------------------|------------|----------------------|------------|
|                                                                              | Consolidation method | % interest | Consolidation method | % interest |
| <b>EUROPE</b>                                                                |                      |            |                      |            |
| <b>FRANCE</b>                                                                |                      |            |                      |            |
| <b>Valeo (parent company)</b>                                                |                      |            |                      |            |
| DAV                                                                          | FC                   | 100        | FC                   | 100        |
| Équipement 1                                                                 | FC                   | 100        | FC                   | 100        |
| Équipement 2                                                                 | FC                   | 100        | FC                   | 100        |
| Équipement 11                                                                | FC                   | 100        | FC                   | 100        |
| Équipement 15                                                                | FC                   | 100        | FC                   | 100        |
| Équipement 16                                                                | FC                   | 100        | FC                   | 100        |
| Équipement 21 SAS                                                            | FC                   | 100        | -                    | -          |
| SC2N                                                                         | FC                   | 100        | FC                   | 100        |
| Société de Participations Valeo                                              | FC                   | 100        | FC                   | 100        |
| Valeo Bayen                                                                  | FC                   | 100        | 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 <sup>(7)</sup>                                      | -                    | -          | EM                   | 50         |
| Valeo Comfort and Driving Assistance (formerly Valeo Sécurité Habitable)     | 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        |
| peiker France SAS <sup>(1)</sup>                                             | FC                   | 100        | -                    | -          |
| Valeo Siemens eAutomotive France SAS (formerly Équipement 17) <sup>(3)</sup> | EM                   | 50         | -                    | -          |
| Spheros Climatechnics France SAS <sup>(2)</sup>                              | FC                   | 100        | -                    | -          |
| <b>SPAIN</b>                                                                 |                      |            |                      |            |
| Valeo Climatización, SAU                                                     | FC                   | 100        | FC                   | 100        |
| Valeo España, SAU                                                            | FC                   | 100        | FC                   | 100        |
| Valeo Iluminación, SAU                                                       | FC                   | 100        | FC                   | 100        |
| Valeo Service España, SAU                                                    | FC                   | 100        | FC                   | 100        |
| Valeo Termico, SAU                                                           | FC                   | 100        | FC                   | 100        |
| <b>ITALY</b>                                                                 |                      |            |                      |            |
| Valeo Service Italia, SpA                                                    | FC                   | 100        | FC                   | 99.9       |
| Valeo, SpA                                                                   | FC                   | 100        | FC                   | 100        |

FC: Fully consolidated/EM: equity method (see Note 2.1.1, page 293).

(1) See Note 2.2.1.1, pages 295 to 296.

(2) See Note 2.2.1.2, pages 296 to 297.

(3) See Note 2.2.1.3, pages 297 to 298.

(4) See Note 2.2.1.5, page 298.

(5) See Note 2.2.1.6, page 298.

(6) See Note 2.2.1.7, pages 298 to 299.

(7) Mergers and liquidations.

(8) See Note 2.2.2.1, page 299.

(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

| Company                                                                                                | December 31, 2016    |            | December 31, 2015    |            |
|--------------------------------------------------------------------------------------------------------|----------------------|------------|----------------------|------------|
|                                                                                                        | Consolidation method | % interest | Consolidation method | % interest |
| <b>EUROPE</b>                                                                                          |                      |            |                      |            |
| <b>GERMANY</b>                                                                                         |                      |            |                      |            |
| Valeo Auto-Electric GmbH <sup>(9)</sup>                                                                | FC                   | 100        | FC                   | 100        |
| Valeo GmbH <sup>(9)</sup>                                                                              | FC                   | 100        | FC                   | 100        |
| Valeo Holding GmbH <sup>(9)</sup>                                                                      | FC                   | 100        | FC                   | 100        |
| Valeo Klimasysteme GmbH <sup>(9)</sup>                                                                 | FC                   | 100        | FC                   | 100        |
| Valeo Schalter und Sensoren GmbH <sup>(9)</sup>                                                        | FC                   | 100        | FC                   | 100        |
| Valeo Service Deutschland GmbH <sup>(9)</sup>                                                          | FC                   | 100        | FC                   | 100        |
| Valeo Wischersysteme GmbH <sup>(9)</sup>                                                               | FC                   | 100        | FC                   | 100        |
| peiker acustic GMBH & Co KG <sup>(1)</sup>                                                             | FC                   | 100        | -                    | -          |
| Valeo peiker Telematik GmbH <sup>(1)</sup>                                                             | FC                   | 100        | -                    | -          |
| CloudMade Deutschland GmbH <sup>(4)</sup>                                                              | EM                   | 50         | -                    | -          |
| Smexx GmbH                                                                                             | FC                   | 100        | -                    | -          |
| Spheros Holding GmbH <sup>(2)</sup>                                                                    | FC                   | 100        | -                    | -          |
| Spheros GmbH <sup>(2)</sup>                                                                            | FC                   | 100        | -                    | -          |
| Spheros Europa GmbH <sup>(2)</sup>                                                                     | FC                   | 100        | -                    | -          |
| Valeo Siemens eAutomotive GmbH <sup>(3)</sup>                                                          | EM                   | 50         | -                    | -          |
| Valeo Siemens eAutomotive Germany GmbH <sup>(3)</sup>                                                  | EM                   | 50         | -                    | -          |
| Valeo Siemens eAutomotive BSAES Holding GmbH <sup>(3)</sup>                                            | EM                   | 50         | -                    | -          |
| <b>UNITED KINGDOM</b>                                                                                  |                      |            |                      |            |
| 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        |
| Cloud Made Holdings Limited <sup>(4)</sup>                                                             | EM                   | 50         | -                    | -          |
| Cloud Made Limited <sup>(4)</sup>                                                                      | EM                   | 50         | -                    | -          |
| <b>IRELAND</b>                                                                                         |                      |            |                      |            |
| Connaught Electronics Limited                                                                          | FC                   | 100        | FC                   | 100        |
| HI-KEY Limited                                                                                         | FC                   | 100        | FC                   | 100        |
| Valeo Ichikoh Holding Limited <sup>(6)</sup>                                                           | FC                   | 90         | FC                   | 90         |
| <b>BELGIUM</b>                                                                                         |                      |            |                      |            |
| Valeo Service Belgique                                                                                 | FC                   | 100        | FC                   | 100        |
| Valeo Vision Belgique                                                                                  | FC                   | 100        | FC                   | 100        |
| <b>LUXEMBOURG</b>                                                                                      |                      |            |                      |            |
| Coreval                                                                                                | FC                   | 100        | FC                   | 100        |
| <b>NORWAY</b>                                                                                          |                      |            |                      |            |
| Valeo Siemens eAutomotive Norway AS<br>(formerly Valeo Powertrain Energy Conversion AS) <sup>(3)</sup> | EM                   | 50         | FC                   | 100        |
| <b>FINLAND</b>                                                                                         |                      |            |                      |            |
| Spheros-Parabus Oy <sup>(2)</sup>                                                                      | FC                   | 100        | -                    | -          |

FC: Fully consolidated/EM: equity method (see Note 2.1.1, page 293).

(1) See Note 2.2.1.1, pages 295 to 296.

(2) See Note 2.2.1.2, pages 296 to 297.

(3) See Note 2.2.1.3, pages 297 to 298.

(4) See Note 2.2.1.5, page 298.

(5) See Note 2.2.1.6, page 298.

(6) See Note 2.2.1.7, pages 298 to 299.

(7) Mergers and liquidations.

(8) See Note 2.2.2.1, page 299.

(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

| Company                                                                                         | December 31, 2016    |            | December 31, 2015    |            |
|-------------------------------------------------------------------------------------------------|----------------------|------------|----------------------|------------|
|                                                                                                 | Consolidation method | % interest | Consolidation method | % interest |
| <b>NETHERLANDS</b>                                                                              |                      |            |                      |            |
| Valeo CV (Netherlands)                                                                          | FC                   | 100        | 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        |
| <b>CZECH REPUBLIC</b>                                                                           |                      |            |                      |            |
| Valeo Automotive ks <sup>(7)</sup>                                                              | -                    | -          | 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        |
| <b>POLAND</b>                                                                                   |                      |            |                      |            |
| 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        |
| Valeo Siemens eAutomotive Poland SpZOO <sup>(3)</sup>                                           | EM                   | 50         | -                    | -          |
| <b>HUNGARY</b>                                                                                  |                      |            |                      |            |
| Valeo Auto-Electric Hungary LLC                                                                 | FC                   | 100        | FC                   | 100        |
| Valeo Siemens eAutomotiveHungary Kft. <sup>(3)</sup>                                            | EM                   | 50         | -                    | -          |
| <b>ROMANIA</b>                                                                                  |                      |            |                      |            |
| Valeo Lighting Injection SA                                                                     | FC                   | 100        | FC                   | 100        |
| Valeo Sisteme Termice SRL                                                                       | FC                   | 100        | FC                   | 100        |
| <b>RUSSIA</b>                                                                                   |                      |            |                      |            |
| Valeo Climate Control Tomilino LLC                                                              | FC                   | 100        | FC                   | 100        |
| Valeo Service Limited Liability Company                                                         | FC                   | 100        | FC                   | 100        |
| <b>UKRAINE</b>                                                                                  |                      |            |                      |            |
| CloudMade Ukraine LLC <sup>(4)</sup>                                                            | EM                   | 50         | -                    | -          |
| Spheros-Elektron TzOV <sup>(2)</sup>                                                            | EM                   | 20         | -                    | -          |
| <b>TURKEY</b>                                                                                   |                      |            |                      |            |
| Valeo Otomotiv Sanayi ve Ticaret AS                                                             | FC                   | 100        | FC                   | 100        |
| Spheros Termo Sistemleri AS <sup>(2)</sup>                                                      | FC                   | 100        | -                    | -          |
| <b>AFRICA</b>                                                                                   |                      |            |                      |            |
| <b>TUNISIA</b>                                                                                  |                      |            |                      |            |
| DAV Tunisie SA                                                                                  | FC                   | 100        | FC                   | 100        |
| Valeo Embrayages Tunisie SA                                                                     | FC                   | 100        | FC                   | 100        |
| Valeo Tunisie SA                                                                                | FC                   | 100        | FC                   | 100        |
| <b>MOROCCO</b>                                                                                  |                      |            |                      |            |
| Cablinal Maroc, SA                                                                              | FC                   | 100        | FC                   | 100        |
| Valeo Vision Maroc, SA                                                                          | FC                   | 100        | FC                   | 100        |
| <b>EGYPT</b>                                                                                    |                      |            |                      |            |
| Valeo Internal Automotive Software Egypt (formerly Valeo Interbranch Automotive Software Egypt) | FC                   | 100        | FC                   | 100        |
| <b>SOUTH AFRICA</b>                                                                             |                      |            |                      |            |
| Valeo Systems South Africa (Proprietary) Ltd                                                    | FC                   | 51         | FC                   | 51         |
| Spheros SA (Pty) Ltd <sup>(2)</sup>                                                             | FC                   | 100        | -                    | -          |

FC: Fully consolidated/EM: equity method (see Note 2.1.1, page 293).

(1) See Note 2.2.1.1, pages 295 to 296.

(2) See Note 2.2.1.2, pages 296 to 297.

(3) See Note 2.2.1.3, pages 297 to 298.

(4) See Note 2.2.1.5, page 298.

(5) See Note 2.2.1.6, page 298.

(6) See Note 2.2.1.7, pages 298 to 299.

(7) Mergers and liquidations.

(8) See Note 2.2.2.1, page 299.

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| Company                                                                 | December 31, 2016    |            | December 31, 2015    |            |
|-------------------------------------------------------------------------|----------------------|------------|----------------------|------------|
|                                                                         | Consolidation method | % interest | Consolidation method | % interest |
| <b>NORTH AMERICA</b>                                                    |                      |            |                      |            |
| <b>UNITED STATES</b>                                                    |                      |            |                      |            |
| 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         |
| Cloud Made, Inc. <sup>(4)</sup>                                         | EM                   | 50         | -                    | -          |
| Automotive Climate Control, Inc. <sup>(2)</sup>                         | FC                   | 100        | -                    | -          |
| Spheros North America, Inc. <sup>(2)</sup>                              | FC                   | 100        | -                    | -          |
| peiker acustic, Inc <sup>(1)</sup>                                      | FC                   | 100        | -                    | -          |
| <b>CANADA</b>                                                           |                      |            |                      |            |
| Valeo Canada, Inc.                                                      | FC                   | 100        | FC                   | 100        |
| <b>MEXICO</b>                                                           |                      |            |                      |            |
| Delmex de Juarez S de RL de CV                                          | FC                   | 100        | FC                   | 100        |
| Valeo Climate Control de Mexico Servicios, S de RL de CV <sup>(7)</sup> | -                    | -          | FC                   | 100        |
| Valeo Sistemas Automotrices de México, SA de CV                         | FC                   | 100        | FC                   | 100        |
| Valeo Sistemas Electricos Servicios, S de RL de CV <sup>(7)</sup>       | -                    | -          | 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                              | 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 <sup>(7)</sup>    | -                    | -          | FC                   | 100        |
| Valeo Technical Center <sup>(2)</sup>                                   | FC                   | 100        | -                    | -          |
| Spheros Mexico, SA de CV <sup>(2)</sup>                                 | FC                   | 60         | -                    | -          |
| peiker acustic de Mexico, SA de CV <sup>(1)</sup>                       | FC                   | 100        | -                    | -          |
| <b>SOUTH AMERICA</b>                                                    |                      |            |                      |            |
| <b>BRAZIL</b>                                                           |                      |            |                      |            |
| Valeo Sistemas Automotivos Ltda                                         | FC                   | 100        | FC                   | 100        |
| Spheros Climatização do Brasil SA <sup>(2)</sup>                        | FC                   | 60         | -                    | -          |
| Reparts Industria E Comercio de Peças para veiculos Ltda <sup>(2)</sup> | FC                   | 60         | -                    | -          |
| Setbus Soluções Automotivas Ltda <sup>(2)</sup>                         | EM                   | 32.9       | -                    | -          |
| <b>ARGENTINA</b>                                                        |                      |            |                      |            |
| 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        |
| <b>COLOMBIA</b>                                                         |                      |            |                      |            |
| Spheros Thermosystems Colombia Ltda <sup>(2)</sup>                      | FC                   | 60         | -                    | -          |

FC: Fully consolidated/EM: equity method (see Note 2.1.1, page 293).

(1) See Note 2.2.1.1, pages 295 to 296.

(2) See Note 2.2.1.2, pages 296 to 297.

(3) See Note 2.2.1.3, pages 297 to 298.

(4) See Note 2.2.1.5, page 298.

(5) See Note 2.2.1.6, page 298.

(6) See Note 2.2.1.7, pages 298 to 299.

(7) Mergers and liquidations.

(8) See Note 2.2.2.1, page 299.

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| Company                                                     | December 31, 2016    |            | December 31, 2015    |            |
|-------------------------------------------------------------|----------------------|------------|----------------------|------------|
|                                                             | Consolidation method | % interest | Consolidation method | % interest |
| <b>ASIA-PACIFIC</b>                                         |                      |            |                      |            |
| <b>THAILAND</b>                                             |                      |            |                      |            |
| Valeo Niles (Thailand) Co. Ltd                              | FC                   | 100        | FC                   | 98.5       |
| Valeo Compressor Clutch (Thailand) Co. Ltd                  | FC                   | 100        | 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 | FC                   | 100        | FC                   | 100        |
| <b>SOUTH KOREA</b>                                          |                      |            |                      |            |
| 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                       | FC                   | 50         | FC                   | 50         |
| Valeo Pyeong HWA Metals Co. Ltd                             | EM                   | 49         | EM                   | 49         |
| <b>INDONESIA</b>                                            |                      |            |                      |            |
| PT Valeo AC Indonesia                                       | FC                   | 100        | FC                   | 100        |
| VPH Indonesia Ltd                                           | FC                   | 50         | -                    | -          |
| <b>MALAYSIA</b>                                             |                      |            |                      |            |
| Valeo Malaysia SDN.BHD.                                     | FC                   | 100        | FC                   | 100        |
| <b>UNITED ARAB EMIRATES</b>                                 |                      |            |                      |            |
| Spheros Middle East FZE <sup>(2)</sup>                      | FC                   | 100        | -                    | -          |
| <b>HONG KONG</b>                                            |                      |            |                      |            |
| Spheros Ltd <sup>(2)</sup>                                  | FC                   | 100        | -                    | -          |
| <b>TAIWAN</b>                                               |                      |            |                      |            |
| Niles CTE Electronic Co. Ltd                                | FC                   | 51         | FC                   | 51         |
| <b>AUSTRALIA</b>                                            |                      |            |                      |            |
| Valeo Service Australia PTY Ltd                             | FC                   | 100        | FC                   | 100        |
| Spheros Australia Pty Ltd <sup>(2)</sup>                    | FC                   | 100        | -                    | -          |
| <b>JAPAN</b>                                                |                      |            |                      |            |
| Ichikoh Industries Limited <sup>(6)</sup>                   | EM                   | 31.6       | EM                   | 31.6       |
| Valeo Japan Co. Ltd                                         | FC                   | 100        | FC                   | 100        |
| Valeo Unisia Transmissions KK <sup>(5)</sup>                | FC                   | 100        | FC                   | 66         |
| Nitto Manufacturing Co. Ltd                                 | FC                   | 87.2       | FC                   | 87.2       |

FC: Fully consolidated/EM: equity method (see Note 2.1.1, page 293).

(1) See Note 2.2.1.1, pages 295 to 296.

(2) See Note 2.2.1.2, pages 296 to 297.

(3) See Note 2.2.1.3, pages 297 to 298.

(4) See Note 2.2.1.5, page 298.

(5) See Note 2.2.1.6, page 298.

(6) See Note 2.2.1.7, pages 298 to 299.

(7) Mergers and liquidations.

(8) See Note 2.2.2.1, page 299.

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| Company                                                                           | December 31, 2016    |            | December 31, 2015    |            |
|-----------------------------------------------------------------------------------|----------------------|------------|----------------------|------------|
|                                                                                   | Consolidation method | % interest | Consolidation method | % interest |
| <b>CHINA</b>                                                                      |                      |            |                      |            |
| Faw-Valeo Climate Control Systems Co. Ltd                                         | EM                   | 36.5       | EM                   | 36.5       |
| Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd <sup>(6)</sup>                 | 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                                                      | FC                   | 55         | FC                   | 55         |
| Shanghai Valeo Automotive Electrical Systems Company Ltd                          | EM                   | 50         | EM                   | 50         |
| Shenyang Valeo Auto Lighting Co. Ltd <sup>(6)</sup>                               | 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                   | 100        |
| Taizhou Valeo-Wenling Automotive Systems Co. Ltd                                  | FC                   | 73         | FC                   | 73         |
| 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 <sup>(6)</sup>                       | FC                   | 89.7       | FC                   | 89.7       |
| Valeo Interior Controls (Shanghai) Co. Ltd                                        | FC                   | 100        | FC                   | 100        |
| Valeo Interior Controls (Shenzhen) Co. Ltd                                        | FC                   | 100        | FC                   | 100        |
| Valeo Lighting Hubei Technical Center Co. Ltd <sup>(6)</sup>                      | 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                 | FC                   | 73         | FC                   | 73         |
| Wuhu Valeo Automotive Lighting Systems Co. Ltd <sup>(6)</sup>                     | FC                   | 89.7       | FC                   | 89.7       |
| Wuxi Valeo Automotive Components and System Co. Ltd                               | FC                   | 100        | FC                   | 100        |
| Changshu Valeo Automotive Wiper System Co. Ltd                                    | FC                   | 73         | -                    | -          |
| Shanghai VPHI Co. Ltd                                                             | FC                   | 50         | -                    | -          |
| Valeo ePowertrain (Shenzhen) Co. Ltd <sup>(3)</sup>                               | EM                   | 50         | -                    | -          |
| Valeo Siemens eAutomotive Shanghai Co. Ltd <sup>(3)</sup>                         | EM                   | 50         | -                    | -          |
| Beijing Valeo Siemens Automotive E-Drive Systems Co. Ltd Changzhou <sup>(3)</sup> | EM                   | 30         | -                    | -          |
| Foshan Valeo Electronic Auto Parts Co. Ltd                                        | FC                   | 100        | -                    | -          |
| Spheros (Suzhou) Co. Ltd <sup>(2)</sup>                                           | FC                   | 100        | -                    | -          |
| Spheros (Yangzhou) Limited <sup>(2)</sup>                                         | FC                   | 100        | -                    | -          |
| peiker (Shanghai) Automotive Technology Co. Ltd <sup>(1)</sup>                    | FC                   | 100        | -                    | -          |

FC: Fully consolidated/EM: equity method (see Note 2.1.1, page 293).

(1) See Note 2.2.1.1, pages 295 to 296.

(2) See Note 2.2.1.2, pages 296 to 297.

(3) See Note 2.2.1.3, pages 297 to 298.

(4) See Note 2.2.1.5, page 298.

(5) See Note 2.2.1.6, page 298.

(6) See Note 2.2.1.7, pages 298 to 299.

(7) Mergers and liquidations.

(8) See Note 2.2.2.1, page 299.

(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

| Company                                              | December 31, 2016    |            | December 31, 2015    |            |
|------------------------------------------------------|----------------------|------------|----------------------|------------|
|                                                      | Consolidation method | % interest | Consolidation method | % interest |
| <b>INDIA</b>                                         |                      |            |                      |            |
| 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         |
| Spheros Motherson Thermal Systems Ltd <sup>(1)</sup> | EM                   | 51         | -                    | -          |

FC: Fully consolidated/EM: equity method (see Note 2.1.1, page 293).

(1) See Note 2.2.1.1, pages 295 to 296.

(2) See Note 2.2.1.2, pages 296 to 297.

(3) See Note 2.2.1.3, pages 297 to 298.

(4) See Note 2.2.1.5, page 298.

(5) See Note 2.2.1.6, page 298.

(6) See Note 2.2.1.7, pages 298 to 299.

(7) Mergers and liquidations.

(8) See Note 2.2.2.1, page 299.

(9) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

At December 31, 2016, all entities that could have a material impact on the Group's financial statements had been consolidated.



## 5.4.7 Statutory Auditors' report on the consolidated financial statements

Year ended December 31, 2016

*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.*

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, 2016, 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, 2016 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

### II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French commercial code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- Note 2.1.3 to the consolidated financial statements sets out the methods of valuing intangible assets, related to customer relationships and technologies, which may be recognized as part of the business combinations. In the cases of the acquisitions of control over peiker and Spheros that occurred in 2016 and that are described in notes 2.2.1.1 and 2.2.1.2 to the financial statements respectively, our work consisted in examining the valuation methodologies applied to those intangible assets and assessing the reasonableness of the hypotheses and estimates used.
- Note 2.2.1.3 to the consolidated financial statements describes the accounting impacts related to the formation of the joint venture called Valeo Siemens eAutomotive. In this context, our work consisted in reviewing the valuation methods used to compute the fair value, on initial recognition, of the equity-accounted investment owned by Valeo in this joint venture and in assessing the reasonableness of the hypotheses used. We also examined the methodology used to compute the value of the call and put options relating to the investment of Siemens in this joint venture and verified that the aforementioned note provides appropriate information.
- 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 verifying that the aforementioned note provides appropriate information.

- Note 6.4 to the consolidated financial statements sets out the methods implemented to test goodwill and cash generating units ("CGUs"). Our work consisted in examining the implementation of these tests, reviewing the reasonableness of the hypotheses used and verifying that the aforementioned note to the consolidated financial statements provides appropriate information.
- Note 7.1 to the consolidated financial statements describes the methods of valuing provisions intended to cover your group's obligations in respect of guarantees granted to its clients and specific quality risks. Our work consisted in reviewing the reasonableness of the assumptions and 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 those bases, 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 information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris-La Défense, February 15, 2017

The Statutory Auditors

**MAZARS**

Thierry Colin

Gaël Lamant

**ERNST & YOUNG et Autres**

Jean-François Ginies

Philippe Berteaux

## 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 46 million euros in 2016, compared with a net operating loss of 50 million euros in 2015.

Operating income was 70 million euros in 2016 (45 million euros in 2015). The increase in this item primarily reflects net reversals of provisions for stock option and free share plans for 11 million euros and fees rebilled to Valeo Group subsidiaries in the year for 8 million euros.

Operating expenses totaled 116 million euros in the year, 21 million euros more than in 2015, due mainly to the 15 million euro increase in personnel expenses relating to the delivery of free shares and the exercise of stock options.

Net financial income came in at 286 million euros for the year, up 5 million euros compared to 2015 (281 million euros).

Net reversals in impairment and provisions for investments in subsidiaries and affiliates rose sharply in 2016, representing income of 179 million compared to income of 19 million euros one year earlier, and reflecting a significant improvement in the outlook for companies owned by Valeo.

The rise in financial income was partly offset by a fall in dividends received or receivable by the Company, down from 172 million euros in 2015 to 35 million euros in 2016. In 2015, dividends included an amount of 125 million euros from the holding company Valeo International Holding BV, whereas no dividends were booked by Valeo for this subsidiary in 2016. Valeo's cash management activities had also generated income of 21 million euros in 2015 (an expense of 2 million euros in 2016), essentially related to a foreign exchange gain on Valeo's investments in Mexico.

Non-recurring items represented an expense of 2 million euros in the year (4 million euros in 2015).

Income tax for 2016 represented a tax benefit of 24 million euros, up 7 million euros on 2015. Valeo reported a net benefit for the year in respect of tax consolidation amounting to 32 million euros versus 23 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. In 2015, this change led to a 9 million euro provision reversal in the income statement (and 11 million euros in retained earnings). The tax benefit received from subsidiaries was 36 million euros for 2016, up 22 million euros on 2015. A 4 million euro tax expense was also recognized in 2016. Lastly, a provision of 8 million euros was recognized in the year in respect of the additional tax on dividend payouts (6 million euros in 2015).

Net income came in at 262 million euros for 2016, compared with 244 million euros in 2015.

At December 31, 2016, Valeo's stockholders' equity stood at 3,757 million euros, up 55 million euros compared to the December 31, 2015 figure. This reflects net income of 262 million euros for the year, the 29 million euro share capital increase reserved for employees as part of the Group's 2016 employee share ownership plan (Shares4U), and the June 2016 payment to shareholders of a dividend totaling 236 million euros in respect of 2015 earnings. Valeo had paid 172 million euros in dividends in 2015.

The employee share subscription offer, available to employees in 20 of the Group's main countries, is part of Valeo's employee shareholding policy being rolled out in France and abroad, with the goal of involving employees more closely in the Group's performance.

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, 2016, trade payables less accrued payables totaled 1.0 million euros, including 0.7 million euros payable by end-December 2016 and 0.3 million euros payable in January 2017. At December 31, 2015, trade 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.

Valeo recognized no sumptuary expenses that were not deductible for tax purposes in 2016.

No overheads were added back to income for tax purposes in 2016.

## 5.6 2016 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, 2015, set out on pages 339 to 359 and 359 to 360 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 25, 2016 under number D.16-0211;
- 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 AMF on March 27, 2015 under number D.15-0220.

### 5.6.1 Income statement

| (in millions of euros)                           | Notes | 2016         | 2015        |
|--------------------------------------------------|-------|--------------|-------------|
| Provision reversals                              | 3.1.2 | 30           | 19          |
| Other operating income                           | 4.1.1 | 36           | 26          |
| Expense transfers                                | 4.1.2 | 4            | -           |
| <b>TOTAL OPERATING INCOME</b>                    |       | <b>70</b>    | <b>45</b>   |
| Other purchases and external charges             | 4.1.3 | (32)         | (29)        |
| Personnel expenses                               | 3.2   | (35)         | (20)        |
| Other taxes                                      |       | (1)          | (1)         |
| Depreciation and amortization                    | 4.1.4 | (11)         | (10)        |
| Provisions                                       | 3.1.2 | (37)         | (35)        |
| <b>Total operating expenses</b>                  |       | <b>(116)</b> | <b>(95)</b> |
| <b>OPERATING LOSS</b>                            |       | <b>(46)</b>  | <b>(50)</b> |
| Net financial income                             | 7     | 286          | 281         |
| <b>INCOME BEFORE TAX AND NON-RECURRING ITEMS</b> |       | <b>240</b>   | <b>231</b>  |
| Non-recurring expense                            | 8     | (2)          | (4)         |
| Income tax                                       | 9.2   | 24           | 17          |
| <b>NET INCOME FOR THE YEAR</b>                   |       | <b>262</b>   | <b>244</b>  |

The Notes are an integral part of these financial statements.

## 5.6.2 Balance sheet

|                               |          | December 31, 2016 |                                   | December 31, 2015 |       |
|-------------------------------|----------|-------------------|-----------------------------------|-------------------|-------|
| (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        | 5,181             | (528)                             | 4,653             | 4,295 |
| TOTAL NON-CURRENT ASSETS      |          | 5,186             | (532)                             | 4,654             | 4,296 |
| Prepaid and recoverable taxes | 9.4/11.1 | 101               | -                                 | 101               | 69    |
| Other operating receivables   | 11.1     | 2                 | -                                 | 2                 | 9     |
| Financial receivables         | 6.1.4    | 2,091             | -                                 | 2,091             | 1,479 |
| Cash and cash equivalents     | 6.1.5    | 1,702             | -                                 | 1,702             | 1,205 |
| Accrued assets                | 4.2.2    | 138               | -                                 | 138               | 77    |
| TOTAL CURRENT ASSETS          |          | 4,034             | -                                 | 4,034             | 2,839 |
| TOTAL ASSETS                  |          | 9,220             | (532)                             | 8,688             | 7,135 |

| (in millions of euros)                                            | Notes    | December 31, 2016 | December 31, 2015 |
|-------------------------------------------------------------------|----------|-------------------|-------------------|
| <b>EQUITY AND LIABILITIES</b>                                     |          |                   |                   |
| Share capital                                                     | 10.1     | 239               | 238               |
| Additional paid-in capital                                        | 10.2     | 1,462             | 1,434             |
| Legal reserve                                                     |          | 25                | 25                |
| Untaxed reserves                                                  |          | 4                 | 4                 |
| Other reserves                                                    |          | 263               | 263               |
| Retained earnings                                                 |          | 1,502             | 1,494             |
| Net income for the year                                           |          | 262               | 244               |
| <b>STOCKHOLDERS' EQUITY</b>                                       | 10       | <b>3,757</b>      | <b>3,702</b>      |
| Provisions for risks arising on stock option and free share plans | 3.1.2    | 85                | 78                |
| Provisions for pensions and other employee benefits               | 3.3      | 2                 | 2                 |
| Other provisions for contingencies and charges                    | 4.2.1    | 30                | 22                |
| <b>Provisions for contingencies and charges</b>                   |          | <b>117</b>        | <b>102</b>        |
| Long-term portion of long-term debt                               | 6.1.2    | 2,143             | 1,166             |
| Current portion of long-term debt                                 | 6.1.2    | 216               | 470               |
| Short-term debt                                                   | 6.1.3    | 2,158             | 1,415             |
| Operating payables                                                | 11.1     | 12                | 12                |
| Other payables                                                    | 9.5/11.1 | 277               | 268               |
| Accrued liabilities                                               |          | 8                 | -                 |
| <b>TOTAL LIABILITIES</b>                                          |          | <b>4,814</b>      | <b>3,331</b>      |
| <b>TOTAL EQUITY AND LIABILITIES</b>                               |          | <b>8,688</b>      | <b>7,135</b>      |

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> | <b>2016</b>  | <b>2015</b>  |
|------------------------------------------------------------------|--------------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                      |              |              |              |
| Net income for the year                                          |              | 262          | 244          |
| Expenses (income) with no cash effect:                           |              |              |              |
| ▪ depreciation and amortization/deferred charges                 |              | 13           | 11           |
| ▪ net additions to/(reversals from) impairment and provisions    |              | (165)        | (7)          |
| ▪ other expenses (income) with no cash effect                    |              | -            | 4            |
| <b>GROSS OPERATING CASH FLOWS</b>                                |              | <b>110</b>   | <b>252</b>   |
| Changes in working capital:                                      |              |              |              |
| ▪ operating receivables                                          |              | (25)         | (14)         |
| ▪ operating payables                                             |              | 0            | 5            |
| ▪ other receivables and payables                                 |              | (49)         | 50           |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                        |              | <b>36</b>    | <b>293</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                      |              |              |              |
| Acquisitions and capital increases in long-term financial assets | 5.2          | (2)          | (8)          |
| Loans and advances to subsidiaries and affiliates                | 5.2          | (176)        | (206)        |
| Disposals and capital decreases in long-term financial assets    | 5.2          | -            | 1            |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>               |              | <b>(178)</b> | <b>(213)</b> |
| <b>Net cash generated (used) before financing activities</b>     |              | <b>(142)</b> | <b>80</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                      |              |              |              |
| Dividends paid                                                   | 10.4         | (236)        | (172)        |
| Change in share capital:                                         |              |              |              |
| ▪ issuance of shares paid up in cash                             |              | 29           |              |
| Change in long-term debt:                                        |              |              |              |
| ▪ issuance of long-term debt                                     | 6.1.2        | 1,145        | 100          |
| ▪ repayment of long-term debt                                    | 6.1.2        | (430)        | (80)         |
| <b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>              |              | <b>508</b>   | <b>(152)</b> |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                   |              | <b>366</b>   | <b>(72)</b>  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>            |              | <b>1,269</b> | <b>1,341</b> |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                  |              | <b>1,635</b> | <b>1,269</b> |

The Notes are an integral part of these financial statements.

## 5.6.4 Notes to the parent company financial statements

|               |                                                     |            |                |                                            |            |
|---------------|-----------------------------------------------------|------------|----------------|--------------------------------------------|------------|
| <b>Note 1</b> | <b>Description of the Company</b>                   | <b>375</b> | <b>Note 7</b>  | <b>Net financial income</b>                | <b>387</b> |
| <b>Note 2</b> | <b>Accounting policies</b>                          | <b>375</b> | <b>Note 8</b>  | <b>Non-recurring items</b>                 | <b>387</b> |
| 2.1           | Basis of preparation                                | 375        | <b>Note 9</b>  | <b>Income tax</b>                          | <b>387</b> |
| 2.2           | Foreign currency translation                        | 375        | 9.1            | Tax group and taxable income               | 387        |
| <b>Note 3</b> | <b>Personnel expenses and employee benefits</b>     | <b>376</b> | 9.2            | Income tax                                 | 388        |
| 3.1           | Free shares and stock options                       | 376        | 9.3            | Deferred tax position                      | 388        |
| 3.2           | Personnel expenses                                  | 378        | 9.4            | Prepaid and recoverable taxes              | 388        |
| 3.3           | Provisions for pensions and other employee benefits | 378        | 9.5            | Other payables                             | 388        |
| 3.4           | Other information                                   | 378        | <b>Note 10</b> | <b>Stockholders' equity</b>                | <b>389</b> |
| <b>Note 4</b> | <b>Other operating items</b>                        | <b>379</b> | 10.1           | Share capital                              | 389        |
| 4.1           | Other operating income items                        | 379        | 10.2           | Additional paid-in capital                 | 389        |
| 4.2           | Other provisions and accrued assets/liabilities     | 379        | 10.3           | Reserves                                   | 389        |
| <b>Note 5</b> | <b>Long-term financial assets</b>                   | <b>381</b> | 10.4           | Movements                                  | 389        |
| 5.1           | Analysis by type                                    | 381        | <b>Note 11</b> | <b>Other information</b>                   | <b>390</b> |
| 5.2           | Movements                                           | 381        | 11.1           | Maturity of receivables and payables       | 390        |
| <b>Note 6</b> | <b>Financing and risk hedging</b>                   | <b>382</b> | 11.2           | Related party transactions                 | 390        |
| 6.1           | Net debt                                            | 382        | 11.3           | Off-balance sheet commitments              | 391        |
| 6.2           | Liquidity reserve and covenants                     | 384        | <b>Note 12</b> | <b>List of subsidiaries and affiliates</b> | <b>392</b> |
| 6.3           | Foreign currency, commodity and interest rate risks | 385        | <b>Note 13</b> | <b>Subsequent events</b>                   | <b>393</b> |



## 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 ANC on June 5, 2014. Assets and liabilities are measured at historical cost, contribution value or revalued amount. The accounting principles and policies applied in order to prepare the 2016 parent company financial statements are consistent with those used to prepare the 2015 financial statements.

The financial statements are presented in millions of euros and are rounded to the nearest 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 2017-2021 are underpinned by the following assumptions:

- world automotive production of 104 million vehicles in 2021, representing average annual growth of 2.3% for 2016-2021. This assumption is consistent with several independent external forecasts available in April 2016, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 55% of global production, Europe and Africa 24%, North America 18% and South America 3%;

- 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: 1.25 US dollars, 8.06 Chinese renminbi, 144 Japanese yen, 1,425 South Korean won and 5.06 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.

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 accruals 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, consisting of free share awards or stock option plans. Virtually all costs relating to these plans are recognized in Valeo's financial statements.

The different types of plans in place within the Group and their respective accounting treatment are described below.

#### 3.1.1 Equity-settled plans involving the issue of new shares

No provision has been recognized in respect of these plans pursuant to Article 624-6 of the French General Chart of Accounts. Shares subscribed by employees within the scope of the plan described in Note 10.1 to these financial statements fall within this category.

#### 3.1.2 Free share awards and stock option plans involving the delivery of existing shares

Personnel expenses relating to these free shares and stock options are not recorded at the grant date but at the date the free shares are delivered or the stock options are exercised. However, a provision for contingencies and charges is recognized when it is probable that there will be an outflow of resources at the date of the decision by Valeo's Board of Directors to award this plan.

To determine the provision amount, plans are classified into one of two categories: exercisable or non-exercisable plans.

Plans are considered to be non-exercisable when:

- the beneficiaries of stock option plans are not deemed likely to exercise their stock options. This situation is assessed at the end of each reporting period and is the case when the market value of the shares is lower than the option's exercise price;
- performance conditions are highly unlikely to be met for performance share plans.

In the case of exercisable plans, a provision is recognized for treasury shares set aside to cover these plans, corresponding to:

- the number of shares to be allotted; multiplied by
- the cost of the shares at the date they are allocated to the plan, or the probable cost of buying back the shares as assessed at the end of the reporting period, less the exercise price likely to be paid by employees. The exercise price is zero for free share award plans.

When the vesting of free shares is explicitly dependent on the grantee remaining employed by Valeo over a certain future period ("vesting period"), the provision is recognized on a straight-line basis over this vesting period.

The amount of the provision recognized takes into account whether or not treasury shares have been allocated for the purpose of serving the relevant stock option or free share plans. These treasury shares are recognized within marketable securities in the balance sheet (see Note 6.1.5) at their repurchase price. When they are allocated to specific plans as from the acquisition date, the value of the shares in the balance sheet continues to be their repurchase price, until they are delivered to the beneficiaries: no impairment is therefore recognized if their acquisition price moves above their market price.

More generally, amounts set aside to these provisions for contingencies and charges are shown on the "Provisions" line within operating items. When the shares are delivered to their beneficiaries, the provision is reversed for the corresponding amount on the "Provision reversals" line within operating items. A personnel expense is also recognized for the carrying amount of the shares delivered. The balance of provisions recognized in respect of these plans is shown under "Provisions for risks arising on stock option and free share plans" in the balance sheet.

Movements in these provisions along with personnel expenses are set out below:

### 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, 2016 were as follows:

| Year in which plan was set up | Number of shares under option <sup>(1)</sup> | of which subject to conditions <sup>(1)(2)</sup> | Exercise price (in euros) <sup>(1)(3)</sup> | Number of shares canceled <sup>(4)</sup> | Number of shares not yet issued at December 31, 2016 | Expiration date |
|-------------------------------|----------------------------------------------|--------------------------------------------------|---------------------------------------------|------------------------------------------|------------------------------------------------------|-----------------|
| 2010                          | 3,000,000                                    | 1,834,095                                        | 8.02                                        | 454,386                                  | 331,913                                              | 2018            |
| 2011                          | 878,520                                      | 631,110                                          | 14.14                                       | 379,650                                  | 117,905                                              | 2019            |
| 2012                          | 1,101,480                                    | 795,690                                          | 13.59                                       | 114,150                                  | 376,855                                              | 2020            |
| <b>TOTAL</b>                  | <b>4,980,000</b>                             | <b>3,260,895</b>                                 |                                             | <b>948,186</b>                           | <b>826,673</b>                                       |                 |

(1) The data shown differ from the data presented in the 2015 financial statements published in March 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split on June 6, 2016 (see Note 10.1).

(2) These stock options are subject to the Group meeting performance conditions.

(3) 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.

(4) Corresponding to the number of options canceled since the plan was set up.

### 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, 2016 were as follows:

| Year in which plan was set up | Number of free shares authorized <sup>(1)</sup> | of which subject to conditions <sup>(1)(2)</sup> | Outstanding shares not yet remitted at December 31, 2016 | Year of vesting <sup>(3)</sup> |
|-------------------------------|-------------------------------------------------|--------------------------------------------------|----------------------------------------------------------|--------------------------------|
| 2011                          | 980,580                                         | 379,440                                          | -                                                        | 2014/2016                      |
| 2012                          | 639,420                                         | 351,660                                          | 104,256                                                  | 2015/2017                      |
| 2013                          | 1,421,442                                       | 669,942                                          | 464,946                                                  | 2016/2018                      |
| 2014                          | 970,440                                         | 316,770                                          | 846,468                                                  | 2017/2019                      |
| 2015                          | 957,027                                         | 260,805                                          | 848,481                                                  | 2018/2020                      |
| 2016                          | 1,267,022                                       | 573,522                                          | 910,662                                                  | 2019/2021                      |
| <b>TOTAL</b>                  | <b>6,235,931</b>                                | <b>2,552,139</b>                                 | <b>3,174,813</b>                                         |                                |

(1) The data shown differ from the data presented in the 2015 financial statements published in March 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split on June 6, 2016 (see Note 10.1).

(2) These free shares are subject to the Group meeting performance conditions.

(3) The vesting year varies depending on the country in which the plan's beneficiaries are based.

### 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 2015 and 2016 were as follows:

| (in millions of euros)                               | 2016      | 2015      |
|------------------------------------------------------|-----------|-----------|
| <b>Provisions at January 1</b>                       | <b>78</b> | <b>62</b> |
| Utilizations                                         | (30)      | (19)      |
| Reversals                                            | -         | -         |
| Additions                                            | 37        | 35        |
| <b>Provisions at December 31</b>                     | <b>85</b> | <b>78</b> |
| <i>Of which current portion (less than one year)</i> | <i>26</i> | <i>22</i> |

At December 31, 2015 and 2016, these contingency provisions concern treasury shares held to cover stock option and free share plans, shown within marketable securities (see Note 6.1.5).

The 30 million euro provision reversal recognized in the income statement in 2016 mainly consists of a (i) 22 million euro reversal relating to the delivery of shares to non-French beneficiaries

under the June 8, 2011 free share plan and to the delivery of shares to French beneficiaries under the March 27, 2013 free share plan, and (ii) a 7 million euro reversal relating to the exercise of stock options under the March 27, 2012 stock option plan. The 19 million euro reversal in 2015 related mainly to the delivery of shares to French beneficiaries under the March 23, 2012 free share plan.

### 3.2 Personnel expenses

| <i>(in millions of euros)</i> | 2016        | 2015        |
|-------------------------------|-------------|-------------|
| Employee compensation         | (3)         | (3)         |
| Other personnel expenses      | (32)        | (17)        |
| <b>Personnel expenses</b>     | <b>(35)</b> | <b>(20)</b> |

#### Employee compensation

This item includes compensation awarded to Valeo's Chairman and Chief Executive Officer (see Note 3.4).

#### Other personnel expenses

In 2016, the Company delivered 248,820 shares to non-French beneficiaries under the 2011 free share plan and 770,091 shares to French beneficiaries under the 2013 free share plan. Valeo recognized an expense of 24 million euros corresponding to the net carrying amount of the treasury shares delivered. The provision set aside in respect of these plans was also reversed in an amount of 22 million euros (see Note 3.1.2). Other personnel expenses also include an expense of 7 million euros arising on the exercise of stock options and social security charges amounting to 1 million euros.

The vesting period for French beneficiaries under the 2012 free share plan ended in 2015. Valeo therefore delivered 457,107 shares (after taking into account the three-for-one stock split) and recognized a 14 million euro expense as well as a 13 million euro provision reversal in respect of this plan. Other personnel expenses included an expense of 2 million euros arising on the exercise of stock options 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 2016 or 2015.

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 1.80% at December 31, 2016 and 2.20% at December 31, 2015.

The provision amounts to 2 million euros at December 31, 2016, virtually the same as at December 31, 2015.

### 3.4 Other information

|                                                                        | 2016  | 2015  |
|------------------------------------------------------------------------|-------|-------|
| Headcount at December 31                                               | 1     | 2     |
| Compensation paid to corporate officers <i>(in thousands of euros)</i> | 2,763 | 2,432 |
| Directors' fees <i>(in thousands of euros)</i>                         | 916   | 637   |

## Note 4 Other operating items

### 4.1 Other operating income items

#### 4.1.1 Other operating income

| <i>(in millions of euros)</i> | 2016      | 2015      |
|-------------------------------|-----------|-----------|
| Trademark license fees        | 25        | 23        |
| Other                         | 11        | 3         |
| <b>Other operating income</b> | <b>36</b> | <b>26</b> |

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 25 million euros in 2016, up slightly on 2015.

The amount recorded under "Other" corresponds to rebillings to subsidiaries.

#### 4.1.2 Expense transfers

Expense transfers represent 4 million euros and relate to issue fees on the 600 million euro bond issue in March 2016, and to issue fees on the two tranches of the convertible bond subscribed in June 2016 for 450 million US dollars, to which the Group added 125 million US dollars in November 2016 (see Note 6.1.2).

#### 4.1.3 Other purchases and external charges

| <i>(in millions of euros)</i>               | 2016        | 2015        |
|---------------------------------------------|-------------|-------------|
| Deferred issue fees                         | (4)         | -           |
| Other                                       | (28)        | (29)        |
| <b>Other purchases and external charges</b> | <b>(32)</b> | <b>(29)</b> |

"Other" items consist of fees, commissions and contributions incurred by Valeo in the course of its activities.

Other purchases and external charges also include 4 million euros in deferred issue fees on the new bond issues in 2016 (see Note 6.1.2, pages 382 to 383, and Note 4.1.2, page 379). These expenses are recognized over the term of the bonds.

#### 4.1.4 Depreciation and amortization

Depreciation and amortization expense totaling 11 million euros in 2016 relates to issue fees for all of the bonds described in the section on long-term debt (see Note 6.1.2, pages 382 to 383). Depreciation and amortization expense came to 10 million euros in 2015.

### 4.2 Other provisions and accrued assets/liabilities

#### 4.2.1 Other provisions for contingencies and charges

##### Breakdown of other provisions for contingencies and charges

| <i>(in millions of euros)</i>                         | December 31, 2016 | December 31, 2015 |
|-------------------------------------------------------|-------------------|-------------------|
| Provisions for contingencies related to subsidiaries  | 2                 | 1                 |
| Provisions for disputes                               | 28                | 21                |
| <b>Other provisions for contingencies and charges</b> | <b>30</b>         | <b>22</b>         |

At December 31, 2016, other provisions for contingencies and charges comprise:

- a 2 million euro provision for contingencies intended to cover the negative net equity of certain subsidiaries;

- a provision for disputes totaling 28 million euros, chiefly intended to cover tax and employee disputes as well as clean-up costs for Valeo's former plants.

### Movements

Movements in other provisions for contingencies and charges in 2016 and 2015 are shown in the table below:

| <i>(in millions of euros)</i>                        | 2016      | 2015      |
|------------------------------------------------------|-----------|-----------|
| <b>Other provisions at January 1</b>                 | <b>22</b> | <b>36</b> |
| Utilizations                                         | (3)       | (2)       |
| Reversals                                            | (1)       | (21)      |
| Additions                                            | 12        | 9         |
| <b>Other provisions at December 31</b>               | <b>30</b> | <b>22</b> |
| <i>Of which current portion (less than one year)</i> | -         | 12        |

The increase in other provisions over the period is mainly due to the 8 million euro accrual in respect of tax contingencies.

The main change in other provisions for contingencies and charges in 2015 resulted from the fact that as from January 1, 2015, Valeo no longer recognized a provision for repayment of tax losses to subsidiaries that are members of the tax consolidation group. This was because it no longer met the conditions for recognizing the provision based on Opinion No. 2005-G issued by the CNC's Emerging Issues Taskforce (*Comité d'urgence*) on October 12, 2005.

### 4.2.2 Accrued assets

At December 31, 2016, accrued assets mainly include 69 million euros in deferred charges relating to bonds and 61 million euros in purchases of call options on shares in relation to the convertible bonds (see Note 6.1.2, pages 382 to 383). At December 31, 2015, accrued assets related mainly to 73 million euros in deferred charges on bonds.

## 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 CNC's Emerging Issues Task Force, 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 (see Note 2.1, page 375), 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, 2016 |              |              | December 31, 2015 |
|---------------------------------------------------|-------------------|--------------|--------------|-------------------|
|                                                   | Gross             | Impairment   | Net          | Net               |
| Investments in subsidiaries and affiliates        | 2,699             | (527)        | 2,172        | 1,990             |
| Loans and advances to subsidiaries and affiliates | 2,479             | -            | 2,479        | 2,303             |
| Other investment securities                       | 3                 | (1)          | 2            | 2                 |
| <b>Long-term financial assets</b>                 | <b>5,181</b>      | <b>(528)</b> | <b>4,653</b> | <b>4,295</b>      |

Loans and advances to subsidiaries and affiliates mainly comprise current account advances granted to Valeo's holding companies, 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 Équipementiers 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 |
|----------------------------------------------------------------|--------------------------------------------|---------------------------------------------------|-----------------------------|----------------------------|
| <b>NET CARRYING AMOUNT AT DECEMBER 31, 2014</b>                | <b>1,964</b>                               | <b>2,097</b>                                      | <b>2</b>                    | <b>4,063</b>               |
| 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                        |
| <b>NET CARRYING AMOUNT AT DECEMBER 31, 2015</b>                | <b>1,990</b>                               | <b>2,303</b>                                      | <b>2</b>                    | <b>4,295</b>               |
| Acquisitions and increase in the share capital of subsidiaries | 2                                          | -                                                 | -                           | 2                          |
| Disposals and decrease in the share capital of subsidiaries    | -                                          | -                                                 | -                           | -                          |
| Changes in impairment losses and other movements               | 180                                        | 176                                               | -                           | 356                        |
| <b>NET CARRYING AMOUNT AT DECEMBER 31, 2016</b>                | <b>2,172</b>                               | <b>2,479</b>                                      | <b>2</b>                    | <b>4,653</b>               |

Changes in the securities portfolio in 2016 led the Company to recognize net reversals from impairment provisions for investments in subsidiaries and affiliates totaling 180 million euros, compared to net reversals totaling 18 million euros in 2015 (see Note 7, page 387).

In 2015, Valeo had carried out a 8 million euro share capital increase in its subsidiary Équipement 11.



## 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:

| <i>(in millions of euros)</i>       | <i>Notes</i> | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|-------------------------------------|--------------|--------------------------|--------------------------|
| Long-term portion of long-term debt | 6.1.2        | 2,143                    | 1,166                    |
| Current portion of long-term debt   | 6.1.2        | 216                      | 470                      |
| <b>Total long-term debt</b>         |              | <b>2,359</b>             | <b>1,636</b>             |
| Short-term debt                     | 6.1.3        | 2,158                    | 1,415                    |
| Financial receivables               | 6.1.4        | (2,091)                  | (1,479)                  |
| Cash and cash equivalents           | 6.1.5        | (1,702)                  | (1,205)                  |
| <b>Short-term cash position</b>     |              | <b>(1,635)</b>           | <b>(1,269)</b>           |
| <b>Net debt</b>                     |              | <b>724</b>               | <b>367</b>               |

#### 6.1.2 Analysis of long-term debt

| <i>(in millions of euros)</i>        | <b>December 31, 2016</b> |                     |                          |              | <b>December 31, 2015</b> |
|--------------------------------------|--------------------------|---------------------|--------------------------|--------------|--------------------------|
|                                      | <b>Less than 1 year</b>  | <b>1 to 5 years</b> | <b>More than 5 years</b> | <b>Total</b> | <b>Total</b>             |
| Bonds                                | 146                      | 873                 | 1,245                    | 2,264        | 1,219                    |
| Syndicated loans                     | -                        | -                   | -                        | -            | 250                      |
| EIB (European Investment Bank) loans | 24                       | 25                  | -                        | 49           | 127                      |
| Accrued interest                     | 46                       | -                   | -                        | 46           | 40                       |
| <b>Long-term debt</b>                | <b>216</b>               | <b>898</b>          | <b>1,245</b>             | <b>2,359</b> | <b>1,636</b>             |

The Group carried out the following debt issues during the period:

- on March 18, 2016, Valeo issued 600 million euros' worth of ten-year bonds maturing in 2026 and paying a fixed coupon of 1.625%. The issue was carried out under the Euro Medium Term Note program;
- on June 16, 2016, Valeo issued 450 million US dollars' worth of five-year non-dilutive convertible bonds paying a coupon of 0%. A further 125 million US dollars were added to this issue in November 2016, subject to the same terms and conditions. As the conversion rights (exercise price of 64.6137 euros) in respect of the bonds will be settled solely in cash, the bonds will not result in the issuance of new shares or the delivery of existing Valeo shares. At the same time, Valeo purchased cash-settled call options on its own shares to hedge the Group's exposure in the event that the bond conversion rights are exercised;

- euro/dollar currency swaps for 575 million US dollars were set up on inception of the transactions and with similar maturities.

The Group also made the following redemptions and repayments:

- the 250 million euro syndicated loan taken out in 2011 to finance the acquisition of the Niles group was repaid in full on June 27, 2016;
- the two subscriptions to private placements in June 2015, amounting to 30 million euros and 70 million euros, were repaid in full on July 1, 2016 and December 1, 2016, respectively. The matching interest rate swaps matured at the same dates;
- the two annual installments on the loans taken out with the European Investment Bank (EIB) were paid in August 2016 for 56 million euros and in November 2016 for 24 million euros. The matching interest rate swap matured in August 2016.

At December 31, 2016, the main terms and conditions of long-term debt were as shown below:

| Type                          | Outstanding at<br>Dec. 31, 2016<br>(in millions) | Issuance           | Maturity      | Nominal<br>(in millions) | Currency | Nominal<br>interest rate | Other information                                                                      |
|-------------------------------|--------------------------------------------------|--------------------|---------------|--------------------------|----------|--------------------------|----------------------------------------------------------------------------------------|
| European Investment Bank loan | 49                                               | November 2011      | November 2018 | 103                      | USD      | 6-month USD Libor +1.90% | Dollar/euro currency swap for a total of 51 million US dollars with the same maturity  |
| Bond (EMTN program)           | 146                                              | January 2012       | January 2017  | 500                      | EUR      | 5.75%                    | -                                                                                      |
| Bond (EMTN program)           | 273                                              | May 2011           | May 2018      | 500                      | EUR      | 4.875%                   | -                                                                                      |
| Convertible bond              | 545                                              | June/November 2016 | June 2021     | 575                      | USD      | 0.00%                    | Dollar/euro currency swap for a total of 575 million US dollars with the same maturity |
| Bond (EMTN program)           | 700                                              | January 2014       | January 2024  | 700                      | EUR      | 3.25%                    | -                                                                                      |
| Bond (EMTN program)           | 600                                              | March 2016         | March 2026    | 600                      | EUR      | 1.625%                   | -                                                                                      |
| Accrued interest              | 46                                               |                    |               |                          |          |                          |                                                                                        |
| <b>TOTAL LONG-TERM DEBT</b>   | <b>2,359</b>                                     |                    |               |                          |          |                          |                                                                                        |

### 6.1.3 Analysis of short-term debt

| (in millions of euros)       | December 31, 2016 | December 31, 2015 |
|------------------------------|-------------------|-------------------|
| Borrowings from subsidiaries | 1,622             | 1,302             |
| Commercial paper             | 515               | 40                |
| Bank overdrafts              | 6                 | 8                 |
| Other short-term debt        | 15                | 65                |
| <b>Short-term debt</b>       | <b>2,158</b>      | <b>1,415</b>      |

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 15 million euros at December 31, 2016 (65 million euros at December 31, 2015).

### 6.1.4 Analysis of financial receivables

| (in millions of euros)       | December 31, 2016 | December 31, 2015 |
|------------------------------|-------------------|-------------------|
| Loans to subsidiaries        | 2,048             | 1,353             |
| Other financial receivables  | 43                | 126               |
| <b>Financial receivables</b> | <b>2,091</b>      | <b>1,479</b>      |

Financial receivables consist primarily of loans granted to subsidiaries.

At end-2016, other financial receivables relate mainly to the fair value of financial instruments hedging the EIB foreign currency loan and the convertible bond in an amount of 38 million euros. At December 31, 2015, other financial receivables chiefly related to a dividend receivable from Valeo International Holding BV for 125 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, 2016 | December 31, 2015 |
|----------------------------------|-------------------|-------------------|
| Marketable securities            | 1,642             | 1,068             |
| Cash                             | 60                | 137               |
| <b>Cash and cash equivalents</b> | <b>1,702</b>      | <b>1,205</b>      |

At December 31, 2016, the Company's marketable securities portfolio mainly included money market funds for 1,615 million euros (1,001 million euros at December 31, 2015), 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 1,240,865 treasury shares with a net carrying amount of 27 million euros at December 31, 2016. At December 31, 2015, Valeo held 3,025,065<sup>(1)</sup> of its own shares with a net carrying amount of 67 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, 2016, 44,364 shares had been allocated to this liquidity agreement compared with 79,500<sup>(1)</sup> shares at December 31, 2015. In 2016, the Company purchased 2,731,203 and sold 2,766,339 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 3.1.2, pages 376 to 378). At December 31, 2016 and 2015, shares serving stock option and free share plans only comprise shares to be allotted to employees and allocated to the specified plans. In 2016, the Company delivered 1,749,064 shares under stock option and free share plans.

## 6.2 Liquidity reserve and covenants

### 6.2.1 Credit lines

At December 31, 2016, Valeo had several confirmed bank credit lines with an average maturity of three years, representing an aggregate amount of 1.2 billion euros. None of these credit lines were drawn down during 2016. 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 1.7 billion euros had been drawn down at December 31, 2016.

### 6.2.3 Debt rating

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

| Rating agency     | Publication date | Long-term debt | Outlook  | Short-term debt |
|-------------------|------------------|----------------|----------|-----------------|
| Standard & Poor's | January 31, 2017 | BBB            | Positive | A-2             |
| Moody's           | May 9, 2016      | Baa2           | Stable   | P-2             |

### 6.2.4 Covenants

Credit lines and the European Investment Bank loan are subject to a covenant stipulating that Valeo's net debt-to-EBITDA ratio must not exceed 3.25. At December 31, 2016, the ratio calculated over 12 months was 0.25.

Bonds issued under the EMTN program 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).

<sup>(1)</sup> The data shown differ from the data presented in the 2015 financial statements published in February 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split on June 6, 2016 (see Note 10.1).

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).

For the outstanding European Investment Bank loan, the bank may ask the borrower to put up security or collateral in the event of a change of control, or otherwise request early repayment of the loans.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is 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 Foreign currency, commodity and interest rate risks

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, 2016, Valeo's net position in the main foreign currencies was as follows:

| (in millions of euros)                           | December 31, 2016 |             |             |              |              | December 31, 2015 |
|--------------------------------------------------|-------------------|-------------|-------------|--------------|--------------|-------------------|
|                                                  | USD               | GBP         | JPY         | Other        | Total        | Total             |
| Forward sales with subsidiaries                  | (198)             | (1)         | (83)        | (438)        | <b>(720)</b> | (746)             |
| Forward purchases with subsidiaries              | 243               | 4           | 15          | 5            | <b>267</b>   | 403               |
| <b>Net position with subsidiaries</b>            | <b>45</b>         | <b>3</b>    | <b>(68)</b> | <b>(433)</b> | <b>(453)</b> | <b>(343)</b>      |
| Forward sales with external counterparties       | (374)             | (85)        | (25)        | -            | <b>(484)</b> | (879)             |
| Forward purchases with external counterparties   | 1,049             | 20          | 98          | 433          | <b>1,600</b> | 1,483             |
| <b>Net position with external counterparties</b> | <b>675</b>        | <b>(65)</b> | <b>73</b>   | <b>433</b>   | <b>1,116</b> | <b>604</b>        |
| <b>Total net position</b>                        | <b>720</b>        | <b>(62)</b> | <b>5</b>    | <b>-</b>     | <b>663</b>   | <b>261</b>        |

The net position in US dollars includes both hedges of Valeo intercompany loans, the hedge of the EIB US dollar loan for 51 million US dollars, and the hedge of the new convertible bond issued for an amount of 575 million US 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 gain of 25 million euros at December 31, 2016 (unrealized loss of 57 million euros at December 31, 2015).

### 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, 2016 were as follows:

| (in millions of euros)    | December 31, 2016 |                              |          | December 31, 2015 |
|---------------------------|-------------------|------------------------------|----------|-------------------|
|                           | With subsidiaries | With external counterparties | Total    | Total             |
| Forward sales             | (63)              | -                            | (63)     | (92)              |
| Forward purchases         | -                 | 63                           | 63       | 80                |
| <b>Total net position</b> | <b>(63)</b>       | <b>63</b>                    | <b>-</b> | <b>(12)</b>       |

The market value of instruments hedging metals prices included in the net position with external counterparties represented an unrealized gain of 6 million euros at December 31, 2016 (unrealized loss of 6 million euros at December 31, 2015).

### 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. Valeo no longer had any interest rate hedges at December 31, 2016.

At December 31, 2016, 98% of long-term debt was at fixed rates, after hedging (80% at fixed rates at December 31, 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              | 192              | 2,182            | 818           | 25               | 1,300             | -                | 2,310                | 2,207            | 4,517      |
| Financial receivables              | -                | (2,091)          | -             | -                | -                 | -                | -                    | (2,091)          | (2,091)    |
| Cash and cash equivalents          | -                | (1,702)          | -             | -                | -                 | -                | -                    | (1,702)          | (1,702)    |
| <b>Net position before hedging</b> | <b>192</b>       | <b>(1,611)</b>   | <b>818</b>    | <b>25</b>        | <b>1,300</b>      | <b>-</b>         | <b>2,310</b>         | <b>(1,586)</b>   | <b>724</b> |

Net short-term cash was 1,702 million euros at December 31, 2016, invested on a variable-rate basis.

## Note 7 Net financial income

| (in millions of euros)                                                                                         | 2016       | 2015       |
|----------------------------------------------------------------------------------------------------------------|------------|------------|
| Dividend income                                                                                                | 35         | 172        |
| Interest income                                                                                                | 134        | 133        |
| Interest expense                                                                                               | (60)       | (64)       |
| Net additions to/(reversals from) provisions for impairment and for investments in subsidiaries and affiliates | 179        | 19         |
| Other financial income and expenses                                                                            | (2)        | 21         |
| <b>Net financial income</b>                                                                                    | <b>286</b> | <b>281</b> |

Dividend income in 2016 chiefly relates to the 21 million euro dividend from Turkish subsidiary Valeo Otomotiv Sanayi ve Ticaret AS and the 10 million euro dividend from South Korean subsidiary Valeo Pyeong Hwa International. In 2015, Valeo collected a 125 million euro dividend from Valeo International Holding BV in 2015, along with a 22 million euro dividend from Turkish subsidiary Valeo Otomotiv Sistemleri Endustri AS and a 21 million euro dividend from South Korean subsidiary Valeo Pyeong Hwa International.

In 2016, the measurement of the portfolio of investments in subsidiaries and affiliates led to a net 180 million euro reversal from impairment provisions (see Note 5.2, page 381) and a net 1 million euro addition to provisions for contingencies relating to subsidiaries (see Note 4.2.1, pages 379 to 380). The net balance of this caption therefore represents income of 179 million euros. Reversals of impairment totaling 181 million euros in 2016 chiefly concern investments in Valeo Vision, whose performance continues to recover, and in Valeo Systèmes de Contrôle Moteur.

In 2015, the measurement of the portfolio of investments in subsidiaries and affiliates led to a net reversal of 18 million euros from impairment provisions and a net reversal of 1 million euros from provisions for contingencies relating to subsidiaries. The net balance of this caption therefore represented income of 19 million euros. Reversals totaling 84 million euros in 2015 chiefly concerned investments in Valeo Vision. Additions totaling 65 million euros in 2015 chiefly related to Group subsidiaries Valeo Embrayages, Valeo Auto-Electric Beteiligungs GmbH and Valeo Systèmes de Contrôle Moteur.

Other financial income and expenses in 2016 chiefly include foreign exchange gains and losses arising in the year. Other financial income and expenses in 2015 included a 17 million euro foreign exchange gain arising on Group investments in Mexico.

## Note 8 Non-recurring items

In both 2016 and 2015, non-recurring expenses related mainly to employee disputes and amounted to 2 million euros in 2016 versus 4 million euros in 2015.

## 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.

In 2015, this change also led to a reversal of 20 million euros from the provision previously recognized. This reversal had been recognized within retained earnings for 11 million euros in respect of changes 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 within 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, tax savings arising from tax losses transferred to Valeo by its subsidiaries came to 1,089 million euros. 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 savings to this subsidiary, based on the terms and conditions stipulated in the sale agreement.

## 9.2 Income tax

| <i>(in millions of euros)</i>                              | 2016      | 2015      |
|------------------------------------------------------------|-----------|-----------|
| Net tax benefit arising on tax consolidation               | 32        | 23        |
| Net additions to/(reversals from) provisions for tax risks | (8)       | (6)       |
| <b>Income tax</b>                                          | <b>24</b> | <b>17</b> |

The net tax benefit arising on tax consolidation in 2016 (32 million euros) chiefly includes the tax benefit received from subsidiaries in an amount of 36 million euros and a 6 million euro tax consolidation charge.

The net tax benefit arising on tax consolidation in 2015 (23 million euros) included 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 387).

In the absence of tax consolidation, the Company would have been liable for an income tax expense of 20 million euros in the year ended December 31, 2016 (27 million euros in the year ended December 31, 2015).

A provision of 8 million euros was recognized in 2016 in respect of the additional tax on dividend payouts in France (6 million euros in 2015).

## 9.3 Deferred tax position

| <i>(in millions of euros)</i>                                                                     | December 31, 2016 |                   | December 31, 2015 |                   |
|---------------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                                                                   | Tax basis         | Corresponding tax | Tax basis         | Corresponding tax |
| Timing differences between the recognition of income and expenses for accounting and tax purposes | 61                | 18                | 63                | 21                |
| Contribution premium                                                                              | (134)             | (39)              | (50)              | (17)              |
| Tax loss carryforwards                                                                            | 1,353             | 391               | 1,450             | 499               |
| <b>TOTAL</b>                                                                                      | <b>1,280</b>      | <b>370</b>        | <b>1,463</b>      | <b>503</b>        |

## 9.4 Prepaid and recoverable taxes

At December 31, 2016, prepaid and recoverable taxes totaling 101 million euros include the research tax credit for 2016 amounting to 55 million euros and the tax benefit of 36 million euros arising on the 2016 tax consolidation (see Note 9.2, page 388).

At December 31, 2015, prepaid and recoverable taxes totaling 69 million euros included 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.

The research tax credit receivable in respect of 2015 was sold by Valeo to several banks in 2016 along with the CICE tax credit in respect of 2016, for a total amount of 69 million euros. These receivables, including the 2016 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, 2016, "Other payables" totaling 277 million euros relate mainly to (i) the 274 million euros owed to subsidiaries that are members of the tax consolidation group in respect of research tax credits for 2013 (55 million euros), 2014 (56 million euros), 2015 (54 million euros) and 2016 (55 million euros), and (ii) to 55 million euros in CICE tax credits for years 2013 to 2016.

At December 31, 2015, "Other payables" included mainly the 253 million euros owed to subsidiaries that are members of the tax consolidation group in respect of the research tax credit for years 2012 to 2015 and the CICE tax credit for years 2013 to 2015.



## Note 10 Stockholders' equity

### 10.1 Share capital

Valeo's Combined Shareholders' Meeting of May 26, 2016 adopted the nineteenth resolution to carry out a three-for-one stock split. On June 6, 2016, the number of shares making up the Company's share capital tripled and the stock began trading on a basis equal to the share price at that date divided by three.

In 2016, a share subscription plan reserved for employees was offered in 20 of the Group's main countries. The offer is part of Valeo's employee share ownership policy being rolled out in France and abroad, which aims to involve employees in the Group's performance. At the close of the subscription period, which ran from September 21, 2016 to October 4, 2016, employees had subscribed to 755,511 new shares at a unit price of 38.12 euros, reflecting a 20% discount on the reference price.

By subscribing to shares in the Group Employee Savings Plan, employees also benefited from a top-up contribution from their employer. Since this plan involves new share issues, no expenses were recognized in respect of the subscription (see Note 3.1.1, page 376). Outside France, employees were allotted free shares subject to certain conditions as part of an employer contribution, which are covered by a provision for contingencies and charges as described in Note 3.1.2, pages 376 to 378.

At December 31, 2016, Valeo's share capital totaled 239 million euros, divided into 239,143,131 shares of common stock with a par value of 1 euro each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (5,960,420 shares at December 31, 2016). Share capital stood at 238 million euros 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.

The employee share subscription offer launched in 2016 (see Note 10.1, page 389) generated additional paid-in capital of 28 million euros in the year.

### 10.3 Reserves

Reserves available for distribution amounted to 1,999 million euros at December 31, 2016 (1,934 million euros at December 31, 2015) before appropriation of income for the year and after deduction of the net carrying amount of treasury shares held at December 31, 2016 (27 million euros versus 67 million euros at December 31, 2015).

### 10.4 Movements

| <i>(in millions of euros)</i>                    | Share capital | Additional paid-in capital | Reserves and other | Stockholders' equity |
|--------------------------------------------------|---------------|----------------------------|--------------------|----------------------|
| <b>STOCKHOLDERS' EQUITY AT DECEMBER 31, 2014</b> | <b>238</b>    | <b>1,434</b>               | <b>1,947</b>       | <b>3,619</b>         |
| Dividends paid                                   | -             | -                          | (172)              | (172)                |
| Other movements                                  | -             | -                          | 11                 | 11                   |
| Capital increase                                 | -             | -                          | -                  | -                    |
| Net income for the year                          | -             | -                          | 244                | 244                  |
| <b>STOCKHOLDERS' EQUITY AT DECEMBER 31, 2015</b> | <b>238</b>    | <b>1,434</b>               | <b>2,030</b>       | <b>3,702</b>         |
| Dividends paid                                   | -             | -                          | (236)              | (236)                |
| Other movements                                  | -             | -                          | -                  | -                    |
| Capital increase                                 | 1             | 28                         | -                  | 29                   |
| Net income for the year                          | -             | -                          | 262                | 262                  |
| <b>STOCKHOLDERS' EQUITY AT DECEMBER 31, 2016</b> | <b>239</b>    | <b>1,462</b>               | <b>2,056</b>       | <b>3,757</b>         |

## Note 11 Other information

### 11.1 Maturity of receivables and payables

| <i>(in millions of euros)</i> | December 31, 2016 | Of which<br>non-current portion<br>(more than 1 year) | Of which<br>current portion<br>(less than 1 year) |
|-------------------------------|-------------------|-------------------------------------------------------|---------------------------------------------------|
| Prepaid and recoverable taxes | 101               | 55                                                    | 46                                                |
| Other operating receivables   | 2                 | -                                                     | 2                                                 |
| <b>Operating receivables</b>  | <b>103</b>        | <b>55</b>                                             | <b>48</b>                                         |

| <i>(in millions of euros)</i>   | December 31, 2016 | Of which<br>non-current portion<br>(more than 1 year) | Of which<br>current portion<br>(less than 1 year) |
|---------------------------------|-------------------|-------------------------------------------------------|---------------------------------------------------|
| Trade payables                  | 9                 | -                                                     | 9                                                 |
| Accrued taxes and payroll costs | 3                 | -                                                     | 3                                                 |
| <b>Operating payables</b>       | <b>12</b>         | <b>-</b>                                              | <b>12</b>                                         |
| <b>Other payables</b>           | <b>277</b>        | <b>210</b>                                            | <b>67</b>                                         |

Accrued expenses included in trade payables amount to 8 million euros at December 31, 2016.

An analysis of long-term debt is provided in Note 6.1.2, pages 382 to 383.

### 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 2016 and 2015:

| <i>(in millions of euros)</i>                     | 2016  | 2015  |
|---------------------------------------------------|-------|-------|
| <b>Income statement</b>                           |       |       |
| Net financial income                              | 164   | 307   |
| <b>Balance sheet at December 31</b>               |       |       |
| Loans and advances to subsidiaries and affiliates | 2,479 | 2,303 |
| Financial receivables                             | 2,040 | 1,470 |
| Prepaid and recoverable taxes                     | 38    | 15    |
| Debt                                              | 1,622 | 1,295 |
| Other payables                                    | 274   | 267   |

#### 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 2016.

## 11.3 Off-balance sheet commitments

### 11.3.1 Commitments given

| (in millions of euros) | December 31, 2016 |                  |       | December 31, 2015 |                  |       |
|------------------------|-------------------|------------------|-------|-------------------|------------------|-------|
|                        | Less than 1 year  | More than 1 year | Total | Less than 1 year  | More than 1 year | Total |
| Commitments given      | 27                | 175              | 202   | -                 | 176              | 176   |

Commitments given mainly include the guarantee given in 2005 to the IUE-CWA-Local 509 trade union as part of the agreement signed in September 2005 in relation to the closure of the Rochester plant (representing 160 million euros at December 31, 2016 and 152 million euros at December 31, 2015). It is a first-call guarantee with an indefinite term and covers Valeo Electrical Systems Inc.'s commitments concerning pensions and other employee benefits.

The amount of 27 million euros corresponds to the joint and several guarantee relating to the fine handed down by the European Commission on March 8, 2017 as part of antitrust investigations initiated at the end of July 2011 against Valeo and its subsidiaries.

Other commitments given in 2016 include a reciprocal vendor warranty commitment agreed with Siemens and related to the creation of the Valeo Siemens eAutomotive joint venture on December 1, 2016, capped at 15 million euros (this cap does not apply to the warranty given in respect of taxes). In 2015, this item notably included a 24 million euro vendor warranty related to the sale of the Access Mechanisms business on May 24, 2013, which expired on April 30, 2016.

### 11.3.2 Commitments received

| (in millions of euros) | December 31, 2016 |                  |       | December 31, 2015 |                  |       |
|------------------------|-------------------|------------------|-------|-------------------|------------------|-------|
|                        | Less than 1 year  | More than 1 year | Total | Less than 1 year  | More than 1 year | Total |
| Commitments received   | -                 | 15               | 15    | 5                 | 9                | 14    |

At December 31, 2016, commitments received totaling 15 million euros include in particular the reciprocal commitment with Siemens (see Note 11.3.1). At December 31, 2015, commitments received included a vendor warranty for

14 million euros, granted by Osram GmbH in connection with the acquisition by Valeo Investment Holdings Inc. of Osram's 50% stake in Valeo Sylvania. This warranty expired in 2016.

## Note 12 List of subsidiaries and affiliates

At December 31, 2016

| Company<br>(in millions of euros)                                                                     | Share capital | Other equity <sup>(1)</sup> | % 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           | (119)                       | 100        | 838                       | 838   | 581                                    | -                                 | -     | (9)               | -         |
| Valeo Systèmes de Contrôle Moteur                                                                     |               |                             |            |                           |       |                                        |                                   |       |                   |           |
| Cergy Saint Christophe – France                                                                       | 55            | 31                          | 100        | 502                       | 89    | 27                                     | -                                 | 539   | 62                | -         |
| Valeo International Holding BV Amsterdam – Netherlands                                                | 129           | 1,046                       | 100        | 436                       | 436   | -                                      | -                                 | -     | 122               | -         |
| Valeo Systèmes Thermiques Le Mesnil Saint-Denis – France                                              | 37            | 264                         | 47         | 215                       | 215   | 253                                    | -                                 | 424   | 97                | -         |
| Valeo Vision Bobigny – France                                                                         | 10            | 191                         | 90         | 377                       | 377   | -                                      | -                                 | 608   | 79                | -         |
| Valeo Embrayages Amiens – France                                                                      | 140           | (102)                       | 100        | 140                       | 51    | 67                                     | -                                 | 246   | (12)              | -         |
| Valeo Matériaux de Friction Limoges – France                                                          | 60            | 30                          | 100        | 60                        | 60    | -                                      | -                                 | 66    | 4                 | -         |
| Valeo Service Saint-Denis – France                                                                    | 13            | 18                          | 100        | 38                        | 38    | -                                      | -                                 | 251   | 1                 | -         |
| Valeo Auto-Electric GmbH Bietigheim – Germany                                                         | -             | 196                         | 5          | 27                        | 10    | -                                      | -                                 | 4     | -                 | -         |
| Valeo Otomotiv Sanayi ve Ticaret AS <sup>(3)</sup> Bursa – Turkey                                     | 9             | 59                          | 100        | 22                        | 22    | 16                                     | -                                 | 367   | 26                | 21        |
| Valeo Pyeong Hwa Co. Ltd <sup>(3)</sup> Daegu – South Korea                                           | 13            | 201                         | 50         | 15                        | 15    | -                                      | -                                 | 1     | 39                | 10        |
| Valeo Service Benelux BV Helmond – Netherlands                                                        | 4             | 6                           | 100        | 8                         | 8     | -                                      | -                                 | 46    | 3                 | 3         |
| Équipement 11 Paris – France                                                                          | -             | 1                           | 100        | 8                         | 1     | 8                                      | -                                 | -     | -                 | -         |
| Amalgamations Valeo Clutch Private Ltd <sup>(2)(3)</sup> Chennai – India                              | 10            | 2                           | 50         | 7                         | 7     | -                                      | -                                 | 49    | 1                 | -         |
| B – OTHER SUBSIDIARIES AND AFFILIATES                                                                 |               |                             |            |                           |       |                                        |                                   |       |                   |           |
| Subsidiaries not listed in A:                                                                         |               |                             |            |                           |       |                                        |                                   |       |                   |           |
| ■ French subsidiaries (aggregate)                                                                     | -             | -                           | -          | 2                         | 1     | -                                      | -                                 | -     | -                 | -         |
| ■ Foreign subsidiaries (aggregate)                                                                    | -             | -                           | -          | 4                         | 4     | -                                      | -                                 | -     | -                 | 1         |
| Affiliates not listed in A:                                                                           |               |                             |            |                           |       |                                        |                                   |       |                   |           |
| ■ French affiliates (aggregate)                                                                       | -             | -                           | -          | -                         | -     | -                                      | -                                 | -     | -                 | -         |
| TOTAL                                                                                                 | -             | -                           | -          | 2,699                     | 2,172 | -                                      | -                                 | -     | -                 | 35        |

(1) Including net income for 2016 before appropriation.

(2) Last financial year ended March 31, 2016.

(3) Translated at closing exchange rates and at average exchange rates for 2016.

## Note 13 Subsequent events

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On January 4, 2017 Valeo placed 500 million euros' worth of six-year bonds maturing on January 11, 2023.

To Valeo's knowledge, no other events have occurred since December 31, 2016 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, 2016

*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 General Meeting, we hereby report to you, for the year ended December 31, 2016, 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, 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

### II. Justifications of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

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 relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Paris-La Défense, March 22, 2017

The Statutory Auditors  
French original signed by

MAZARS

Thierry Colin

Gaël Lamant

ERNST & YOUNG et Autres

Jean-François Ginies

Philippe Berteaux

## 5.7 Statutory Auditors' special report on related party agreements and commitments AFR

Year ended December 31, 2016

*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 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 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 such agreements and commitments. It is your responsibility, in accordance with Article R.225-31 of the French Commercial Code (*Code de commerce*), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R.225-31 of the French Commercial Code concerning the implementation, during the year, of the agreements and commitments already approved by the 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 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 previous 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 Mr. Jacques Aschenbroich a severance payment in the event of a non-voluntary departure linked to a change of control or strategy (except in the event of gross professional misconduct when performing his duties) continued in 2016. This commitment, initially authorized by your 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, and renewed 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 2016. Furthermore, following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors by the Board of Directors on February 18, 2016, Jacques Aschenbroich 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 variable compensation on average during the last three fiscal years,
  - 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 times, based on the average over the previous three fiscal years,
  - the criterion relating to the achievement of a positive net income during the last financial year,
  - the criterion relating to the achievement of a gross margin exceeding 16% during the last financial year.

It had also been stated that the payment of severance benefits would be excluded if the Chief Executive Officer had elected to leave your Company in order to hold another position within the same Group outside it, or if he had been able to benefit in the near future from his pension rights.

The total amount of the termination benefits 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 one criterion 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 payments

The commitment granting Jacques Aschenbroich a non-competition payment if he were to leave your Company continued in 2016. 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 amount of the non-competition payments is calculated on the basis of the average compensation (fixed and variable) paid during the three financial years preceding the year in which the termination occurs;
- 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 when he leaves your Company to claim or after having claimed his pension rights.

If this clause is adopted, Jacques Aschenbroich will receive a non-competition payment equal to 12 months of compensation. Jacques Aschenbroich would thereby be prohibited from working in any way for an automotive supplier or, more generally, for any of Valeo's competitors. The clause would apply for 12 months after the end of his term of office as Chief Executive Officer of Valeo regardless of the reason for termination.

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 2016.

### 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 2016. In 2016, your Company paid a premium of 2,350 euros including VAT covering the period from April 30, 2016 to April 29, 2017.

## Agreements and commitments approved during the last year

In addition, we have been advised that the following commitment which was approved by the Shareholders' Meeting of May 26, 2016 and presented in the Statutory Auditors' special report on related party agreements and commitments on March 24, 2016.

### Commitments 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 by according him five years' seniority. The main features of this plan are as follows:

- the supplementary pension is capped because of the very nature of the plan at 1% of the reference salary per year of service, up to a limit of 20%;
- the supplementary pension is capped with regard to the base used to calculate the entitlements: the supplementary pension, all plans combined, is capped at 55% of the reference salary;
- the reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation received for working full time within the Group.

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, and on the recommendation of the Appointments, 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. This will be deemed to have been achieved if the variable portion of the compensation of the Chairman and Chief Executive Officer paid in year Y+1 for year Y corresponds to 100% of the fixed compensation payable for year Y. In the event that the variable portion amounted 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, 2017 is calculated based on the following criteria:

- quantitative criteria:
  - operating margin,
  - free cash flow (assuming that the investment budget is respected),
  - net income (assuming a 20% tax rate for the Group),
  - return on capital employed (ROCE),
  - consolidated order intake (excluding Ichikoh).

The maximum amount of variable compensation as a percentage of the annual 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 annual fixed compensation is 5% for financial communications, 25% for strategic vision and 25% for risk management (i.e., a maximum of 55%).

Paris-La Défense, March 22, 2017

The Statutory Auditors

*French original signed by*

|               |               |             |                                    |                   |
|---------------|---------------|-------------|------------------------------------|-------------------|
|               | <b>MAZARS</b> |             | <b>ERNST &amp; YOUNG et Autres</b> |                   |
| Thierry Colin |               | Gaël Lamant | Jean-François Ginies               | Philippe Berteaux |

## 5.8 Other financial and accounting information

### 5.8.1 Five-year financial summary

|                                                                                                  | 2012        | 2013        | 2014        | 2015        | 2016              |
|--------------------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------------|
| <b>1 – SHARE CAPITAL AT DECEMBER 31</b>                                                          |             |             |             |             |                   |
| Share capital <i>(in millions of euros)</i>                                                      | 238         | 238         | 238         | 238         | 239               |
| Number of ordinary shares outstanding <sup>(1)</sup>                                             | 238,387,620 | 238,387,620 | 238,387,620 | 238,387,620 | 239,143,131       |
| Maximum number of new shares to be issued:                                                       |             |             |             |             |                   |
| ■ on exercise of equity warrants                                                                 | -           | -           | -           | -           | -                 |
| ■ on exercise of stock subscription options                                                      | -           | -           | -           | -           | -                 |
| ■ on conversion of bonds into new shares                                                         | -           | -           | -           | -           | -                 |
| <b>2 – RESULTS OF OPERATIONS FOR THE YEAR <i>(in millions of euros)</i></b>                      |             |             |             |             |                   |
| Sales                                                                                            | -           | -           | -           | -           | -                 |
| Income before tax, depreciation, amortization and impairment losses                              | 76          | 145         | 247         | 233         | 85                |
| Income tax                                                                                       | 13          | 23          | (23)        | 17          | 24                |
| Employee profit-sharing                                                                          | -           | -           | -           | -           | -                 |
| Net income for the year                                                                          | 205         | 180         | 174         | 244         | 262               |
| Net dividend                                                                                     | 115         | 132         | 172         | 236         | 297               |
| <b>3 – PER SHARE DATA <i>(in euros)</i></b>                                                      |             |             |             |             |                   |
| Net income after tax, but before depreciation, amortization and impairment losses <sup>(1)</sup> | 0.33        | 0.70        | 0.94        | 1.05        | 0.46              |
| Net income <sup>(1)</sup>                                                                        | 0.86        | 0.75        | 0.73        | 1.02        | 1.10              |
| Net dividend <sup>(1)</sup>                                                                      | 0.50        | 0.57        | 0.73        | 1.00        | 1.25              |
| <b>4 – HEADCOUNT</b>                                                                             |             |             |             |             |                   |
| Headcount at December 31                                                                         | 2           | 2           | 2           | 2           | 1                 |
| Wages and salaries <i>(in millions of euros)</i>                                                 | 10          | 2           | 8           | 19          | 34 <sup>(2)</sup> |
| Social security charges <i>(in millions of euros)</i>                                            | 1           | 1           | 1           | 1           | 1                 |

(1) The data shown differ from the data presented in the 2015 financial statements published in March 2016 since they have been adjusted to reflect the impacts of Valeo's three-for-one stock split on June 6, 2016 (see Note 10.1, page 389).

(2) This amount includes an expense of 24 million euros relating to the delivery of free shares to non-French beneficiaries under the June 8, 2011 free share plan and to the delivery of free shares to French beneficiaries under the March 27, 2013 free share plan (see Note 3.2, page 378).

## 5.8.2 List of subsidiaries, affiliates and marketable securities

|                                                                    | Number of shares | Net carrying amount<br>(in millions of euros) |
|--------------------------------------------------------------------|------------------|-----------------------------------------------|
| Société de Participations Valeo                                    | 6,136,601        | 838                                           |
| Valeo International Holding BV                                     | 2,845,120        | 436                                           |
| Valeo Vision                                                       | 620,572          | 377                                           |
| Valeo Systèmes Thermiques                                          | 1,151,133        | 215                                           |
| Valeo Systèmes de Contrôle Moteur                                  | 5,500,000        | 89                                            |
| 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                                | 6,610,059        | 22                                            |
| Valeo Pyeong Hwa Co. Ltd                                           | 1,642,698        | 15                                            |
| Valeo Auto-Electric GmbH                                           | 1,305            | 10                                            |
| Valeo Service Benelux BV                                           | 400              | 8                                             |
| Amalgamations Valeo Clutch Private Ltd                             | 43,752,500       | 7                                             |
| Other investments with a net carrying amount below 2 million euros |                  | 6                                             |
| <b>Investments in subsidiaries and affiliates</b>                  |                  | <b>2,172</b>                                  |
| FMEA                                                               | 2,708            | 2                                             |
| <b>Other investment securities</b>                                 |                  | <b>2</b>                                      |
| Amundi Tresor corporate                                            | 58,594           | 586                                           |
| SGAM Monétaire Plus                                                | 3,885            | 45                                            |
| Natixis Deposit                                                    | 4,365            | 437                                           |
| BNP Paribas Deposit                                                | 5,374            | 547                                           |
| <b>Money market funds</b>                                          |                  | <b>1,615</b>                                  |
| Treasury stock                                                     | 1,240,865        | 27                                            |
| <b>TOTAL</b>                                                       |                  | <b>3,816</b>                                  |

# 6

## SHARE CAPITAL AND OWNERSHIP STRUCTURE

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

### DIVIDEND PER SHARE



**€1.25**

(submitted for approval to the Shareholders' Meeting)

### INCREASE IN DIVIDEND



**25%**

(versus 2015)

### PAYOUT RATIO

**32%**

### SHARE PRICE RISE IN 2016



**15%**

Valeo is a member of the CAC 40

## 6.1 Stock market data

|                                                          | 2014 <sup>(1)</sup> | 2015 <sup>(1)</sup> | 2016        |
|----------------------------------------------------------|---------------------|---------------------|-------------|
| Market capitalization at year-end (in billions of euros) | 8.23                | 11.33               | 13.06       |
| Number of shares                                         | 238,387,620         | 238,387,620         | 239,143,131 |
| Highest share price (in euros)                           | 35.35               | 52.23               | 56.47       |
| Lowest share price (in euros)                            | 24.65               | 33.20               | 33.88       |
| Average share price (in euros)                           | 31.25               | 44.26               | 46.20       |
| Share price at year-end (in euros)                       | 34.53               | 47.52               | 54.61       |

(1) The data shown above differs from that presented in the 2015 Registration Document published in March 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

### 6.1.1 Share performance

| Date                         | Price (in euros) |       |                   | Trading volume (no. of shares) |                              | Volume on Euronext <sup>(2)</sup><br>(in millions of euros) |
|------------------------------|------------------|-------|-------------------|--------------------------------|------------------------------|-------------------------------------------------------------|
|                              | High             | Low   | Closing (average) | Volume on Euronext             | Volume on MTF <sup>(1)</sup> |                                                             |
| December 2015 <sup>(3)</sup> | 49.32            | 43.42 | 46.57             | 24,181,818                     | 14,630,973                   | 1,124.66                                                    |
| January 2016 <sup>(3)</sup>  | 47.05            | 38.47 | 41.81             | 23,363,517                     | 21,881,937                   | 971.09                                                      |
| February 2016 <sup>(3)</sup> | 42.60            | 33.88 | 38.64             | 33,705,108                     | 27,696,111                   | 1,292.48                                                    |
| March 2016 <sup>(3)</sup>    | 46.08            | 42.28 | 44.46             | 20,857,128                     | 18,836,727                   | 925.73                                                      |
| April 2016 <sup>(3)</sup>    | 47.23            | 41.50 | 44.08             | 18,894,993                     | 14,989,824                   | 832.50                                                      |
| May 2016 <sup>(3)</sup>      | 47.05            | 43.03 | 45.38             | 17,949,036                     | 15,115,536                   | 810.82                                                      |
| June 2016                    | 47.42            | 39.29 | 43.90             | 21,349,418                     | 6,659,986                    | 996.20                                                      |
| July 2016                    | 47.09            | 37.20 | 41.88             | 18,317,141                     | 7,627,359                    | 768.62                                                      |
| August 2016                  | 47.00            | 43.70 | 45.90             | 13,028,514                     | 6,126,603                    | 596.40                                                      |
| September 2016               | 51.93            | 46.63 | 49.47             | 16,730,141                     | 14,429,485                   | 826.18                                                      |
| October 2016                 | 54.50            | 50.76 | 52.60             | 14,992,372                     | 13,973,686                   | 790.35                                                      |
| November 2016                | 53.89            | 48.73 | 51.34             | 17,436,801                     | 13,858,016                   | 893.26                                                      |
| December 2016                | 56.47            | 51.30 | 54.53             | 13,930,246                     | 8,029,570                    | 757.85                                                      |

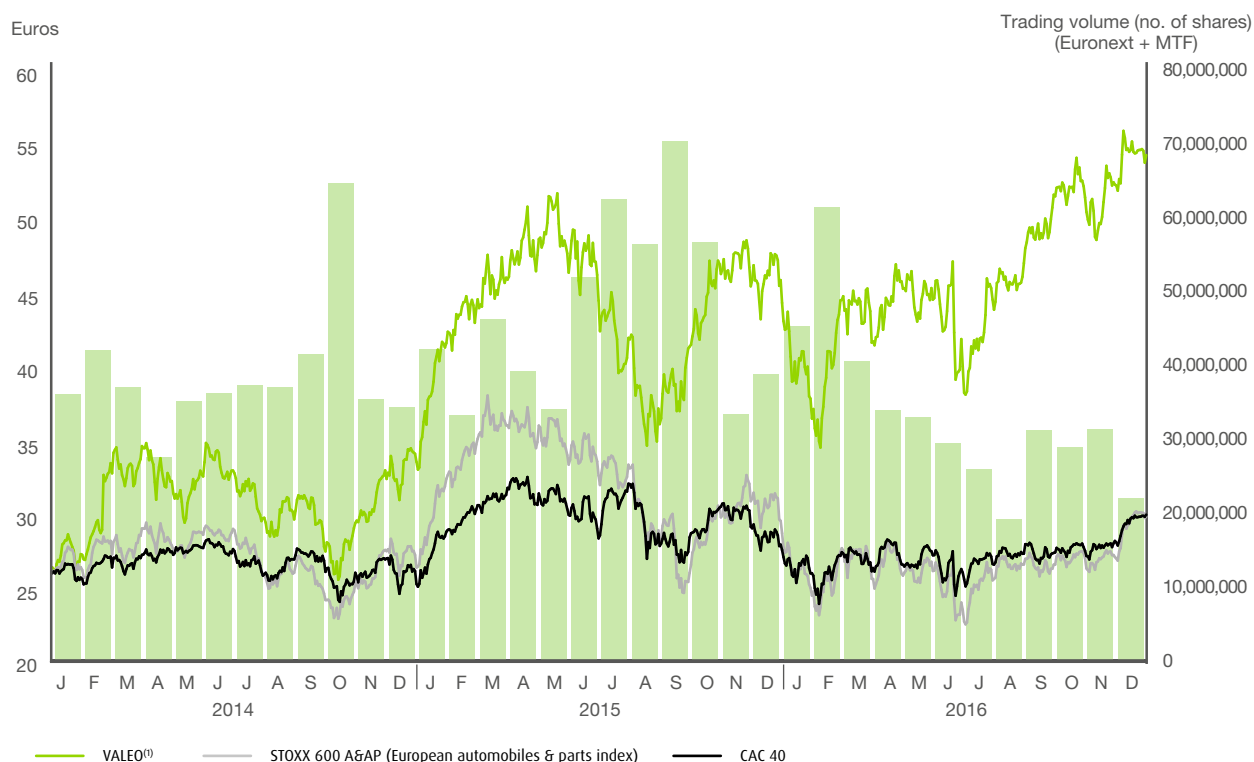
(1) MTF: includes the ChiX, Turquoise, Bats and Equiduct platforms.

(2) Source: Euronext monthly volumes.

(3) The data shown above has been adjusted to reflect the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.



## 6.1.2 Share price and monthly trading volumes



(1) The data shown above differs from that presented in the 2015 Registration Document since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

## 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](http://www.valeo.com), features a dedicated, regularly updated "Investors & 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 Report by the Chairman of the Board on Corporate Governance and Internal Control, and the Integrated Report), the Half-year Financial Report, all financial publications, presentations and press releases ("Financial presentations & releases" section), as well as information relating to debt ("Bond investors" section), shareholders ("Stock market" and "Individual shareholders" sections) 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 organized for bond and equities investors, conferences organized by brokers, and major motor shows. The events take various forms, including one-on-one meetings, group events, conference calls, investor days and subject-specific or general presentations. In all, more

than 1,500 institutional investors and analysts participated in these events during 2016, 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 2016, 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, the webzine as well as shareholders' letters, to individual shareholders about the Group's latest news and financial results. In 2016, Valeo met a number of individual shareholders at two events that the Group organized and thanks to a competition that it ran.

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 provided in section 6.2.4 of this chapter, "Contact", page 405.

### 6.2.3 Employee shareholders

Since 2010, Valeo has had a policy of awarding free shares to promote the development of employee share ownership over time. In 2016, Valeo launched a share subscription offering reserved for employees. Around 75,000 employees were eligible for the offering, which was rolled out in 20 countries. During the rollout, information sessions were held at each of the Group's sites on the offering proposed to employees to become Valeo shareholders.

Employee shareholders have access to the same communication tools as individual shareholders, as well as an information line managed by the banks in charge of the share ownership plans. Employee shareholders can call this telephone platform all year round with any questions they may have. For further information, see Chapter 4, section 4.4.3 "Employee share ownership", page 229.

### 6.2.4 Contact

#### Valeo

43, rue Bayen  
75848 Paris Cedex 17 – France

#### Individual shareholders:

Tel.: +33 (0)1 40 55 20 39  
Email: valeo@relations-actionnaires.com

#### Institutional investors and financial analysts:

Thierry Lacorre  
Investor Relations Director  
Tel.: +33 (0)1 40 55 37 93  
Email: thierry.lacorre@valeo.com

### 6.2.5 Provisional financial communication calendar

- First-quarter 2017 sales: April 26, 2017
- First-half 2017 results: July 20, 2017
- Third-quarter 2017 sales: October 24, 2017
- Full-year 2017 results: second half of February 2018

## 6.3 Dividends

Dividends per share over the past three years were as follows:

| Year | Dividend per share <sup>(1)</sup> (in euros) | Tax allowance                                                                             | Total (in millions of euros) |
|------|----------------------------------------------|-------------------------------------------------------------------------------------------|------------------------------|
| 2013 | 0.57                                         | Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code | 132                          |
| 2014 | 0.73                                         | Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code | 172                          |
| 2015 | 1.00                                         | Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code | 236                          |

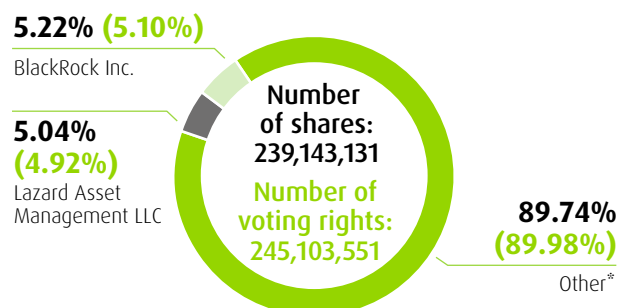
(1) The data shown above differs from that presented in the 2015 Registration Document published in March 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

At the Shareholders' Meeting to be held on May 23, 2017 to approve the financial statements for the year ended December 31, 2016, Valeo's Board of Directors will recommend the payment of a dividend of 1.25 euros per share eligible for dividends, 25% higher than for the year ended December 31, 2015, representing a payout ratio of 32%.

## 6.4 Share ownership

### 6.4.1 Ownership structure

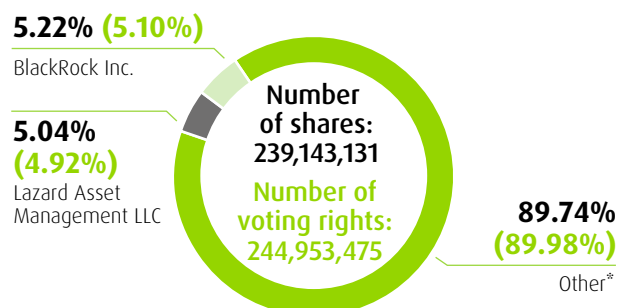
#### Ownership structure at December 31, 2016



% of share capital  
(% of voting rights)

\* Including 1,240,865 treasury shares (0.52% of the share capital)

#### Ownership structure at February 15, 2017



% of share capital  
(% of voting rights)

\* Including 1,204,916 treasury shares (0.50% 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 number 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 (2014, 2015 and 2016), and at February 15, 2017.

The Company's share capital at December 31, 2016 was divided into 239,143,131 shares, representing 245,103,551 voting rights, including 1,240,865 as treasury shares.

|                                               | December 31, 2014 <sup>(1)</sup> |                    |                                                    |                                               | December 31, 2015 <sup>(1)</sup> |                    |                                                    |                                               |
|-----------------------------------------------|----------------------------------|--------------------|----------------------------------------------------|-----------------------------------------------|----------------------------------|--------------------|----------------------------------------------------|-----------------------------------------------|
|                                               | Number of shares                 | % of share capital | Number of theoretical voting rights <sup>(2)</sup> | % of theoretical voting rights <sup>(2)</sup> | Number of shares                 | % of share capital | Number of theoretical voting rights <sup>(2)</sup> | % of theoretical voting rights <sup>(2)</sup> |
| Caisse des dépôts et consignations, of which: | 12,296,787                       | 5.16               | 24,593,574                                         | 9.69                                          | 8,086,326                        | 3.39               | 16,172,652                                         | 6.49                                          |
| <i>Bpifrance Participations SA</i>            | 7,932,849                        | 3.33               | 15,865,698                                         | 6.25                                          | 3,966,423                        | 1.66               | 7,932,846                                          | 3.18                                          |
| <i>CDC Savings Funds</i>                      | 4,363,938                        | 1.83               | 8,727,876                                          | 3.44                                          | 4,119,903                        | 1.73               | 8,239,806                                          | 3.31                                          |
| Lazard Asset Management LLC                   | na*                              | na*                | na*                                                | na*                                           | 12,063,564                       | 5.06               | 12,063,564                                         | 4.84                                          |
| BlackRock Inc.                                | na*                              | na*                | na*                                                | na*                                           | 11,929,155                       | 5.00               | 11,929,155                                         | 4.79                                          |
| Employee share ownership <sup>(3)</sup>       | 600,219                          | 0.25               | 857,769                                            | 0.34                                          | 810,558                          | 0.34               | 1,068,108                                          | 0.43                                          |
| Treasury shares <sup>(4)</sup>                | 5,085,966                        | 2.13               | -                                                  | -                                             | 3,025,065                        | 1.27               | -                                                  | -                                             |
| Other <sup>(5)</sup>                          | 220,404,648                      | 92.46              | 228,385,632 <sup>(5)</sup>                         | 89.97                                         | 202,472,952                      | 84.94              | 207,842,337 <sup>(5)</sup>                         | 83.45                                         |
| <b>TOTAL</b>                                  | <b>238,387,620</b>               | <b>100</b>         | <b>253,836,975</b>                                 | <b>100</b>                                    | <b>238,387,620</b>               | <b>100</b>         | <b>249,075,816</b>                                 | <b>100</b>                                    |

|                                             | December 31, 2016  |                    |                                                    |                                               | February 15, 2017  |                    |                                                    |                                               |
|---------------------------------------------|--------------------|--------------------|----------------------------------------------------|-----------------------------------------------|--------------------|--------------------|----------------------------------------------------|-----------------------------------------------|
|                                             | Number of shares   | % of share capital | Number of theoretical voting rights <sup>(2)</sup> | % of theoretical voting rights <sup>(2)</sup> | Number of shares   | % of share capital | Number of theoretical voting rights <sup>(2)</sup> | % of theoretical voting rights <sup>(2)</sup> |
| Lazard Asset Management LLC                 | 12,063,564         | 5.04               | 12,063,564                                         | 4.92                                          | 12,063,564         | 5.04               | 12,063,564                                         | 4.92                                          |
| BlackRock Inc.                              | 12,488,899         | 5.22               | 12,488,899                                         | 5.10                                          | 12,488,899         | 5.22               | 12,488,899                                         | 5.10                                          |
| Employee share ownership <sup>(3) (6)</sup> | 4,010,654          | 1.68               | 4,383,020                                          | 1.79                                          | 4,010,654          | 1.68               | 4,383,020                                          | 1.79                                          |
| Treasury shares <sup>(4)</sup>              | 1,240,865          | 0.52               | -                                                  | -                                             | 1,204,916          | 0.50               | -                                                  | -                                             |
| Other                                       | 209,339,149        | 87.54              | 216,168,068 <sup>(5)</sup>                         | 88.19                                         | 209,375,098        | 87.56              | 216,017,992 <sup>(5)</sup>                         | 88.19                                         |
| <b>TOTAL</b>                                | <b>239,143,131</b> | <b>100</b>         | <b>245,103,551</b>                                 | <b>100</b>                                    | <b>239,143,131</b> | <b>100</b>         | <b>244,953,475</b>                                 | <b>100</b>                                    |

\* Interest representing less than 5% of the share capital or voting rights.

(1) The data shown above differs from that presented in the 2015 Registration Document published in March 2016 since it has been adjusted to reflect the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

(2) 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 430). 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).

(3) For more information on employee share ownership, see section 6.4.5 of this chapter, "Employee share ownership", page 412.

(4) For more information on treasury shares, see section 6.5.2 of this chapter, "Treasury shares", page 414.

(5) The number of theoretical voting rights includes theoretical voting rights that were not recognized on treasury shares.

(6) As of December 31, 2016, employee share ownership includes bearer shares and registered shares held directly by employees (double voting rights are not taken into account) as well as shares held indirectly via the Valeorizon mutual fund.

## 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, 2016, other than:

- Lazard Asset Management LLC, which, acting on behalf of funds and clients it manages, held, directly or indirectly, 12,063,564 shares in the Company, i.e., 5.04% of the share capital and 4.92% of the voting rights;
- BlackRock Inc., which, acting on behalf of funds and clients it manages, held, directly or indirectly, 12,488,899 shares in the Company, i.e., 5.22% of the share capital and 5.10% 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 15, 2017, other than Lazard Asset Management LLC and BlackRock Inc.

## Crossing of disclosure thresholds

Between January 1, 2016 and February 15, 2017, Valeo was notified of the following disclosure threshold crossings. The data shown below reflects the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

| Shareholder                                       | Date of notification <sup>(1)</sup> | Effective date <sup>(1)</sup> | Number of Valeo shares held <sup>(1)</sup> | Percentage of capital reported <sup>(1)</sup> | Number of voting rights held <sup>(1)</sup> |
|---------------------------------------------------|-------------------------------------|-------------------------------|--------------------------------------------|-----------------------------------------------|---------------------------------------------|
| BlackRock Inc. <sup>(2)</sup>                     | 01/04/2016                          | 12/30/2015                    | 11,805,972                                 | 4.95%                                         | 11,805,972                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 01/05/2016                          | 12/31/2015                    | 11,929,155                                 | 5.004%                                        | 11,929,155                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 01/14/2016                          | 01/08/2016                    | 11,626,341                                 | 4.88%                                         | 11,626,341                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 01/15/2016                          | 01/11/2016                    | 12,223,755                                 | 5.13%                                         | 12,223,755                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 01/19/2016                          | 01/13/2016                    | 11,738,655                                 | 4.92%                                         | 11,738,655                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 01/20/2016                          | 01/14/2016                    | 12,292,920                                 | 5.16%                                         | 12,292,920                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 01/27/2016                          | 01/21/2016                    | 12,706,083                                 | 5.33%                                         | 12,706,083                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 01/28/2016                          | 01/22/2016                    | 12,413,553                                 | 5.21%                                         | 12,413,553                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 02/09/2016                          | 02/05/2016                    | 12,580,179                                 | 5.28%                                         | 12,580,179                                  |
| Caisse des dépôts et consignations <sup>(3)</sup> | 02/10/2016                          | 02/08/2016                    | 4,956,519                                  | 2.08%                                         | 8,896,422                                   |
| BlackRock Inc. <sup>(2)</sup>                     | 02/12/2016                          | 02/09/2016                    | 12,147,378                                 | 5.10%                                         | 12,147,378                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 02/16/2016                          | 02/11/2016                    | 11,632,293                                 | 4.88%                                         | 11,632,293                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 02/17/2016                          | 02/12/2016                    | 12,155,940                                 | 5.10%                                         | 12,155,940                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 02/18/2016                          | 02/16/2016                    | 11,909,817                                 | 4.99%                                         | 11,909,817                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 02/22/2016                          | 02/17/2016                    | 12,083,364                                 | 5.07%                                         | 12,083,364                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 02/23/2016                          | 02/19/2016                    | 11,274,234                                 | 4.73%                                         | 11,274,234                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 02/24/2016                          | 02/22/2016                    | 12,011,124                                 | 5.04%                                         | 12,011,124                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 02/26/2016                          | 02/24/2016                    | 12,556,056                                 | 5.27%                                         | 12,556,056                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 03/02/2016                          | 02/26/2016                    | 12,094,062                                 | 5.07%                                         | 12,094,062                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 03/08/2016                          | 03/03/2016                    | 11,832,660                                 | 4.96%                                         | 11,832,660                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 03/09/2016                          | 03/04/2016                    | 12,282,192                                 | 5.15%                                         | 12,282,192                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 03/10/2016                          | 03/07/2016                    | 11,850,939                                 | 4.97%                                         | 11,850,939                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 03/14/2016                          | 03/08/2016                    | 11,934,741                                 | 5.01%                                         | 11,934,741                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 03/15/2016                          | 03/09/2016                    | 12,259,422                                 | 5.14%                                         | 12,259,422                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 03/16/2016                          | 03/10/2016                    | 12,025,158                                 | 5.04%                                         | 12,025,158                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 03/17/2016                          | 03/15/2016                    | 12,350,889                                 | 5.18%                                         | 12,350,889                                  |
| BlackRock Inc. <sup>(2)</sup>                     | 03/21/2016                          | 03/17/2016                    | 12,181,578                                 | 5.11%                                         | 12,181,578                                  |

| Percentage of theoretical voting rights reported <sup>(1)</sup> | Threshold crossed/ Increase or decrease <sup>(1)</sup> | Reason for threshold crossing <sup>(1)</sup>                                                             |
|-----------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| 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%                                                           | 5% of voting rights/Decrease                           | Sale of shares by Bpifrance Participations 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      |
| 4.88%                                                           | 5% of share capital/Increase                           | Purchase of shares outside of the market and increase in the number of shares held as collateral         |
| 4.78%                                                           | 5% of share capital/Decrease                           | Sale of shares outside of and on the market and decrease in the number of shares held as collateral      |
| 4.85%                                                           | 5% of share capital/Increase                           | Increase in the number of shares held as collateral                                                      |
| 4.53%                                                           | 5% of share capital/Decrease                           | Sale of shares outside of and on the market and decrease in the number of shares held as collateral      |
| 4.82%                                                           | 5% of share capital/Increase                           | Purchase of shares outside of and on the market and increase in the number of shares held as collateral  |
| 5.04%                                                           | 5% of voting rights/Increase                           | Increase in the number of shares held as collateral                                                      |
| 4.86%                                                           | 5% of voting rights/Decrease                           | Sale of shares on the market and decrease in the number of shares held as collateral                     |
| 4.83%                                                           | 5% of share capital/Decrease                           | Sale of shares outside of the market and decrease in the number of shares held as collateral             |
| 5.01%                                                           | 5% of share capital and voting rights/Increase         | Increase in the number of shares held as collateral                                                      |
| 4.83%                                                           | 5% of share capital and voting rights/Decrease         | Decrease in the number of shares held as collateral                                                      |
| 4.87%                                                           | 5% of share capital/Increase                           | Purchase of shares outside of and on the market and increase in the number of shares held as collateral  |
| 5.001%                                                          | 5% of voting rights/Increase                           | Purchase of shares on the market and increase in the number of shares held as collateral                 |
| 4.91%                                                           | 5% of voting rights/Decrease                           | Sale of shares outside of and on the market and decrease in the number of shares held as collateral      |
| 5.04%                                                           | 5% of voting rights/Increase                           | Increase in the number of shares held as collateral                                                      |
| 4.97%                                                           | 5% of voting rights/Decrease                           | Sale of shares on the market and decrease in the number of shares held as collateral                     |



| Shareholder                   | Date of notification <sup>(1)</sup> | Effective date <sup>(1)</sup> | Number of Valeo shares held <sup>(1)</sup> | Percentage of capital reported <sup>(1)</sup> | Number of voting rights held <sup>(1)</sup> |
|-------------------------------|-------------------------------------|-------------------------------|--------------------------------------------|-----------------------------------------------|---------------------------------------------|
| BlackRock Inc. <sup>(2)</sup> | 03/22/2016                          | 03/18/2016                    | 12,580,158                                 | 5.28%                                         | 12,580,158                                  |
| BlackRock Inc. <sup>(2)</sup> | 03/24/2016                          | 03/21/2016                    | 12,039,423                                 | 5.05%                                         | 12,039,423                                  |
| BlackRock Inc. <sup>(2)</sup> | 03/29/2016                          | 03/23/2016                    | 12,621,846                                 | 5.29%                                         | 12,621,846                                  |
| BlackRock Inc. <sup>(2)</sup> | 03/30/2016                          | 03/24/2016                    | 12,098,250                                 | 5.08%                                         | 12,098,250                                  |
| BlackRock Inc. <sup>(2)</sup> | 03/31/2016                          | 03/29/2016                    | 12,540,198                                 | 5.26%                                         | 12,540,198                                  |
| BlackRock Inc. <sup>(2)</sup> | 04/07/2016                          | 04/04/2016                    | 12,157,962                                 | 5.10%                                         | 12,157,962                                  |
| BlackRock Inc. <sup>(2)</sup> | 04/18/2016                          | 04/13/2016                    | 12,929,430                                 | 5.42%                                         | 12,929,430                                  |
| BlackRock Inc. <sup>(2)</sup> | 04/27/2016                          | 04/22/2016                    | 12,250,974                                 | 5.14%                                         | 12,250,974                                  |
| BlackRock Inc. <sup>(2)</sup> | 04/28/2016                          | 04/25/2016                    | 12,486,372                                 | 5.24%                                         | 12,486,372                                  |
| BlackRock Inc. <sup>(2)</sup> | 04/29/2016                          | 04/26/2016                    | 11,708,709                                 | 4.91%                                         | 11,708,709                                  |
| BlackRock Inc. <sup>(2)</sup> | 05/03/2016                          | 04/27/2016                    | 12,174,930                                 | 5.11%                                         | 12,174,930                                  |
| BlackRock Inc. <sup>(2)</sup> | 05/06/2016                          | 05/04/2016                    | 12,264,039                                 | 5.14%                                         | 12,264,039                                  |
| BlackRock Inc. <sup>(2)</sup> | 05/11/2016                          | 05/09/2016                    | 11,922,243                                 | 5.0012%                                       | 11,922,243                                  |
| BlackRock Inc. <sup>(2)</sup> | 05/12/2016                          | 05/10/2016                    | 12,326,757                                 | 5.17%                                         | 12,326,757                                  |
| BlackRock Inc. <sup>(2)</sup> | 05/13/2016                          | 05/11/2016                    | 11,730,960                                 | 4.92%                                         | 11,730,960                                  |
| BlackRock Inc. <sup>(2)</sup> | 05/16/2016                          | 05/12/2016                    | 12,307,104                                 | 5.16%                                         | 12,307,104                                  |
| BlackRock Inc. <sup>(2)</sup> | 05/17/2016                          | 05/13/2016                    | 11,960,739                                 | 5.02%                                         | 11,960,739                                  |
| BlackRock Inc. <sup>(2)</sup> | 05/19/2016                          | 05/17/2016                    | 12,692,952                                 | 5.32%                                         | 12,692,952                                  |
| BlackRock Inc. <sup>(2)</sup> | 09/15/2016                          | 09/14/2016                    | 12,117,825                                 | 5.08%                                         | 12,117,825                                  |
| BlackRock Inc. <sup>(2)</sup> | 09/19/2016                          | 09/16/2016                    | 12,471,840                                 | 5.23%                                         | 12,471,840                                  |
| BlackRock Inc. <sup>(2)</sup> | 09/22/2016                          | 09/21/2016                    | 12,193,878                                 | 5.12%                                         | 12,193,878                                  |
| BlackRock Inc. <sup>(2)</sup> | 09/27/2016                          | 09/26/2016                    | 12,487,332                                 | 5.24%                                         | 12,487,332                                  |
| BlackRock Inc. <sup>(2)</sup> | 09/30/2016                          | 09/29/2016                    | 12,113,191                                 | 5.08%                                         | 12,113,191                                  |
| BlackRock Inc. <sup>(2)</sup> | 10/04/2016                          | 10/03/2016                    | 12,488,899                                 | 5.24%                                         | 12,488,899                                  |

(1) Information sourced from disclosure threshold crossing notifications published by the AMF.

(2) Acting on behalf of funds and clients it manages.

(3) Directly and indirectly, via Bpifrance Participations SA, which it controls through BPI Groupe SA.

| Percentage of theoretical voting rights reported <sup>(1)</sup> | Threshold crossed/ Increase or decrease <sup>(1)</sup> | Reason for threshold crossing <sup>(1)</sup>                                                            |
|-----------------------------------------------------------------|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| 5.13%                                                           | 5% of voting rights/Increase                           | Purchase of shares outside of and on the market and increase in the number of shares held as collateral |
| 4.91%                                                           | 5% of voting rights/Decrease                           | Sale of shares on the market and decrease in the number of shares held as collateral                    |
| 5.15%                                                           | 5% of voting rights/Increase                           | Purchase of shares outside of and on the market and increase in the number of shares held as collateral |
| 4.94%                                                           | 5% of voting rights/Decrease                           | Sale of shares on the market and decrease in the number of shares held as collateral                    |
| 5.12%                                                           | 5% of voting rights/Increase                           | Purchase of shares outside of the market and increase in the number of shares held as collateral        |
| 4.96%                                                           | 5% of voting rights/Decrease                           | Sale of shares outside of the market and decrease in the number of shares held as collateral            |
| 5.27%                                                           | 5% of voting rights/Increase                           | Purchase of shares outside of the market and increase in the number of shares held as collateral        |
| 4.99%                                                           | 5% of voting rights/Decrease                           | Sale of shares outside of the market and decrease in the number of shares held as collateral            |
| 5.09%                                                           | 5% of voting rights/Increase                           | Increase in the number of shares held as collateral                                                     |
| 4.78%                                                           | 5% of share capital and voting rights/Decrease         | Sale of shares outside of the market and decrease in the number of shares held as collateral            |
| 4.97%                                                           | 5% of share capital/Increase                           | Purchase of shares outside of and on the market and increase in the number of shares held as collateral |
| 5.01%                                                           | 5% of voting rights/Increase                           | Purchase of shares outside of the market and increase in the number of shares held as collateral        |
| 4.87%                                                           | 5% of voting rights/Decrease                           | Decrease in the number of shares held as collateral                                                     |
| 5.04%                                                           | 5% of voting rights/Increase                           | Purchase of shares outside of the market and increase in the number of shares held as collateral        |
| 4.80%                                                           | 5% of share capital and voting rights/Decrease         | Decrease in the number of shares held as collateral                                                     |
| 5.03%                                                           | 5% of share capital and voting rights/Increase         | Purchase of shares on the market and increase in the number of shares held as collateral                |
| 4.89%                                                           | 5% of voting rights/Decrease                           | Decrease in the number of shares held as collateral                                                     |
| 5.19%                                                           | 5% of voting rights/Increase                           | Purchase of shares outside of and on the market and increase in the number of shares held as collateral |
| 4.95%                                                           | 5% of voting rights/Decrease                           | Sale of shares on the market and decrease in the number of shares held as collateral                    |
| 5.10%                                                           | 5% of voting rights/Increase                           | Purchase of shares on the market and increase in the number of shares held as collateral                |
| 4.99%                                                           | 5% of voting rights/Decrease                           | Sale of shares outside of the market and decrease in the number of shares held as collateral            |
| 5.10%                                                           | 5% of voting rights/Increase                           | Purchase of shares on the market and increase in the number of shares held as collateral                |
| 4.95%                                                           | 5% of voting rights/Decrease                           | Sale of shares outside of and on the market and decrease in the number of shares held as collateral     |
| 5.11%                                                           | 5% of voting rights/Increase                           | Increase in the number of shares held as collateral                                                     |

### 6.4.3 Directors' interests in Valeo's share capital

At December 31, 2016, 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 at December 31, 2016", pages 102 to 116.

### 6.4.4 Transactions carried out by executive managers and corporate officers in the Company's shares

On March 15, 2016, Jacques Aschenbroich, Chairman and Chief Executive Officer, exercised 35,300 stock subscription options at a unit price of 40.78 euros and 18,180 stock subscription options at a unit price of 42.41 euros (before Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date).

On November 25, 2016, Mari-Noëlle Jégo-Laveissière, a director, acquired 1,500 shares at a unit price of 53.45 euros.

On December 21, 2016, Daniel Camus, a director, sold 900 shares at a unit price of 54.73 shares and 600 shares at a unit price of 54.87 shares. On December 22, 2016, he acquired 2,200 shares at a unit price of 54.91 euros. On December 9, 2016, Véronique Weill, a director, acquired 890 shares at a unit price of 55.75 euros.

No other directors reported transactions involving the Company's shares.

### 6.4.5 Employee share ownership

At December 31, 2016, Valeo employees held 4,010,654 shares under Group employee share ownership plans in France and abroad, directly or indirectly through the Valeorizon mutual fund, representing 1.68% of the Company's share capital. At December 31, 2015, they held 810,558 shares through the Valeorizon mutual fund only (after the stock split), or 0.34% of the share capital.

The Valeorizon mutual fund is an effective way of involving employees in the Group's performance.

In 2016, a share subscription offering reserved for employees was launched in 20 of the Group's main countries, giving more than 95% of employees the opportunity to become Valeo

shareholders. The shares subscribed are subject to a five-year lock-up period. The offering is part of the development of Valeo's employee share ownership policy in France and abroad, which aims to involve employees in the Group's performance. At the close of the subscription period, which ran from September 21, 2016 to October 4, 2016, employees had subscribed to 755,511 new shares at a unit price of 38.12 euros, reflecting a 20% discount on the reference price. By subscribing to shares in the Group Employee Savings Plan (*Plan d'Épargne de Groupe* - PEG), employees also benefited from a top-up contribution from their employer. Outside France, employees were awarded free shares subject to certain conditions.

## 6.5 Share buyback program **AFR**

### 6.5.1 Current share buyback program adopted by the Shareholders' Meeting of May 26, 2016

In accordance with Articles L.225-209 *et seq.* of the French Commercial Code, the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016, in its eighteenth 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 stock 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 other similar plan; 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 or other similar plan, in particular Articles L.3332-1 *et seq.* of the French Labor Code (*Code du travail*); or
- in general, to comply with 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 on 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 retention and future 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 permitted, or that may subsequently be permitted, by the AMF; or
- any other purpose authorized, or that may subsequently be authorized, by the applicable laws and regulations.

The number of shares that may be purchased by the Company during the buyback program is capped at 10% of the shares that constitute the Company's share capital at any time. This percentage applies to the share capital as adjusted for 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 maximum purchase price is set at 70 euros per share and the maximum amount allotted to the share buyback program is set at 1,668,713,340 euros.

This authorization was given for an 18-month period as of the Shareholders' Meeting of May 26, 2016 and canceled, as of the same date, the unused portion, as at the Shareholders' Meeting of May 26, 2016, of the authorization granted by the Shareholders' Meeting of May 26, 2015 in its twelfth resolution.

A description of the 2016 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 2016, 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 May 26, 2015 (see section 6.5.2 of this chapter, "Treasury shares", page 414).

## 6.5.2 Treasury shares

At December 31, 2016, the Company held, directly or indirectly, 1,240,865 treasury shares (i.e., 0.52% of the share capital) with a unit value based on the purchase price of 21.41 euros and a par value of 1 euro. At December 31, 2015, Valeo held 3,025,065 treasury shares (after the stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date), representing 1.27% of the share capital.

The shares purchased in 2016 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 26, 2015 and May 26, 2016 to the Board of Directors to buy back Company shares, it being specified that the eighteenth resolution of the Shareholders' Meeting of May 26, 2016 terminated and superseded the authorization granted by the Shareholders' Meeting of May 26, 2015.

The twelfth resolution of the Shareholders' Meeting of May 26, 2015 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 stock 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 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 on 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 retention and future 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 permitted, or that may subsequently be permitted, by the AMF; or
- any other purpose authorized, or that may subsequently be authorized, by the applicable laws and regulations.

The eighteenth resolution of the Shareholders' Meeting of May 26, 2016 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, 2016", page 413.

### Shares to be allotted to stock purchase option and free share plans

No shares were purchased in 2015 or 2016. Under the share buyback program as authorized by the Shareholders' Meeting of May 21, 2014, Valeo acquired 750,000 shares (i.e., 2,250,000 after the stock split) at an average price of 97.1201 euros (i.e., 32.3734 euros after the stock split) on August 14, 2014.

At December 31, 2016, the number of treasury shares to be allotted to stock purchase option and free share plans stood at 1,196,501 compared with 2,945,565 (after the stock split) at December 31, 2015.

### Shares for use under a liquidity agreement

In 2016, under the liquidity agreement signed with an investment services provider on April 22, 2004, Valeo acquired 2,731,203 shares at an average price of 43.85 euros and sold 2,766,339 shares at an average First-In-First-Out price of 43.75 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, 2016, 44,364 shares and 23,171,495.01 euros in cash had been allotted to the liquidity agreement, compared with 79,500 shares (after the stock split) and 18,958,005.72 euros in cash at December 31, 2015. On the date the liquidity agreement was signed, 660,000 Valeo shares (after the stock split) and 6,600,000 euros in cash were allotted for its implementation.

### 6.5.3 Share buyback program submitted to the Shareholders' Meeting of May 23, 2017

The Ordinary and Extraordinary Shareholders' Meeting to be held on May 23, 2017 will be asked to repeal the eighteenth resolution approved by the Shareholders' Meeting of May 26, 2016 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 and Regulation no. 596/2014 of the European Parliament and of the Council of April 16, 2014 as well as any provisions that may become applicable.

The features of the new share buyback program are described below.

#### 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 23, 2017, Valeo plans to buy back, directly or indirectly, its own shares, for the following purposes:

- the implementation of any stock 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 other similar plan; 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 or other similar plan, in particular Articles L.3332-1 *et seq.* of the French Labor Code (*Code du travail*); or
- in general, to comply with 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 on 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 retention and future 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 permitted, or that may subsequently be permitted, by the AMF; or
- any other purpose authorized, or that may subsequently be authorized, by the applicable laws and regulations.

#### Number of shares and percentage of share capital held by the issuer

At January 31, 2017, Valeo directly or indirectly held 1,204,916 shares, representing 0.5% of the Company's share capital.

#### Breakdown of shares owned by Valeo by purpose

At January 31, 2017:

- 1,147,916 shares were allotted to stock purchase option plans;
- 57,000 shares were allotted 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).

### **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 shares making up the Company's share capital (e.g., 239,143,131 shares at January 31, 2017).

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., 1,204,916 shares at January 31, 2017 (0.5% 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 23, 2017, a total of 22,709,397 shares (9.50% of the Company's share capital at January 31, 2017) 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 100 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 2,391,431,300 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 23, 2017, the new share buyback program would be authorized for an 18-month period as of the meeting, i.e., until November 23, 2018.

## **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

canceling treasury shares. Under this authorization, the number of shares canceled in any given 24-month period may not exceed 10% of the Company's share capital.



## 6.6 Additional disclosures concerning the share capital

### 6.6.1 Changes in share capital

The nineteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016 authorized the Board of Directors to divide the par value of each Company share by

three (3), bringing it down from 3 euros to 1 euro, with the share capital amount remaining the same. The decision was implemented by the Board of Directors on the same date.

Changes in the Company's capital during 2016 were as follows:

| Year | Type of operation                          | Changes<br>(in millions of euros) |         |       | Number of<br>shares issued | Total number<br>of shares at<br>Dec. 31, 2016 |
|------|--------------------------------------------|-----------------------------------|---------|-------|----------------------------|-----------------------------------------------|
|      |                                            | Nominal                           | Premium | Total |                            |                                               |
| 2016 | Capital increase<br>reserved for employees | 0.8                               | 28.0    | 28.8  | 755,511                    | 239,143,131                                   |

The share capital at December 31, 2016 therefore comprised 239,143,131 shares with a par value of 1 euro, fully paid-up and traded on the Euronext Paris regulated market.

To the best of the Company's knowledge, none of these shares have been pledged.

At December 31, 2016, there were no plans in place pursuant to which shares could be issued on exercise of stock subscription options awarded to the Group's employees and corporate officers.

## 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<br>Date of Shareholders' Meeting (duration of authorization and expiration date)                                                                                                                                                                                                                                                                                                                                          | Maximum amount of issue                                                                                                 | Maximum amount of debt securities                                                                | Comments on/<br>Utilization of authorizations during the year                                                                                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Authorization to increase capital <u>with</u> pre-emptive rights</b>                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                         |                                                                                                  |                                                                                                                                                           |
| <b>Issuance of shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities (A)</b><br>Shareholders' Meeting of May 26, 2015 – 13 <sup>th</sup> resolution<br>Expiring on July 26, 2017 (26 months)                                                                                                                                                                     | 70 million euros<br>(A) + (B) + (C) + (D) + (E) + (F) + (G) + (H)<br>combined share capital ceiling = 131 million euros | 1.5 billion euros<br>(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<br>Not used during the year                                                              |
| <b>Capital increase by capitalization of reserves, profits or additional paid-in capital (B)</b><br>Shareholders' Meeting of May 26, 2015 – 16 <sup>th</sup> resolution<br>Expiring on July 26, 2017 (26 months)                                                                                                                                                                                                                                 | 30 million euros<br>Included in combined share capital ceiling                                                          | N/A                                                                                              | Resolution may not be used in the event of a public tender offer<br>Not used during the year                                                              |
| <b>2. Authorization to increase capital <u>without</u> pre-emptive rights</b>                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                         |                                                                                                  |                                                                                                                                                           |
| <b>Issuance of shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment 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)</b><br>Shareholders' Meeting of May 26, 2015 – 14 <sup>th</sup> resolution<br>Expiring on July 26, 2017 (26 months) | 23 million euros<br>Ceiling for (C) + (D) + (E)<br>Included in combined share capital ceiling                           | 1.5 billion euros<br>Included in combined debt ceiling                                           | Resolution may not be used in the event of a public tender offer<br>Not used during the year                                                              |
| <b>Issuance of shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities under a private placement (D)</b><br>Shareholders' Meeting of May 26, 2015 – 15 <sup>th</sup> resolution<br>Expiring on July 26, 2017 (26 months)                                                                                                                                           | 23 million euros<br>Ceiling for (C) + (D) + (E)<br>Included in combined share capital ceiling                           | 1.5 billion euros<br>Included in combined debt ceiling                                           | Resolution may not be used in the event of a public tender offer<br>Not used during the year                                                              |
| <b>Issuance of shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities to be used as remuneration for contributions in kind granted to the Company (E)</b><br>Shareholders' Meeting of May 26, 2015 – 18 <sup>th</sup> resolution<br>Expiring on July 26, 2017 (26 months)                                                                                         | 23 million euros<br>Ceiling for (C) + (D) + (E)<br>Included in combined share capital ceiling                           | 1.5 billion euros<br>Included in combined debt ceiling                                           | Resolution may not be used in the event of a public tender offer<br>Not used during the year                                                              |
| <b>Issuance of shares and/or securities giving access to the share capital reserved for members of the employee share ownership plan (F)</b><br>Shareholders' Meeting of May 26, 2015 – 20 <sup>th</sup> resolution<br>Expiring on July 26, 2017 (26 months)                                                                                                                                                                                     | 5 million euros<br>Included in combined share capital ceiling                                                           | 1.5 billion euros<br>Included in combined debt ceiling                                           | Resolution may not be used in the event of a public tender offer<br>Used in connection with the November 15, 2016 capital increase reserved for employees |

| Authorizations granted<br>Date of Shareholders' Meeting (duration of authorization and expiration date)                                                                                                                               | Maximum amount of issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Maximum amount of debt securities                                                      | Comments on/<br>Utilization of authorizations during the year                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| <b>3. Authorization to increase capital <u>with or without</u> pre-emptive rights</b>                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                        |                                                                                              |
| <b>Overallotment option as part of capital increase with or without pre-emptive rights (G)</b><br>Shareholders' Meeting of May 26, 2015 – 17 <sup>th</sup> resolution<br>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<br>Not used during the year |
| <b>4. Authorization to allot free shares</b>                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                        |                                                                                              |
| <b>Allotment of free shares, existing shares or shares to be issued to Group employees and corporate officers (H)</b><br>Shareholders' Meeting of May 26, 2016 – 20 <sup>th</sup> resolution<br>Expiring on July 26, 2018 (26 months) | Maximum number of shares (existing or to be issued) allotted: 1,300,000 (i.e., 3,467,000 shares after the stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date) (with a sub-ceiling of 65,000 shares for executive corporate officers, or 195,000 shares after the stock split), these allotments cannot exceed more than 10% of the share capital at the date of the Board of Directors' decision<br>Included in combined share capital ceiling | N/A                                                                                    | Used by the Board of Directors at its meeting on March 26, 2016 (1,267,022 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, 2016

The table below reflects the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

| Shareholders' Meetings        |                |         | Plan characteristics |                    |                 |                | Options granted                   |                                         |                                                        |                                                   |                            |
|-------------------------------|----------------|---------|----------------------|--------------------|-----------------|----------------|-----------------------------------|-----------------------------------------|--------------------------------------------------------|---------------------------------------------------|----------------------------|
| Date of Shareholders' Meeting | No. of options | Term    | Date <sup>(1)</sup>  | 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 <sup>(2)</sup> | Conditional options        |
| 05/03/2005                    | 13,500,000     | 8 years | 11/17/2005           | €10.77             | 1,082           | 1,950,000      | 0                                 | 0                                       | 282,900                                                | 146,700                                           | 0                          |
|                               |                |         | 03/03/2006           | €11.25             | 2               | 561,000        | 450,000                           | 450,000                                 | 111,000                                                | 0                                                 | 0                          |
|                               |                |         | 11/20/2006           | €10.88             | 1,298           | 3,927,750      | 0                                 | 0                                       | 753,000                                                | 525,000                                           | 0                          |
|                               |                |         | 03/07/2007           | €12.32             | 2               | 750,000        | 600,000 <sup>(i)</sup>            | 600,000 <sup>(i)</sup>                  | 150,000                                                | 0                                                 | 0                          |
|                               |                |         | 11/15/2007           | €12.27             | 1,330           | 5,031,000      | 450,000 <sup>(i)(ii)</sup>        | 450,000 <sup>(i)(ii)</sup>              | 1,050,000 <sup>(ii)</sup>                              | 690,000 <sup>(ii)</sup>                           | 522,750 <sup>(ii)</sup>    |
|                               |                |         | 03/20/2008           | €10.47             | 596             | 1,280,250      | 0                                 | 0                                       | 0                                                      | 234,000                                           | 0                          |
| 06/03/2010                    | 3,000,000      | 8 years | 06/24/2010           | €8.02              | 728             | 3,000,000      | 0                                 | 300,000 <sup>(i)(iii)</sup>             | 532,500 <sup>(iii)</sup>                               | 450,000 <sup>(iii)</sup>                          | 1,834,095 <sup>(iii)</sup> |
| 06/08/2011                    | 1,980,000      | 8 years | 06/08/2011           | €14.13             | 276             | 878,520        | 0                                 | 90,900 <sup>(i)(iv)</sup>               | 195,600 <sup>(iv)</sup>                                | 177,600 <sup>(iv)</sup>                           | 631,110 <sup>(iv)</sup>    |
|                               |                |         | 03/27/2012           | €13.59             | 283             | 1,101,480      | 0                                 | 105,900 <sup>(i)(v)</sup>               | 254,100 <sup>(v)</sup>                                 | 233,700 <sup>(v)</sup>                            | 795,690 <sup>(v)</sup>     |
| TOTAL STOCK OPTION PLANS      |                |         |                      |                    |                 | 18,480,000     | 1,500,000                         | 1,996,800                               | 3,329,100                                              | 2,457,000                                         | 3,783,645                  |

(1) Date of Board of Directors' meeting.

(2) Including directors who are not corporate officers.

(i) Stock options subject to the holding period described in Chapter 3, section 3.2.5 "Stock purchase option, stock subscription option and performance share allotment policy for executive corporate officers", pages 132 to 133.

(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 allotment of between 3.8% and 4.1%.

(iii) O/w 100% (CEO and Liaison Committee), 50% or 25% (other directors) is conditional. 2010 operating margin less than 4.0% = loss of options, at 4.5% = 70% of options, at 5% = 100% of options, with linear variation between 4.0% and 4.5% and between 4.5% and 5.0%.

(iv) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 - an average operating margin equal to or greater than 6.5%; 2 - an average return on capital employed (ROCE) equal to or greater than 30%; and 3 - a pre-tax return on assets (ROA) equal to or greater than 12.5%. Three criteria met = 100% of rights; two criteria met = 60% of rights; one criterion met = 30% of rights; 0 criteria met = cancellation of 100% of rights. Including 100% (Liaison Committee) and 50% (other directors) conditional on two criteria [1 and 2]; two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criteria met = cancellation of conditional rights.

(v) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 - an average operating margin equal to or greater than 6.7%; 2 - an average return on capital employed (ROCE) equal to or greater than 30%; and 3 - a pre-tax return on assets (ROA) equal to or greater than 12.5%. Three criteria met = 100% of rights; two criteria met = 60% of rights; one criterion met = 30% of rights; 0 criteria met = cancellation of 100% of rights. Including 100% (Liaison Committee) and 50% (other directors) conditional on two criteria [1 and 2]; two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criteria met = cancellation of conditional rights.

| Exercise date and conditions     |                 |                                      | Number of stock purchase option plans |                                         |                         |                                        |                                      |         | Number of shares remaining to be transferred | Residual grantees |
|----------------------------------|-----------------|--------------------------------------|---------------------------------------|-----------------------------------------|-------------------------|----------------------------------------|--------------------------------------|---------|----------------------------------------------|-------------------|
| Start                            | Expiration date | Options outstanding at Dec. 31, 2015 | Exercised in 2016 (year)              | Exercised at Dec. 31, 2016 (cumulative) | Canceled in 2016 (year) | Canceled at Dec. 31, 2016 (cumulative) | Options outstanding at Dec. 31, 2016 |         |                                              |                   |
| 50% – 2 years;<br>100% – 3 years | 11/16/2013      | 0                                    | 0                                     | 1,132,710                               | 0                       | 817,290                                | 0                                    | 0       | 0                                            |                   |
| 50% – 2 years;<br>100% – 3 years | 03/02/2014      | 0                                    | 0                                     | 561,000                                 | 0                       | 0                                      | 0                                    | 0       | 0                                            |                   |
| 50% – 2 years;<br>100% – 3 years | 11/19/2014      | 0                                    | 0                                     | 2,464,500                               | 0                       | 1,463,250                              | 0                                    | 0       | 0                                            |                   |
| 50% – 2 years;<br>100% – 3 years | 03/06/2015      | 0                                    | 0                                     | 750,000                                 | 0                       | 0                                      | 0                                    | 0       | 0                                            |                   |
| 100% – 3 years                   | 11/14/2015      | 0                                    | 0                                     | 3,227,757                               | 0                       | 1,803,243                              | 0                                    | 0       | 0                                            |                   |
| 100% – 3 years                   | 03/19/2016      | 175,245                              | 105,495                               | 904,500                                 | 69,750                  | 375,750                                | 0                                    | 0       | 0                                            |                   |
| 100% – 2 years                   | 06/23/2018      | 465,708                              | 129,145                               | 2,213,701                               | 4,650                   | 454,386                                | 331,913                              | 331,913 | 137                                          |                   |
| 100% – 3 years                   | 06/07/2019      | 253,290                              | 134,305                               | 380,965                                 | 1,080                   | 379,650                                | 117,905                              | 117,905 | 69                                           |                   |
| 100% – 3 years                   | 03/26/2020      | 766,071                              | 386,516                               | 610,475                                 | 2,700                   | 114,150                                | 376,855                              | 376,855 | 115                                          |                   |
|                                  |                 | 1,660,314                            | 755,461                               | 12,245,608                              | 78,180                  | 5,407,719                              | 826,673                              | 826,673 |                                              |                   |

## Free share plans in force at December 31, 2016

The table below reflects the impacts of Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

| Shareholders' Meetings        |               |      | Plan characteristics |                    |                 |               | Shares granted                    |                                         |                                                        |                                                   |                           |
|-------------------------------|---------------|------|----------------------|--------------------|-----------------|---------------|-----------------------------------|-----------------------------------------|--------------------------------------------------------|---------------------------------------------------|---------------------------|
| Date of Shareholders' Meeting | No. of shares | Term | Date <sup>(1)</sup>  | 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 <sup>(2)</sup> | Conditional shares        |
| 06/08/2011                    | 1,620,000     | -    | 06/08/2011           | -                  | 276             | 560,580       | 0                                 | 46,800 <sup>(v)</sup>                   | 102,000 <sup>(v)</sup>                                 | 93,000 <sup>(v)</sup>                             | 379,440 <sup>(v)</sup>    |
|                               |               |      | 06/08/2011           | -                  | 46,666          | 420,000       | 0                                 | 0                                       | 117 <sup>(v)</sup>                                     | 90 <sup>(v)</sup>                                 | 261 <sup>(v)</sup>        |
|                               |               |      | 03/27/2012           | -                  | 283             | 519,420       | 0                                 | 34,200 <sup>(vi)</sup>                  | 98,400 <sup>(vi)</sup>                                 | 89,400 <sup>(vi)</sup>                            | 351,660 <sup>(vi)</sup>   |
|                               |               |      | 03/27/2012           | -                  | 13,333          | 120,000       | 0                                 | 0                                       | 117 <sup>(vi)</sup>                                    | 90 <sup>(vi)</sup>                                | 180 <sup>(vi)</sup>       |
| 06/04/2012                    | 2,760,000     | -    | 03/27/2013           | -                  | 301             | 911,442       | 0                                 | 76,902 <sup>(vii)</sup>                 | 223,200 <sup>(vii)</sup>                               | 195,000 <sup>(vii)</sup>                          | 669,942 <sup>(vii)</sup>  |
|                               |               |      | 03/27/2013           | -                  | 56,666          | 510,000       | 0                                 | 0                                       | 108                                                    | 90                                                | 0                         |
|                               |               |      | 03/27/2014           | -                  | 309             | 448,440       | 0                                 | 31,515 <sup>(viii)</sup>                | 95,850 <sup>(viii)</sup>                               | 88,560 <sup>(viii)</sup>                          | 316,770 <sup>(viii)</sup> |
|                               |               |      | 03/27/2014           | -                  | 174,000         | 522,000       | 0                                 | 0                                       | 117                                                    | 90                                                | 0                         |
| 05/21/2014                    | 4,500,000     | -    | 03/26/2015           | -                  | 551             | 393,027       | 0                                 | 30,696 <sup>(ix)</sup>                  | 86,379 <sup>(ix)</sup>                                 | 80,427 <sup>(ix)</sup>                            | 260,805 <sup>(ix)</sup>   |
|                               |               |      | 03/26/2015           | -                  | 188,000         | 564,000       | 0                                 | 0                                       | 126                                                    | 108                                               | 0                         |
| 05/26/2016                    | 3,467,000     | -    | 05/26/2016           | -                  | 641             | 617,022       | 0                                 | 70,974 <sup>(x)</sup>                   | 147,846 <sup>(x)</sup>                                 | 128,344 <sup>(x)</sup>                            | 573,522 <sup>(x)</sup>    |
|                               |               |      | 05/26/2016           | -                  | 15,222          | 76,110        | 0                                 | 0                                       | 65                                                     | 45                                                | 0                         |
|                               |               |      | 05/26/2016           | -                  | 0               | 573,890       | 0                                 | 0                                       | 0                                                      | 0                                                 | 0                         |
|                               |               |      |                      |                    |                 |               |                                   |                                         |                                                        |                                                   |                           |
| TOTAL FREE SHARE GRANTS       |               |      |                      |                    |                 | 6,235,931     | 0                                 | 291,087                                 | 754,325                                                | 675,244                                           | 2,552,580                 |

(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.

| Vesting date and conditions                                 |                 | Number of shares                             |                            |                                           |                         |                                        |                                              |                   |
|-------------------------------------------------------------|-----------------|----------------------------------------------|----------------------------|-------------------------------------------|-------------------------|----------------------------------------|----------------------------------------------|-------------------|
| Vesting period                                              | Expiration date | Remaining to be transferred at Dec. 31, 2015 | Transferred in 2016 (year) | Transferred at Dec. 31, 2016 (cumulative) | Canceled in 2016 (year) | Canceled at Dec. 31, 2016 (cumulative) | Remaining to be transferred at Dec. 31, 2016 | Residual grantees |
| France: 3 years<br>Other countries: 5 years                 | -               | 75,345                                       | 72,915                     | 323,655                                   | 2,430                   | 236,925                                | 0                                            | 0                 |
| France – Spain – Italy: 3 years<br>Other countries: 5 years | -               | 189,099                                      | 175,905                    | 304,875                                   | 13,194                  | 115,125                                | 0                                            | 0                 |
| France: 3 years<br>Other countries: 5 years                 | -               | 108,096                                      | 0                          | 354,444                                   | 3,840                   | 60,720                                 | 104,256                                      | 72                |
| France: 3 years                                             | -               | 0                                            | 0                          | 104,679                                   | 0                       | 15,321                                 | 0                                            | 0                 |
| France: 3 years<br>Other countries: 5 years                 | -               | 858,222                                      | 638,322                    | 638,222                                   | 9,780                   | 63,000                                 | 210,120                                      | 86                |
| France – Spain – Italy: 3 years<br>Other countries: 5 years | -               | 404,190                                      | 131,769                    | 131,787                                   | 17,595                  | 123,387                                | 254,826                                      | 28,314            |
| France: 3 years<br>Other countries: 5 years                 | -               | 440,448                                      | 0                          | 0                                         | 12,057                  | 20,049                                 | 428,391                                      | 287               |
| France – Spain – Italy: 3 years<br>Other countries: 5 years | -               | 444,798                                      | 9                          | 27                                        | 26,712                  | 103,896                                | 418,077                                      | 46,453            |
| France: 3 years<br>Other countries: 5 years                 | -               | 389,469                                      | 0                          | 0                                         | 10,464                  | 14,022                                 | 379,005                                      | 520               |
| France – Spain – Italy: 3 years<br>Other countries: 5 years | -               | 505,197                                      | 18                         | 18                                        | 35,703                  | 94,506                                 | 469,476                                      | 52,164            |
| France: 3 years<br>Other countries: 5 years                 | -               | 0                                            | 0                          | 0                                         | 2,664                   | 2,664                                  | 614,358                                      | 632               |
| France: 3 years<br>Other countries: 5 years                 | -               | 0                                            | 0                          | 0                                         | 3,075                   | 3,075                                  | 73,035                                       | 14,618            |
| Spain – Italy: 3 years<br>Other countries: 5 years          | -               | 0                                            | 0                          | 0                                         | 0                       | 0                                      | 223,269                                      | 12,253            |
|                                                             | -               | <b>3,414,864</b>                             | <b>1,018,938</b>           | <b>1,857,807</b>                          | <b>137,514</b>          | <b>852,690</b>                         | <b>3,174,813</b>                             |                   |

- (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; 3 – a return on capital employed (ROCE) ratio equal to or greater than 29% 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.
- (x) 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 20% in 2016; 2 – an operating margin ratio equal to or greater than 7.8% in 2016; 3 – a return on capital employed (ROCE) ratio equal to or greater than 30% in 2016, such that the average for each of these three criteria over the three years of the reference period (2016, 2017 and 2018) 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 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.



### 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 3, 2016, 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%, repaid in full on December 1, 2016;
- 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, repaid in full on July 1, 2016;

- 600 million euros' worth of ten-year bonds on March 18, 2016, paying a fixed coupon of 1.625%;
- 500 million euros' worth of six-year bonds on January 11, 2017, paying a fixed coupon of 0.625% (see Chapter 5, section 5.2 "Subsequent events", page 283).

In addition,

- on June 16, 2016, Valeo issued 450 million US dollars' worth of non-dilutive cash-settled convertible bonds, redeemable at maturity in 2021. This USD-denominated debt was immediately converted into euros. As the conversion rights in respect of the bonds will be settled solely in cash, the bonds will not result in the issuance of new shares or the delivery of existing Valeo shares. At the same time, Valeo purchased cash-settled call options on its own shares to hedge its exposure to pay cash amounts on any exercise of the bond conversion rights;
- on November 3, 2016, a further 125 million US dollars were added to the above issue, subject to the same terms and conditions (save the issue price).

### 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 82 to 83, all of the bonds issued under the Euro Medium Term Note (EMTN) program include an option allowing bondholders to request early repayment or 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).

In addition, for the European Investment Bank loan, 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 convertible loan also includes a change of control clause under which investors can request early repayment or – on the choice of the issuer – buyback.

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.

Lastly, the agreement entered into by Valeo and Siemens for the creation in 2016 of the Valeo Siemens eAutomotive GmbH joint venture specializing in high-voltage powertrain systems contains clauses providing for the possibility for Valeo – from 2021 – to acquire the stake in the joint venture currently held by Siemens. These clauses take the form of put/call options which the parties may exercise under the terms and conditions and at the prices set out in the agreement. In particular, the options may be triggered by a change in control at either of the parties to the agreement (under certain conditions).

#### **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**

Following his appointment as Chairman and Chief Executive Officer, Jacques Aschenbroich notified the Board of Directors at its meeting of February 18, 2016 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 on May 26, 2015. At its meeting of February 18, 2016, the Board of Directors duly noted the decision of Jacques Aschenbroich to waive his termination benefits. For more details, see Chapter 3, section 3.3.1 “Termination benefits”, pages 150.

The Board of Directors 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 based on the average compensation [fixed and variable] paid for the three fiscal years preceding the year of departure). The Company reserves the right to waive the non-competition clause, in which case no payment will be owed. For more details, see Chapter 3, section 3.3.1 “Non-competition payment”, pages 150 to 151.

#### **Agreements that could restrict the transfer of shares and the exercise of voting rights**

##### **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.

# 7

## ADDITIONAL INFORMATION



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

## 7.1 Principal provisions of the law and the articles of association

### 7.1.1 Company name and headquarters

The 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

For the purposes of transparency and disclosure, 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 "Composition of the Board of Directors, and preparation and organization of its work", pages 96 to 137, Chapter 2, section 2.3 "Internal control and risk management", pages 85 to 91 and Chapter 4, section 4.1.3 "Risks and opportunities related to the impacts of climate change", page 166).

### 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 annual 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 34 to 36.

Following the creation of subsidiaries for its industrial activities in 2002, Valeo SA is now solely a holding and cash management company for the Group. The Company is the head of the tax consolidation group in France.

Excluding certain exceptions, Valeo SA 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 SA 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 SA 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 (*groupe-ment 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 37 to 38.

A 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 “Subsequent events”, page 360. 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 5.4.6, Note 12 “Fees paid to the Statutory Auditors”, page 360.

## ► MAIN COMPANIES

(representing 80% of consolidated sales)

Direct and indirect interests by country (% interest at December 31, 2016)

|                       |                                 |                                                 |      |   |   |   |
|-----------------------|---------------------------------|-------------------------------------------------|------|---|---|---|
| European Union        | France                          | DAV                                             | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo Équipements Électriques Moteur            | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo Service                                   | 100% |   |   | △ |
|                       |                                 | Valeo Systèmes de Contrôle Moteur               | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo Systèmes d'Essuyage                       | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo Systèmes Thermiques                       | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo Vision                                    | 100% | ▲ | ▲ |   |
|                       | Ireland, Germany                | Connaught Electronics Limited                   | 100% | ▲ | ▲ |   |
|                       |                                 | peiker acustic GmbH & Co KG                     | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo Klimasysteme GmbH                         | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo Schalter und Sensoren GmbH                | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo Wischersysteme GmbH                       | 100% | ▲ | ▲ |   |
|                       | Spain, Italy                    | Valeo Iluminación, S.A.U.                       | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo, S.p.A                                    | 100% | ▲ | ▲ |   |
|                       | Hungary, Poland, Czech Republic | 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 | Turkey                          | 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 Engine Cooling (Foshan) Co. Ltd           | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo Ichikoh (China) Auto Lighting Co., Ltd    | 90%  | ▲ |   |   |
|                       |                                 | Valeo Interior Controls (Shenzhen) Co. Ltd      | 100% | ▲ | ▲ |   |
|                       | South Korea, Thailand, Japan    | Valeo Electrical Systems Korea, Ltd             | 100% | ▲ | ▲ |   |
|                       |                                 | Valeo Pyeong HWA Co. Ltd                        | 50%  | ▲ | ▲ |   |
|                       |                                 | Valeo Automotive (Thailand) Co. Ltd             | 100% | ▲ |   | △ |
|                       |                                 | Valeo Japan Co. Ltd                             | 100% | ▲ | ▲ |   |

▲ 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.

### 7.3.1 In 2016

On March 1, 2016, Valeo sold its Engine Control business, in which it was not among the world-leading players.

Following on from its February 20, 2015 technological cooperation agreement with **peiker**, a leading supplier of onboard telematics and connectivity solutions, Valeo acquired the German company. The acquisition, which was confirmed on March 8, 2016, will enable Valeo to broaden its range of automotive geolocation and mobile connectivity solutions to improve its driving assistance systems.

The acquisition of **Spheros**, the worldwide leader in air conditioning systems for buses, whose client base includes leading bus manufacturers and major fleet operators, was finalized on March 31, 2016. This highly buoyant market is expected to grow, led by the development of public transportation across the world, against the backdrop of rapid urbanization.

On April 18, 2016, Valeo announced its plan to form a 50-50 joint venture with **Siemens** dedicated to high-voltage powertrains. Through this project, Valeo and Siemens are ultimately seeking to create a global leader in the fast-growing market of automotive electrification by offering solutions for high-voltage (above 60 V) systems designed for all types of electric vehicles (hybrids, plug-in hybrids and full electric vehicles). The joint-venture, which has been named Valeo Siemens eAutomotive GmbH, became fully operational on December 1, 2016.

On June 2, 2016, Valeo announced that it had signed an agreement with Bain Capital Private Equity, owner of **FTE Automotive**, to acquire the entire share capital of the company. The transaction was subject to the approval of the European and Brazilian antitrust authorities. Clearance from the Brazilian antitrust authorities was obtained on November 3, 2016. On November 30, 2016 following discussions with the European Commission and in agreement with Bain Capital, Valeo decided to withdraw its merger notification and intends to promptly renotify the Commission with a view to obtaining clearance to acquire FTE and finalize the transaction during the course of 2017.

On November 10, 2016, Valeo announced its acquisition of a 50% stake in the capital of **CloudMade**, a developer of smart and innovative big data-driven automotive solutions. CloudMade is a pioneering start-up in machine learning, artificial intelligence and predictive engines. This expertise, combined with Valeo's command of driving assistance applications (sensors, cameras and laser scanners), as well as connectivity, human-machine interface and thermal climate control solutions, will enable CloudMade to provide carmakers with solutions to continuously adapt driving assistance functions to the profile of each individual driver. This radically innovative product offering will enhance the user experience in terms of both intuitive driving and in-vehicle well-being.

### 7.3.2 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

## Report on the compensation policy applicable to the Chairman and Chief Executive Officer

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.

## 7.4 Report on the compensation policy applicable to the Chairman and Chief Executive Officer

### THE BOARD OF DIRECTORS' REPORT TO THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING OF MAY 23, 2017 ON THE PRINCIPLES AND CRITERIA FOR DETERMINING, DISTRIBUTING AND GRANTING THE FIXED, VARIABLE AND EXCEPTIONAL COMPONENTS OF TOTAL COMPENSATION AND OTHER BENEFITS PAYABLE TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER FOR HIS DUTIES IN RESPECT OF THE YEAR ENDING DECEMBER 31, 2017

French Law no. 2016-1691 on transparency, anti-corruption and economic modernization of December 9, 2016 (known as the "Sapin II law"), provides for a binding shareholder vote on the principles and criteria for determining, distributing and granting the fixed, variable and exceptional components of total compensation and other benefits payable to the Chairman and Chief Executive Officer for his duties in respect of the year ending December 31, 2017, constituting the compensation policy for the Chairman and Chief Executive Officer.

The purpose of this report provided for in Article L.225-37-2 of the French Commercial Code (*Code de commerce*) is to present the principles and criteria adopted by the Board of Directors, acting on the recommendation of the Compensation Committee<sup>(1)</sup> (committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017). In accordance with Article L.225-100 of the French Commercial Code, the amounts resulting from these principles and criteria will be subject to shareholder approval at the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2017.

We recommend approving the principles and criteria as presented in this report.

If the resolution is not approved by the shareholders at the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2017, the compensation for the Chairman and Chief Executive Officer will be determined in accordance with that granted in respect of the preceding fiscal year.

The compensation package of the Chairman and Chief Executive Officer of Valeo is determined by the Board of Directors acting on the recommendation of the Compensation Committee and in compliance with the AFEP-MEDEF Corporate Governance Code as amended in November 2016 (the "AFEP-MEDEF Code").

Accordingly, for the preparation and determination of the compensation policy, Valeo takes into account the Company's general interest, the shareholders' interest, market practices and the performance of the Chairman and Chief Executive Officer, as well as the other stakeholders in the Company.

Valeo assesses compensation as a whole, taking into account each component due or granted to the Chairman and Chief Executive Officer. The compensation components are complementary and meet various objectives. A balanced allocation between the various components is also sought. The structure, allocation of the various components of compensation and related amounts are subject to comparative studies based on panels comprising companies belonging to the CAC 40 index and comparable European industrial companies. Such comparison enables Valeo to track and align its compensation policy with market practices.

The compensation policy and criteria for each component of the Chairman and Chief Executive Officer's compensation are set out below.

#### 1. Fixed compensation of the Chairman and Chief Executive Officer

The fixed annual compensation notably remunerates for responsibilities associated with the duties of Chairman and Chief Executive Officer. In accordance with the AFEP-MEDEF Code, fixed compensation is reviewed at relatively long intervals. At its meeting of June 8, 2011, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, set the fixed annual compensation of the Chairman of the Board of Directors and of the Chief Executive Officer. It took effect on June 1, 2011 and remained unchanged until February 18, 2016.

(1) The Compensation Committee has six members, all of whom are independent within the meaning of the AFEP-MEDEF Code, as amended in November 2016 and updated in the Board of Directors' Internal Procedures.

In light of the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer, and the continued growth of the Valeo Group's scope since 2011, and after noting that the fixed annual compensation of the Chairman and Chief Executive Officer was lower than the average fixed compensation reported in 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 comparable European industrial companies, at its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to increase the fixed annual compensation previously paid to the Chief Executive Officer who is now the Chairman and Chief Executive Officer, from 900,000 euros to 1,000,000 euros. This compensation has remained unchanged since that date. There are currently no plans to amend it until the end of the Chairman and Chief Executive Officer's current term of office.

## 2. Variable compensation of the Chairman and Chief Executive Officer

Each year, the Board of Directors analyzes the annual variable compensation of the Chairman and Chief Executive Officer, on the recommendation of the Compensation Committee.

The variable portion of the compensation should be in line with the Chairman and Chief Executive Officer's performance, as well as the Company's strategy and progress. It is therefore determined partly according to quantifiable criteria with strict and ambitious objectives based on the Group's operating and financial performance, and partly on a qualitative basis. The quantifiable and qualitative objectives to be reached are set according to specific, demanding and predetermined objectives.

In the interests of stability with respect to the criteria for assessing and continuously measuring the Chairman and Chief Executive Officer's performance, the following criteria for the Chairman and Chief Executive Officer's variable compensation, considered as particularly representative of the Company's performance, were applied in previous years and renewed by the Board of Directors at its meeting of February 14, 2017, acting on the recommendation of the Compensation Committee:

- **five quantifiable criteria:** (i) operating margin, (ii) free cash flow<sup>(1)</sup>, (iii) net income, (iv) return on capital employed (ROCE), and (v) the Group's order intake. The objectives of the quantifiable criteria are demanding and their level of achievement adjusted from one year to the next to ensure that the executive corporate officer's interests are in line with the shareholders' interests and geared towards value creation. The same criteria and objectives are also used to set the variable compensation of the members of Valeo's Operations Committee and Liaison Committee. The maximum amount of the Chairman and Chief Executive Officer's annual variable compensation is granted subject to the achievement of ambitious objectives (significantly higher than the budget) set by the Board of Directors, acting on the recommendation of the Compensation Committee.
- **three qualitative criteria:** (i) financial communications, (ii) strategic vision, and (iii) risk management. The level of achievement of each of these objectives is measured differently, and sub-criteria are regularly added to strengthen the stringency and the degree of achievement of the objectives.

In accordance with the provisions of the AFEF-MEDEF Code, the total amount of the variable portion is expressed as a percentage of the fixed annual compensation, each criterion granting entitlement to a percentage of the fixed annual compensation (see table below).

The Chairman and Chief Executive Officer's variable portion is capped at 170% of his fixed annual compensation. At its meeting on July 24, 2015, when reviewing the variable compensation of the executive corporate officer, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to cap the amount of the variable compensation at 170% of the fixed annual compensation, in view of the Company's strong operating performance and after noting that the variable compensation of the executive corporate officer was misaligned with the median variable compensation reported in 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 comparable European industrial companies.

(1) The quantifiable criterion pertaining to operating cash has been clarified compared to previous years. Reference is now made to "free cash flow".

The following table summarizes the quantifiable and qualitative criteria, the entitlement relating to each of these criteria in terms of percentage of annual fixed compensation, as well as the maximum variable compensation of the Chairman and Chief Executive Officer for 2017:

| Quantifiable criteria <sup>(1)</sup>                                                                                                                                                                                                                                                                                                                                                               |                                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Nature of the criterion                                                                                                                                                                                                                                                                                                                                                                            | Maximum amount of the variable portion as a % of fixed annual compensation |
| Operating margin                                                                                                                                                                                                                                                                                                                                                                                   | 23%                                                                        |
| Free cash flow <sup>(2)</sup>                                                                                                                                                                                                                                                                                                                                                                      | 23%                                                                        |
| Net income <sup>(3)</sup>                                                                                                                                                                                                                                                                                                                                                                          | 23%                                                                        |
| Return on capital employed (ROCE)                                                                                                                                                                                                                                                                                                                                                                  | 23%                                                                        |
| Consolidated order intake <sup>(4)</sup>                                                                                                                                                                                                                                                                                                                                                           | 23%                                                                        |
| <b>TOTAL QUANTIFIABLE CRITERIA</b>                                                                                                                                                                                                                                                                                                                                                                 | <b>115%</b>                                                                |
| Qualitative criteria                                                                                                                                                                                                                                                                                                                                                                               |                                                                            |
| Nature of the criterion                                                                                                                                                                                                                                                                                                                                                                            | Maximum amount of the variable portion as a % of fixed annual compensation |
| <b>Financial communications</b>                                                                                                                                                                                                                                                                                                                                                                    |                                                                            |
| This criterion is measured, in particular, based on variations in Valeo's share price in comparison with the share prices of several European, North American and Japanese companies operating in the same sector as the Company                                                                                                                                                                   | 5%                                                                         |
| <b>Strategic vision</b>                                                                                                                                                                                                                                                                                                                                                                            |                                                                            |
| This criterion is measured based on:                                                                                                                                                                                                                                                                                                                                                               |                                                                            |
| <ul style="list-style-type: none"> <li>■ assessment of the analysts;</li> <li>■ strategic operations carried out by Valeo;</li> <li>■ the increase in the proportion of innovative products<sup>(5)</sup> in the order intake for the year;</li> <li>■ the presentation by Management at a strategy seminar of a technology roadmap and its impact on R&amp;D and human resources.</li> </ul>      | 25%                                                                        |
| <b>Risk management</b>                                                                                                                                                                                                                                                                                                                                                                             |                                                                            |
| This criterion is measured, in particular, based on:                                                                                                                                                                                                                                                                                                                                               |                                                                            |
| <ul style="list-style-type: none"> <li>■ continued and intensified measures to reinforce the compliance policy;</li> <li>■ the management of risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints;</li> <li>■ the Valeo Group's policy on corporate social responsibility and management of the corresponding risks.</li> </ul> | 25%                                                                        |
| <b>TOTAL QUALITATIVE CRITERIA</b>                                                                                                                                                                                                                                                                                                                                                                  | <b>55%</b>                                                                 |
| <b>TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA</b>                                                                                                                                                                                                                                                                                                                                                 | <b>170%</b>                                                                |

(1) Excluding tax and regulatory impact.

(2) Assuming that the investment budget is respected.

(3) Assuming a 20% tax rate for the Group.

(4) Excluding Ichikoh.

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

### 3. Long-term compensation policy applicable to the Chairman and Chief Executive Officer – allotment of performance shares

The aim of allotting performance shares is not only to encourage the Chairman and Chief Executive Officer to take a long-term approach to his duties, but also to retain him and align his interests with those of Valeo and its shareholders. Under the performance share plans, performance criteria must be met over a period of three consecutive years. Valeo applies strict and ambitious

financial and operating performance criteria considered as particularly representative of the Company's performance. The criteria, which have been adopted and renewed by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee over recent years, and applied for 2017, are as follows: (i) pre-tax return on assets (ROA) (excluding acquisitions), (ii) operating margin, and (iii) return on capital employed (ROCE). The aforementioned criteria would be met if, for each of them, the arithmetic 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, it being specified that the target return set by the Board of Directors may not be modified subsequently. The guidance will change in line with the Group's ambitious objectives as announced at the Investor Day on February 28, 2017.

In addition, a presence condition must also be met at the time of each allotment. The performance shares allotted to the Chairman and Chief Executive Officer will 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) or he claimed his retirement benefits.

Each time that it decides to allot performance shares, the Board of Directors ensures that allotments for the Chairman and Chief Executive Officer do not represent an excessive proportion of the total number of performance shares allotted and that they have a limited impact in terms of dilution (195,000 shares under the twentieth resolution of the Shareholders' Meeting of May 26, 2016). In accordance with applicable laws and Company practices, the Group's executive managers and employees are also entitled to performance shares.

In accordance with the recommendations of the AFEF-MEDEF Code and the Code of Conduct, the Chairman and Chief Executive Officer must not use hedging transactions to reduce his risk. At the end of the holding period set by the Board of Directors, he must also hold a significant number of vested performance shares in the form of registered shares until the end of his term of office. This holding obligation corresponds to 50% of the vested performance shares.

The amount of performance shares allotted to the Chairman and Chief Executive Officer valued under IFRS must not exceed 270% of the Chairman and Chief Executive Officer's fixed annual compensation (100% of the maximum annual fixed and variable compensation). At its meeting on July 24, 2015, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee decided to cap the amount of performance shares at 270% of the fixed annual compensation when reviewing the variable compensation of the executive corporate officer, in view of the Company's strong operating performance and after noting that the variable compensation of the executive corporate officer was misaligned with the average variable compensation reported in 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 comparable European industrial companies.

#### **4. Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan**

With a view to retaining and motivating the executive corporate officer with regard to the Company's objectives, general interest and market practices, at its meeting of April 9, 2009, when determining the executive corporate officer's overall compensation, the Board of Directors decided to register him with the supplementary defined benefit pension plan 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. In view of the executive corporate officer'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 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 as a regulated commitment pursuant to Article L.225-42-1 of the French Commercial Code by the shareholders at the Shareholders' Meeting of May 26, 2016 in its fifth resolution.

There is a cap on the amount of the pension plan (entitlement corresponding to 1% of the reference salary per year of service, capped at 20%) and on the basis for determining entitlements (additional pension benefits, all plans combined, are capped at 55% of the reference salary<sup>(1)</sup>).

In order to comply with the provisions of French law no. 2015-990 for growth, activity and equality of opportunities of August 6, 2015 (known as the "Macron law"), it was decided that the acquisition of conditional supplementary pension benefits would be subject to a performance condition deemed achieved if the variable portion of the compensation of the Chairman and Chief Executive Officer paid in year Y+1 for year Y corresponds to 100% of the fixed compensation payable for year Y. In the event that the variable portion amounted to less than 100% of the fixed portion, rights would accrue on a prorata basis.

#### **5. Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment**

In order to protect the Company's interests, a non-competition clause binding the executive corporate officer was put in place by the Board of Directors. This non-competition clause has been in force since February 24, 2010. To comply with the AFEF-MEDEF Code as amended in June 2013, at its meeting on February 24, 2015, the Board of Directors, acting on the

(1) 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.



recommendation of the Appointments, Compensation & Governance Committee, amended the non-competition clause, which was approved by the shareholders at the Shareholders' Meeting of May 26, 2015 in its fifth resolution pursuant to Article L.225-42-1 of the French Commercial Code.

If the Company triggers the non-competition clause, the executive corporate officer will 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, the executive corporate officer will receive a non-competition payment equal to 12 months of compensation (calculated by taking the average compensation [fixed and variable] paid for the three fiscal years preceding the year of departure). The payment will be made in equal monthly installments over the entire period to which the non-competition clause applies.

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.

## 6. Other benefits

The Chairman and Chief Executive Officer is also entitled to benefits in kind which were set by the Board of Directors, at its meeting of April 9, 2009, when determining the executive corporate officer's overall compensation. He is therefore entitled to coverage under the unemployment

insurance fund for Company managers, 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 him with a company car.

## 7. Other components of compensation

The Chairman and Chief Executive Officer is not entitled to multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation or termination benefits. In this respect, it should be noted that the Chairman and Chief Executive Officer was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived following the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer on February 18, 2016.

The Chairman and Chief Executive Officer does not receive attendance fees. He is not entitled to any compensation or other benefits as a result of agreements entered into with the Company<sup>(1)</sup> or any Group company.

No stock purchase or subscription options or other long-term compensation component will be granted to the executive corporate officer in 2017.

We draw your attention to the fact that according to Article L.225-37-2 and Article L.225-100 of the French Commercial Code, the variable compensation components for the Chairman and Chief Executive Officer in respect of 2017 will be paid only after the approval of the fixed, variable and exceptional components of overall compensation and other benefits paid or granted to the Chairman and Chief Executive Officer for 2017 by the shareholders at an Ordinary Shareholders' Meeting.

## 7.5 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](http://www.valeo.com). Copies are also available on request from the Company's headquarters (43, rue Bayen, 75017 Paris, France).

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. They remain online for at least five years after the related documents are issued, with the exception of Registration Documents, and annual and interim financial reports, which remain online for at least 10 years.

In accordance with the AMF's General Regulations, the Company's Internal Procedures and the 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](http://www.amf-france.org)).

(1) Except for the non-competition and pension commitments referred to in points 4 and 5 of this report.

## 7.6 Information related to the Statutory Auditors

### 7.6.1 Principal Statutory Auditors and alternate Statutory Auditors

#### Principal Statutory Auditors

- **Ernst & Young et Autres**, represented by Jean-François Ginies and Gilles Puissochet – 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 May 26, 2016 (second 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, 2021.
- **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 May 26, 2016 (second 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, 2021.

#### 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 May 26, 2016 (second 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, 2021.
- **Mr Jean-Maurice El Nouchi** – 61, rue Henri Regnault, 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 May 26, 2016 (second 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, 2021.

### 7.6.2 Fees paid to the Statutory Auditors

| (in millions of euros)                                                                            | Ernst & Young        |            |             |             | Mazars               |            |             |             |
|---------------------------------------------------------------------------------------------------|----------------------|------------|-------------|-------------|----------------------|------------|-------------|-------------|
|                                                                                                   | Amount (excl. taxes) |            | %           |             | Amount (excl. taxes) |            | %           |             |
|                                                                                                   | 2016                 | 2015       | 2016        | 2015        | 2016                 | 2015       | 2016        | 2015        |
| <b>AUDIT</b>                                                                                      |                      |            |             |             |                      |            |             |             |
| Statutory audit, certification and review of the individual and consolidated financial statements | 3.9                  | 4.3        | 86%         | 91%         | 3.0                  | 2.7        | 94%         | 96%         |
| Non-audit services                                                                                | 0.6                  | 0.4        | 14%         | 9%          | 0.2                  | 0.1        | 6%          | 4%          |
| <b>SUB-TOTAL – AUDIT</b>                                                                          | <b>4.5</b>           | <b>4.7</b> | <b>100%</b> | <b>100%</b> | <b>3.3</b>           | <b>2.8</b> | <b>100%</b> | <b>100%</b> |
| <b>OTHER SERVICES</b>                                                                             |                      |            |             |             |                      |            |             |             |
| <b>SUB-TOTAL – OTHER SERVICES</b>                                                                 | <b>0.0</b>           | <b>0.0</b> | <b>0%</b>   | <b>0%</b>   | <b>0.0</b>           | <b>0.0</b> | <b>0%</b>   | <b>0%</b>   |
| <b>TOTAL FEES</b>                                                                                 | <b>4.5</b>           | <b>4.7</b> | <b>100%</b> | <b>100%</b> | <b>3.3</b>           | <b>2.8</b> | <b>100%</b> | <b>100%</b> |

## 7.7 Person responsible for the Registration Document

### 7.7.1 Name of the person responsible for the Registration Document containing the Annual Financial Report \_\_\_\_\_

Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo.

### 7.7.2 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 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. "

Paris, March 22, 2017

**Jacques Aschenbroich,**  
Chairman and Chief Executive Officer

# 8

## APPENDIX



|            |                                                                                                                                                                                          |            |            |                                  |            |
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## 8.1 Cross-reference tables

### 8.1.1 Cross-reference table for the Registration Document

This cross-reference table lists the main headings provided for by European Regulation No. 809/2004 of April 29, 2004 (the "Regulation") and gives reference to the sections and, when appropriate, the chapters in this document where information can be found regarding each of these headings. It also refers to the Registration Document sections and chapters of the fiscal year ended December 31, 2015, registered with the French

financial markets authority (*Autorité des marchés financiers* – AMF) on March 25, 2016, under number D.16-0211 ("2015 RD") and, where necessary, to the Registration Document sections and chapters for the fiscal year ended December 31, 2014, registered with the AMF on March 27, 2015 under number D.15-0220 ("2014 RD").

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| 21.1.5     | Information about the terms and conditions of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital   | 6.6.2                                                                 | 418-419                                        |
| 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                                                                 | 424-425                                        |
| 21.1.7     | Share capital history                                                                                                                                                    | 6.6.1                                                                 | 417                                            |
| 21.2       | Memorandum and articles of association                                                                                                                                   |                                                                       |                                                |
| 21.2.1     | Description of the issuer's objects and purposes                                                                                                                         | 7.1.5                                                                 | 428                                            |
| 21.2.2     | Summary of any provision on the issuer's articles of association, charter or bylaws with respect to the members of the administrative, management and supervisory bodies | 3.2.1 and 3.2.2                                                       | 96-101; 116-129                                |
| 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                                               | 429; 430                                       |
| 21.2.4     | Description of the actions necessary to amend the rights of the shareholders                                                                                             | 7.1.12                                                                | 430                                            |
| 21.2.5     | Description of the conditions governing the manner in which Annual Shareholders' Meetings and Extraordinary Shareholders' Meetings are called                            | 7.1.10                                                                | 429                                            |
| 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                                                                 | 426                                            |
| 21.2.7     | Indication of any provision governing the ownership threshold above which shareholder ownership must be disclosed                                                        | 6.6.5                                                                 | 424-425                                        |
| 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                                                                | 430                                            |
| <b>22.</b> | <b>Material contracts</b>                                                                                                                                                | 7.3                                                                   | 433-434                                        |
| <b>23.</b> | <b>Third party information and statement by experts and declarations of interest</b>                                                                                     |                                                                       |                                                |
| 23.1       | Statement or report attributed to a person as an expert                                                                                                                  | N/A                                                                   |                                                |
| 23.2       | Information from a third party                                                                                                                                           | N/A                                                                   |                                                |
| <b>24.</b> | <b>Documents on display</b>                                                                                                                                              | 7.5                                                                   | 438                                            |
| <b>25.</b> | <b>Information on holdings</b>                                                                                                                                           | 1.2.2, 5.4.6<br>(Notes 2.2, 4.5.3 and 14),<br>5.6.4 (Note 12) and 7.2 | 34; 295-299; 308-311;<br>361-367; 392; 431-432 |

## 8.1.2 Cross-reference table for the Annual Financial Report

| Annual Financial Report                                                                                                                                      | Chapters/Sections    | Pages            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|------------------|
| <b>1. Parent company financial statements</b>                                                                                                                | 5.6                  | 371-393          |
| <b>2. Consolidated financial statements</b>                                                                                                                  | 5.4                  | 284-367          |
| <b>3. Management report (French Monetary and Financial Code)</b>                                                                                             |                      |                  |
| Article L.225-100 of the French Commercial Code                                                                                                              |                      |                  |
| ■ Analysis of business trends                                                                                                                                | 5.1.1 and 5.1.3      | 270-273; 276-277 |
| ■ Analysis of results                                                                                                                                        | 5.1.2; 5.1.3 and 5.5 | 274-277; 370     |
| ■ Analysis of financial position                                                                                                                             | 5.1.4                | 277-282          |
| ■ Principal risks and uncertainties                                                                                                                          | 2.1                  | 70-85            |
| ■ Summary table of powers currently delegated by the Annual Shareholders' Meeting to the Board of Directors with respect to capital increases                | 6.6.2                | 418-419          |
| 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                | 426              |
| Article L.225-211 of the French Commercial Code                                                                                                              |                      |                  |
| ■ Buyback by the Company of its own shares                                                                                                                   | 6.5                  | 413-416          |
| <b>4. Declaration by the person responsible for the Annual Financial Report</b>                                                                              | 7.7.2                | 440              |
| <b>5. Statutory Auditors' report on the financial statements</b>                                                                                             | 5.6.5                | 394              |
| <b>6. Statutory Auditors' report on the consolidated financial statements</b>                                                                                | 5.4.7                | 368-369          |
| <b>7. Statutory Auditors' special report on related party agreements and commitments</b>                                                                     | 5.7                  | 395-398          |
| <b>8. Report by the Chairman of the Board on corporate governance, internal control and risk management (Article L.225-37 of the French Commercial Code)</b> | 3.2 and 2.3          | 96-137; 85-91    |
| <b>9. Statutory Auditors' report on the Chairman's report</b>                                                                                                | 2.4                  | 92               |

### 8.1.3 Cross-reference table for the management report as provided for by Articles L.225-100 *et seq.*, L.232-1 *et seq.* and R.225-102 *et seq.* of the French Commercial Code

| Management report – French Commercial Code                    |                                                                                                                                                                    | Chapters/Sections                 | Pages            |
|---------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|------------------|
| <b>Operations report</b>                                      |                                                                                                                                                                    |                                   |                  |
| 1.                                                            | Financial position and operations of the Company in the past year                                                                                                  | 5.5                               | 370              |
| 2.                                                            | Results of operations of the Company, its subsidiaries and companies under its control                                                                             | 5.1                               | 270-282          |
| 3.                                                            | Key financial and extra-financial performance indicators                                                                                                           | 1.1.1                             | 6-8              |
| 4.                                                            | Review of the business, results of operations and financial position                                                                                               | 5.1                               | 270-282          |
| 5.                                                            | Material events occurring between the end of the reporting period and the date the report was prepared                                                             | 5.2                               | 283              |
| 6.                                                            | Developments and outlook                                                                                                                                           | 5.3                               | 283              |
| 7.                                                            | Research and development activity                                                                                                                                  | 1.2.3 and 4.2                     | 37, 170-185      |
| 8.                                                            | Supplier payment cycles                                                                                                                                            | 5.5                               | 370              |
| 9.                                                            | Changes in the presentation of the annual parent company financial statements and methods of measurement                                                           | 5.4.6 (Note 1) and 5.4.6 (Note 2) | 290-292          |
| 10.                                                           | Description of major risks and uncertainties                                                                                                                       | 2.1                               | 70-84            |
| 11.                                                           | Information on facilities classified as high-threshold Seveso sites                                                                                                | N/A                               |                  |
| 12.                                                           | Use of financial instruments                                                                                                                                       | 5.4.6 (Notes 8.1, 8.2 and 8.3)    | 334-352          |
| 13.                                                           | Investments over the past three years                                                                                                                              | 5.1.4                             | 280-281          |
| 14.                                                           | Material investments or controlling interests taken during the year in companies with registered offices in France                                                 | 5.1.4, 5.4.6 (Note 2.2)           | 280, 295-298     |
| <b>Environmental, labor-related and social responsibility</b> |                                                                                                                                                                    |                                   |                  |
| 15.                                                           | Information on how the Company takes into account the environmental, labor-related and social consequences of its operations and the Independent verifier's report | 4                                 | 160-267          |
| 16.                                                           | Key environmental, labor-related and social indicators                                                                                                             | 4.7                               | 261-264          |
| <b>Governance</b>                                             |                                                                                                                                                                    |                                   |                  |
| 17.                                                           | List of all directorships and positions held in companies by each corporate officer during the past fiscal year                                                    | 3.2.1                             | 96-116           |
| 18.                                                           | Compensation and benefits in kind paid to each corporate officer during the past fiscal year                                                                       | 3.3                               | 138-158          |
| 19.                                                           | Breakdown into the fixed, variable and extraordinary components of such compensation and benefits, and the calculation method                                      | 3.3                               | 138-158          |
| 20.                                                           | Commitments given on behalf of executive corporate officers and other Group executive managers                                                                     | 3.3.1 and 3.3.3                   | 138-153; 155-157 |
| 21.                                                           | Terms and conditions for transferring free shares to executive corporate officers during their term of office                                                      | 3.3.1 and 3.3.3                   | 138-153; 155-157 |
| 22.                                                           | Transactions in the Company's shares carried out by directors and by those with whom they have close relationships                                                 | 6.4.4                             | 412              |

| Management report – French Commercial Code         |                                                                                                                                                                                                   | Chapters/Sections                   | Pages                    |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------|
| <b>Share ownership structure and share capital</b> |                                                                                                                                                                                                   |                                     |                          |
| 23.                                                | Share ownership structure and changes during the fiscal year                                                                                                                                      | 6.4 and 6.6.1                       | 406-412; 417             |
| 24.                                                | Status of employee share-ownership plans                                                                                                                                                          | 6.4.5                               | 412                      |
| 25.                                                | Trading in the Company's shares                                                                                                                                                                   | 6.5                                 | 413-416                  |
| 26.                                                | Name of companies controlled and equity interest                                                                                                                                                  | 5.4.6 (Note 14),<br>5.6.4 (Note 12) | 361-367<br>392           |
| 27.                                                | Share disposals to adjust reciprocal shareholdings                                                                                                                                                | N/A                                 |                          |
| 28.                                                | Amount of dividends and other distributed earnings paid during the past three fiscal years                                                                                                        | 6.3                                 | 405                      |
| 29.                                                | Disclosures likely to be material in the event of a public tender offer                                                                                                                           | 6.6.6                               | 426                      |
| <b>Other disclosures</b>                           |                                                                                                                                                                                                   |                                     |                          |
| 30.                                                | Sumptuary expenses                                                                                                                                                                                | 5.5                                 | 370                      |
| 31.                                                | Five-year financial summary                                                                                                                                                                       | 5.8.1                               | 399                      |
| 32.                                                | Injunctions or monetary penalties for anti-competitive practices                                                                                                                                  | 2.1.3                               | 80                       |
| 33.                                                | Information on stock option plans granted to corporate officers and employees                                                                                                                     | 3.2.5, 3.3.4 and 6.6.3              | 132-133; 158;<br>420-423 |
| 34.                                                | Information on free shares granted to corporate officers and employees                                                                                                                            | 3.2.5, 3.3.4 and 6.6.3              | 132-133; 158;<br>420-423 |
| 35.                                                | Summary table of powers currently delegated by the Annual Shareholders' Meeting to the Board of Directors with respect to raising new equity and the use made of such delegations during the year | 6.6.2                               | 418-419                  |
| 36.                                                | Loans to non-Group companies                                                                                                                                                                      | N/A                                 | N/A                      |
| 37.                                                | List of existing branches                                                                                                                                                                         | 5.4.6 (Note 14)                     | 361-367                  |

## 8.2 Glossaries

### 8.2.1 Financial Glossary

|                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Free cash flow</b>                                                                 | Net cash from operating activities (excluding the change in non-recurring sales of receivables) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.                                                                                                                                                                                                                                                                  |
| <b>Net cash flow</b>                                                                  | Free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments with a change 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 non-recurring sales of receivables. |
| <b>EBITDA</b>                                                                         | Corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin) and the impact of government subsidies and grants on non-current assets, and (ii) net dividends from equity-accounted companies.                                                                                                                                                                                                               |
| <b>Net debt</b>                                                                       | 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.                                                                                                         |
| <b>Operating margin including share in net earnings of equity-accounted companies</b> | Operating income before other income and expenses.                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Order intake</b>                                                                   | 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, selling prices and project lifespans. Unaudited indicator.                                                                                                                                                                                                 |
| <b>Net attributable income excluding non-recurring items</b>                          | Net attributable income adjusted for "other income and expenses" net of tax and non-recurring income and expenses net of tax shown in operating margin including share in net earnings of equity-accounted companies.                                                                                                                                                                                                                                                         |
| <b>ROA</b>                                                                            | ROA, or return on assets, corresponds to operating income divided by capital employed (including investments in equity-accounted companies) including goodwill.                                                                                                                                                                                                                                                                                                               |
| <b>ROCE</b>                                                                           | ROCE, or return on capital employed, corresponds to operating margin (including share in net earnings of equity-accounted companies) divided by capital employed (including investments in equity-accounted companies) excluding goodwill.                                                                                                                                                                                                                                    |

## 8.2.2 Sustainable Development Glossary

|                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ADEME</b>             | 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.<br><a href="http://www.ademe.fr">www.ademe.fr</a>                                                                                                                                                                                                                                                                                        |
| <b>CDP</b>               | Carbon Disclosure Project: an independent, non-profit organization working to drive greenhouse gas emissions reductions for companies and cities by collecting, environmental data and analyzing their carbon emissions policy.<br><a href="http://www.cdproject.net">www.cdproject.net</a>                                                                                                                                                                                                                                                                      |
| <b>CMR substance</b>     | Substances classified as carcinogenic, mutagenic, or toxic for reproduction.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>ELV Directive</b>     | European Directive No. 2000/53 of September 18, 2000 to reduce end-of-life vehicle waste through prevention, collection, treatment and recycling measures.                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>FTSE4Good</b>         | Extra-financial (ESG) rating agency.<br><a href="http://www.ftse.com/products/indices/ftse4good">http://www.ftse.com/products/indices/ftse4good</a>                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>GHG</b>               | Greenhouse gas: gases which absorb infrared rays emitted by the Earth's surface, contributing to the greenhouse effect.                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>GRI</b>               | Global Reporting Initiative: a non-profit organization that develops globally applicable guidelines on corporate sustainability policy and reporting.<br><a href="http://www.globalreporting.org">www.globalreporting.org</a>                                                                                                                                                                                                                                                                                                                                    |
| <b>ISO 14001</b>         | International standard on environmental management systems.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>ISO 50001</b>         | International standard on energy management systems.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Natura 2000</b>       | All European natural sites, whether land- or water-based, identified for the rarity or fragility of their wildlife or plant species and their habitat.<br><a href="http://www.developpement-durable.gouv.fr/-Natura-2000,2414-.html">http://www.developpement-durable.gouv.fr/-Natura-2000,2414-.html</a>                                                                                                                                                                                                                                                        |
| <b>Oekom-Research</b>    | Sustainable investment rating agency.<br><a href="http://www.oekom-research.com">www.oekom-research.com</a>                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>OHSAS 18001</b>       | International standard on workplace health and safety information.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Open Innovation</b>   | 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 companies, academic and research companies, innovative start-ups, etc.).                                                                                                                                                                                                                                       |
| <b>QRQC</b>              | Quick Response Quality Control: four-step problem resolution method: Detection, Communication, Analysis and Verification.                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>REACH regulation</b>  | European Regulation No. 1907/2006 of December 18, 2006 (Registration, Evaluation, Authorization and Restriction of Chemicals).                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>RobecoSAM</b>         | RobecoSAM (Sustainable Asset Management): an asset manager specialized in sustainable investment and analyzing companies' non-financial (environmental, social, governance, etc.) performance. The quality of the analyses provided led the company to partner with Standard & Poor's to set up and manage the Dow Jones Sustainability Indices which track the sustainability performance of 2,500 of the largest companies in the Dow Jones Global Total Stock Market Index.<br><a href="http://www.sustainability-index.com">www.sustainability-index.com</a> |
| <b>SAE International</b> | Society of Automotive Engineers International: a US-based association. Similarly to the VDA (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".                                                                                                                                                                                  |
| <b>Seveso</b>            | 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.                                                                                                                                                                                                                                                                                                                     |
| <b>Sustainalytics</b>    | Internationally renowned provider of ESG and corporate governance research and ratings.<br><a href="http://www.sustainalytics.com">www.sustainalytics.com</a>                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>VDA</b>               | <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.                                                                                                                                                   |
| <b>VOC</b>               | Volatile organic compound: VOCs are composed of carbon, oxygen and hydrogen and are readily found as atmospheric gases.                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>ZNIEFF</b>            | 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.                                                                                                                                     |

## 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 antitrust authorities as they have been identified in this 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 French financial markets authority (*Autorité des marchés financiers* – AMF), including those set out in the “Risk Factors” section of Valeo’s Registration Document.

Valeo has recognized an expense of 99 million euros in its consolidated financial statements to cover the main risks resulting from investigations currently being carried out by the antitrust authorities as identified in the Registration Document and risks relating to legal action resulting from such investigations.

The Company assumes no responsibility for analyses issued 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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