

# 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.

(1) 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 reigning 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.

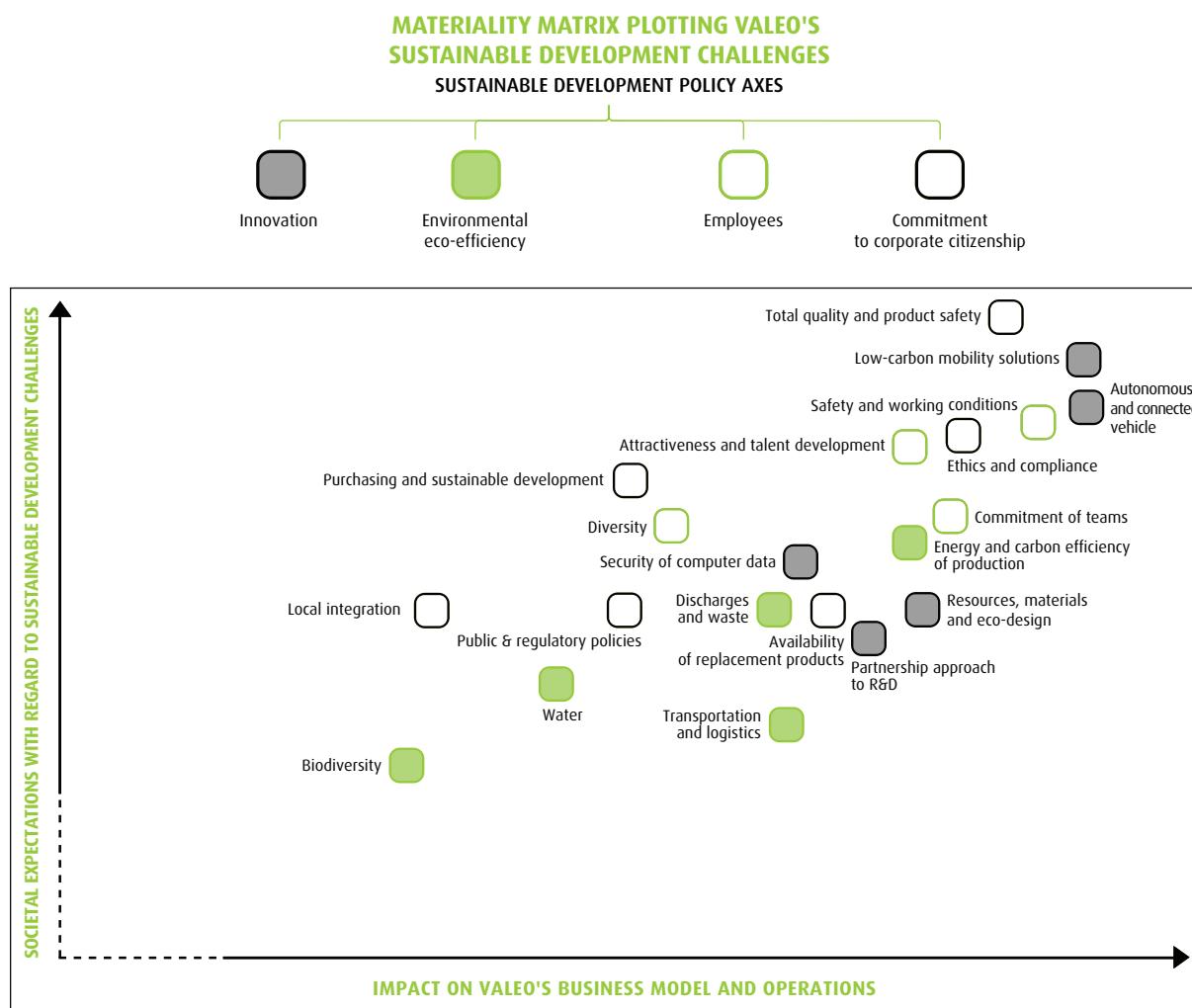
The materiality analysis aims to compare Valeo's internal ambitions in respect of sustainable development with its stakeholders' expectations. The analysis is based on:

- 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
<b>Innovation</b>	<b>Low-carbon and autonomous mobility, open innovation<sup>(1)</sup>, eco-design</b>	Build a growth strategy based on innovative technologies for: <ul style="list-style-type: none"><li>■ CO<sub>2</sub> emissions reduction</li><li>■ intuitive driving (connectivity, automation and human-machine interfaces)</li></ul>	<ul style="list-style-type: none"><li>■ Develop CO<sub>2</sub> emissions reduction and intuitive driving technologies</li><li>■ Promote open innovation<sup>(1)</sup></li></ul>	<ul style="list-style-type: none"><li>■ Net Research and Development expenditure (as a % of sales)</li><li>■ Research and Development headcount</li><li>■ Number of customer projects managed</li><li>■ Number of collaborative projects funded</li><li>■ Number of patents filed</li><li>■ Proportion of innovation in the order intake</li></ul>	174
<b>Environmental eco-efficiency</b>	<b>Environmental eco-efficiency of industrial processes</b>	<ul style="list-style-type: none"><li>■ Continue the process of certifying environmental management systems in order to meet the commitment to reduce environmental impact</li></ul>	<ul style="list-style-type: none"><li>■ Achieve the 2020 targets (from the 2015 base, as a proportion of sales):<ul style="list-style-type: none"><li>■ 6% reduction in water consumption</li><li>■ 8% reduction in energy consumption</li><li>■ 5% reduction in the production of hazardous and non-hazardous waste</li><li>■ 8% reduction in direct and indirect GHG emissions<sup>(1)</sup></li><li>■ ISO 50001 certification<sup>(1)</sup> of 20% of sites</li></ul></li></ul>	<ul style="list-style-type: none"><li>■ Water consumption</li><li>■ Energy consumption</li><li>■ Packaging materials consumption</li><li>■ Reduction in the production of hazardous and non-hazardous waste</li><li>■ Reduction of direct and indirect greenhouse gas emissions (Scope 1 and Scope 2)</li><li>■ ISO 14001 and ISO 50001 certification</li></ul>	193
<b>Employees</b>	<b>Safety and working conditions</b>	<ul style="list-style-type: none"><li>■ Ensure the health and safety of employees, from the design of new production equipment, and throughout their careers</li><li>■ Continue the process of certifying safety management systems in order to meet the commitment to improve health and safety conditions for employees</li></ul>	<ul style="list-style-type: none"><li>■ Promote workplace health and safety conditions consistent with the goal of "zero accidents"</li></ul>	<ul style="list-style-type: none"><li>■ Frequency rate of occupational accidents</li><li>■ Severity rate of occupational accidents</li><li>■ Number of training hours devoted to health and safety</li><li>■ Percentage of sites having implemented Well-Being at Work initiatives</li><li>■ Proportion of agreements signed with unions on local health and Well-Being at Work initiatives</li></ul>	222
	<b>Commitment of teams</b>	<ul style="list-style-type: none"><li>■ Promote the commitment and satisfaction of Valeo employees at work</li><li>■ Support the Group's growth</li></ul>	<ul style="list-style-type: none"><li>■ Foster talent retention</li></ul>	<ul style="list-style-type: none"><li>■ Rate of absenteeism</li><li>■ Breakdown of departures by cause and geographic area</li><li>■ Voluntary turnover of managers and professionals</li></ul>	223
<b>Commitment to corporate citizenship</b>	<b>Purchasing and sustainable development</b>	<ul style="list-style-type: none"><li>■ Include Valeo's sustainable development principles in the purchasing policy</li></ul>	<ul style="list-style-type: none"><li>■ Extend and reinforce the application of sustainable development criteria by suppliers</li></ul>	<ul style="list-style-type: none"><li>■ Proportion of production suppliers involved in the evaluation (selected panel) as a percentage of the Group's production purchases</li></ul>	243
	<b>Ethics and compliance</b>	<ul style="list-style-type: none"><li>■ 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</li></ul>	<ul style="list-style-type: none"><li>■ 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</li></ul>	<ul style="list-style-type: none"><li>■ Percentage of target population trained in Ethics and Compliance over the year</li></ul>	239
<b>Local integration</b>					
		<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>■ Be a responsible industrial player with regard to labor and social issues</li><li>■ Ensure that sites have the appropriate interaction with their economic, labor and social environments</li></ul>	<ul style="list-style-type: none"><li>■ Quality of voluntary measures taken by industrial plants</li><li>■ Quality of institutional relations with various national, European and international stakeholders</li></ul>	247

(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 (new rating methodology)
MSCI ESG Rating	A Ranked no. 2 among automotive suppliers
OEKOM	Prime C+ Ranked no. 3 among automotive parts suppliers
RobecoSAM (DJSI)	80/100 Industry leader (ranked no. 1 among automotive suppliers)
Sustainalytics	84/100 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.



**ROBECOSAM**  
Sustainability Award  
Industry Mover 2017



**ROBECOSAM**  
Sustainability Award  
Gold Class 2017

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
<b>Customers</b>	<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>
<b>Employees</b>	<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>
<b>Research and Development partners</b>	<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>
<b>Partners and suppliers</b>	<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>
<b>Institutions</b>	<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>
<b>Regions</b>	<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>
<b>Financial community and individual shareholders</b>	<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 Équipementiers 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.

## 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.

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 (ERTAC), 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

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:

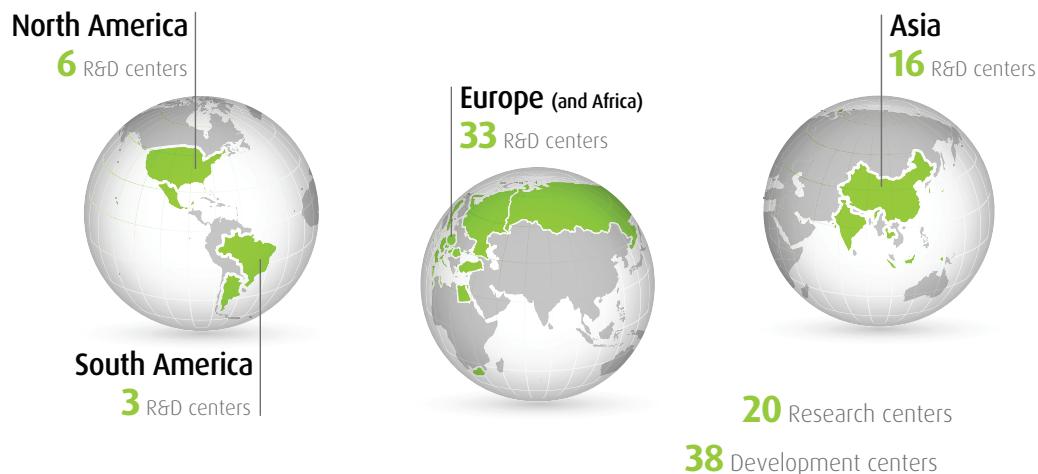
- powertrain electrification, which stems in large part from the following trends:
  - technologies contributing the reduction of emissions of greenhouse gases and other pollutants are enjoying growing demand from automakers as a means of complying with future legislation and avoiding financial penalties 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 (2016/2015)
Net Research and Development expenditure (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).

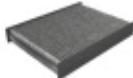
### Approach

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:

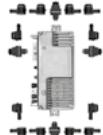
- reducing CO<sub>2</sub> and pollutant emissions (environmental dimension): products that directly or indirectly contribute to CO<sub>2</sub> emissions reduction accounted for more than 50% of Valeo's original equipment sales in 2016;
- driving assistance for a safer, more connected and more autonomous 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> 	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> 	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> 	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> 	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> 	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> 	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> 	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> 	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> 	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> 	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;

(1) See Sustainable Development Glossary, page 450.

(2) The recovery rate is defined as the sum of recycling and energy recovery rates.

- communicate on the standards and circulate them internally. The knowledge-sharing phase is key to Valeo's processes. Standards must be available in a single, global database (the PLM database), with training on these standards provided at Valeo Technical Institutes;
- verify that standards are properly implemented. The RAISE teams regularly visit sites to review project design. They do this to ensure that standards are applied correctly and to 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.

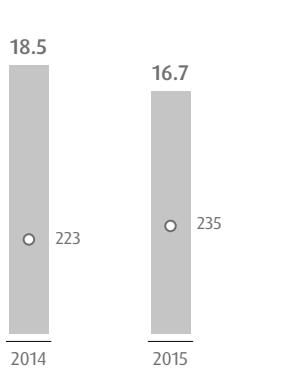
Valeo is working on gradually replacing these substances in response to consumer concerns about their presence in vehicles.

(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

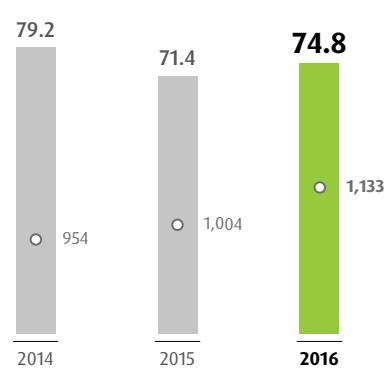
### Consumption of raw materials



■ Consumption of plastics and resins/Sales (metric tons/€m)  
○ Consumption of plastics and resins (thousands of metric tons)

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 metals/Sales (metric tons/€m)  
○ Consumption of metals (thousands of metric tons)

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.

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.

<sup>(1)</sup> 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.

<sup>(1)</sup> 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 Matinno 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

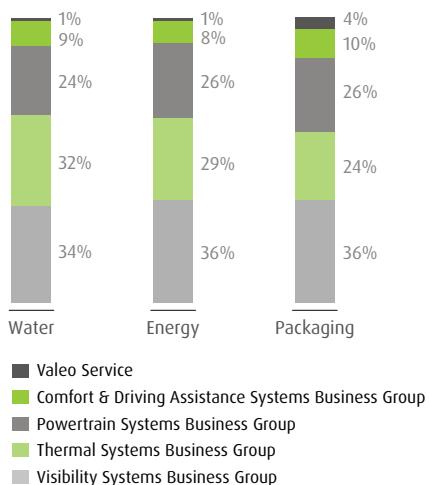
The industrial activities of the Group's sites differ in nature. The risks they pose to the environment accordingly vary as well. As part of its risk management policy, the RIE Department has mapped Valeo's industrial activities and identified the major emissions and consumptions of the Business Groups 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

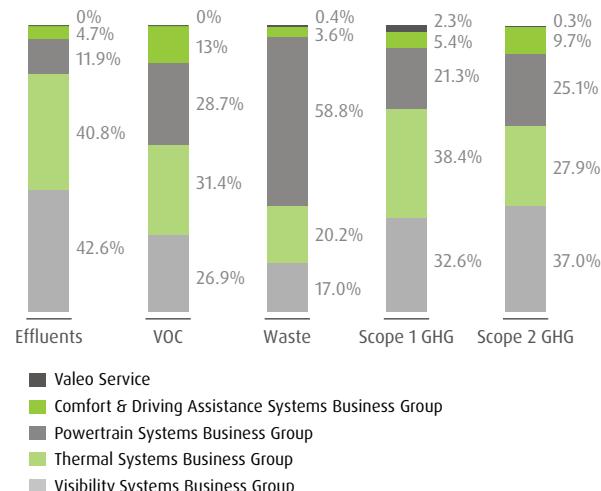
(1) See Sustainable Development Glossary, page 450.

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.

4

### Key environmental challenges for Valeo

Based on Valeo's challenges identified in the materiality analysis and the above mapping, they can be broken down by Business Group as follows:

Challenge/ Business Group	Comfort & Driving Assistance Systems Business Group	Powertrain Systems Business Group	Thermal Systems Business Group	Visibility Systems Business Group	Valeo Service
Energy and carbon efficiency of production		<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 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).

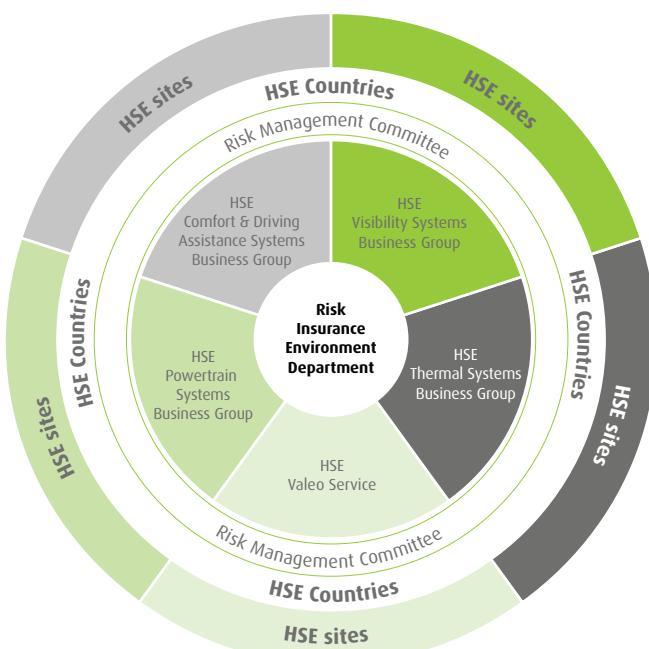
The Group pays close attention to shifts in its ratings from one year to the next, with a view to achieving continuous improvement in its environmental reporting. Valeo takes into account all the remarks of these agencies, and will pursue its efforts in respect of transparency further in 2017.

## 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;

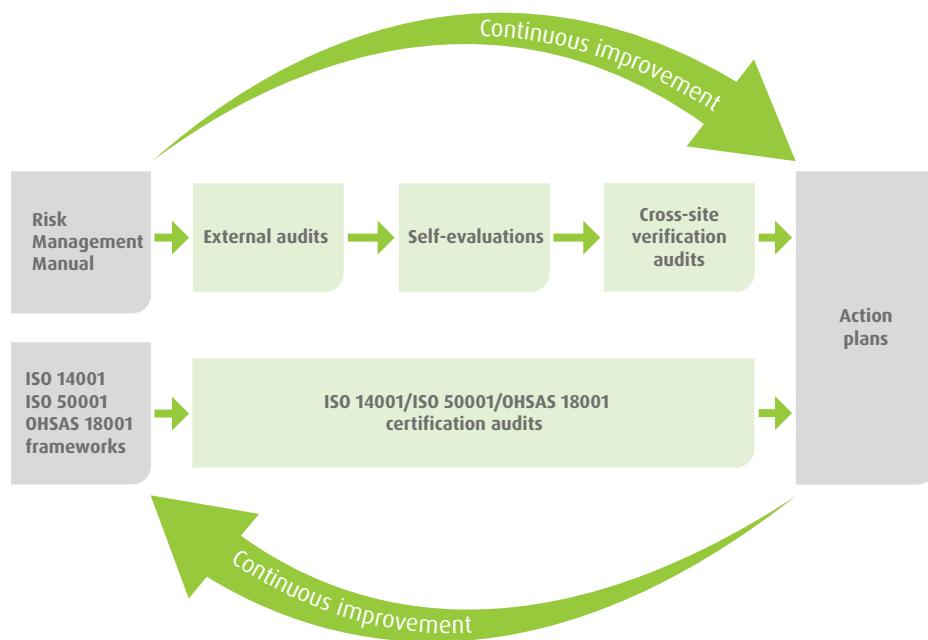
(1) See Sustainable Development Glossary, page 450.

- 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.

## 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

### 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

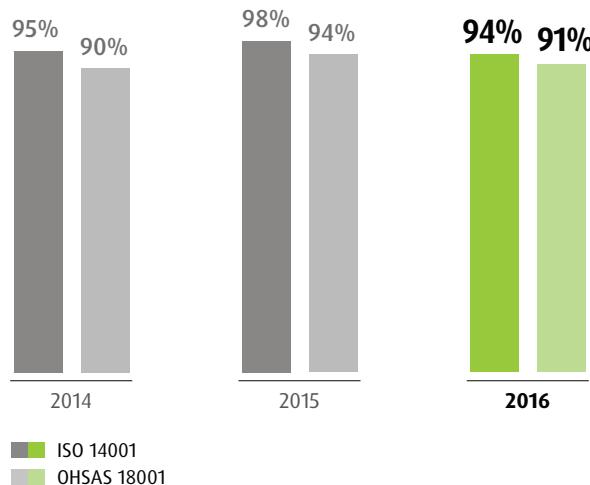
Valeo strives to follow up all complaints addressed to its sites on environmental issues. In 2016, seven complaints were registered across the Group as a whole; they related to noise and odors, as well as liquid and air emissions. The sites concerned are required to implement the appropriate measures.

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);
- Châtellerault (Visibility Systems, France);
- Mazamet (Visibility Systems, France);
- Sainte Florine (Powertrain Systems, France);
- Zebrak (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).

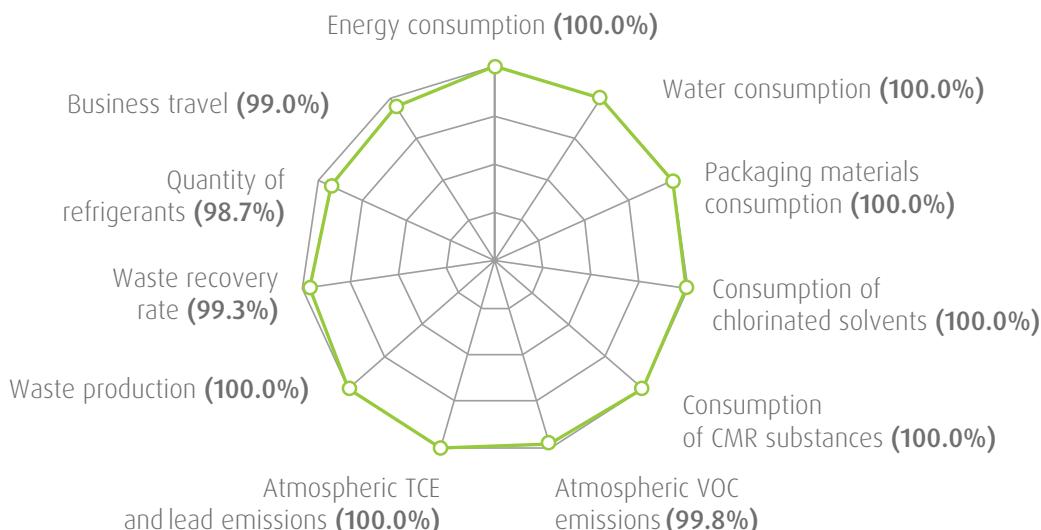
Responses from all sites are consolidated and undergo in-depth verification by an external service provider to ensure their quality. To ensure the highest possible reliability for the final indicator value, this verification includes questions asked to sites reporting significant year-on-year changes 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.

## ► RESPONSE RATES FOR MAIN INDICATORS IN 2016



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.

## 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 (base = 2015)	2015 results	2016 results	2016 results (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 (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:

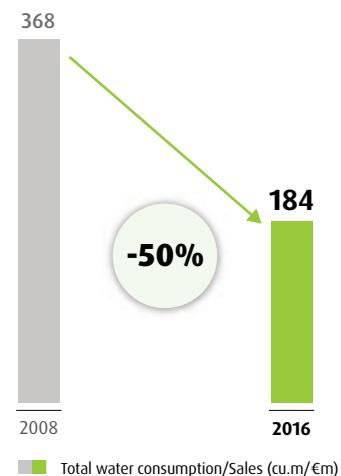
- first, the opening of new sites, which generate more waste during the start-up phase, and the development of new products at existing sites, which also generate more waste during the launch phase due to a higher reject rate than during a period of stabilized production;
- second, more accurate reporting 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.

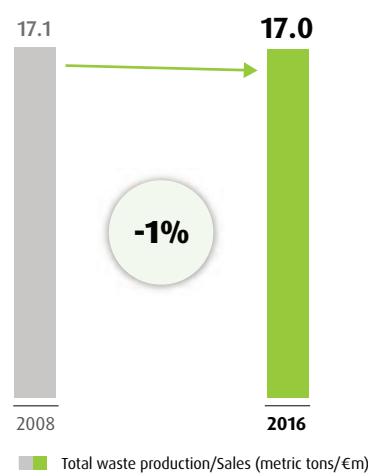
In line with its commitments, the Group pursued its ISO 50001 energy management certification target, bringing the number of ISO 50001 certified sites to 12% of the total at the end of 2016.

## Review of the 2008-2016 performance

### ► WATER CONSUMPTION



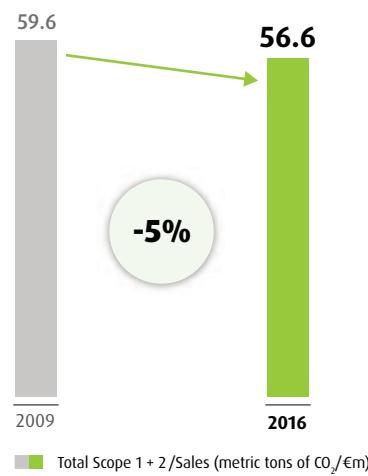
### ► WASTE PRODUCTION



### ► ENERGY CONSUMPTION



### ► DIRECT AND INDIRECT CO<sub>2</sub> EMISSIONS



### ► PACKAGING CONSUMPTION



■ Total packaging materials consumption/Sales (metric tons/€m)

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

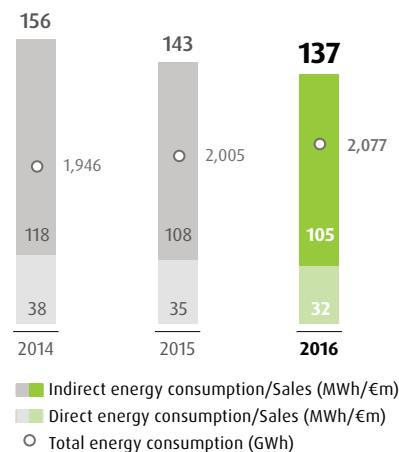
Valeo is working to reduce its energy consumption by implementing measures such as those described below in "Achievements during the year".

#### 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

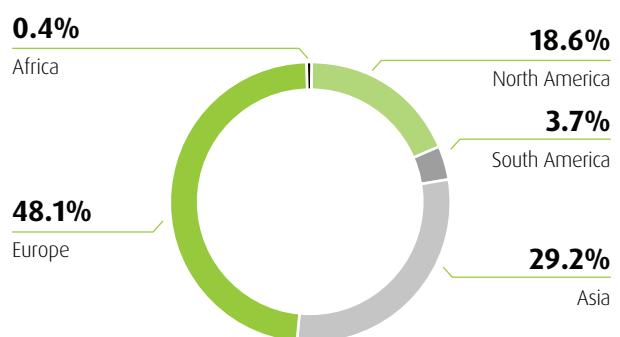


#### Analysis of the geographic breakdown of energy consumption

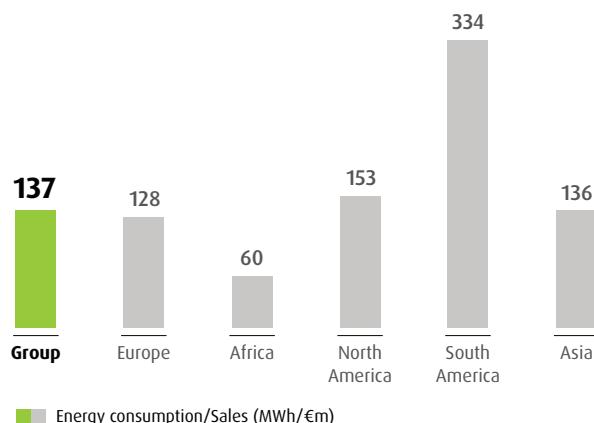
The Group's sites in Europe, Asia and North America account for 96% of total energy consumption. Energy consumption at Asian sites continued to increase in 2016, rising from 28% to 29% of sales.

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), Rakovnik (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.

(1) 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

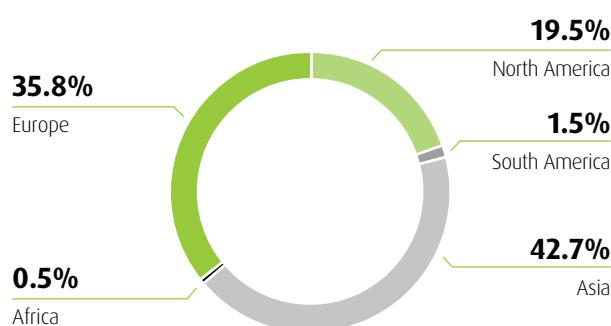
Indirect GHG emissions as a proportion of sales were virtually flat, with a 1.7% increase between 2015 and 2016.

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 (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>			
Materials (metals)	5,122	5,614	6,904 <sup>(1)</sup>
Materials (other)	3,250	3,416	4,274 <sup>(1)</sup>
<b>Emissions generated by upstream logistics:</b>			
Road/rail/maritime transportation	1,872	2,198	2,630 <sup>(1)</sup>
Air/express transportation	242	237	223
<b>Emissions generated by employee travel of which:</b>			
Road/rail/maritime transportation	157	174	106
Air/express transportation	85	63	117
<b>TOTAL OTHER INDIRECT EMISSIONS (kMt CO<sub>2</sub> eq)</b>	<b>125</b>	<b>139</b>	<b>169</b>
<b>TOTAL OTHER INDIRECT EMISSIONS/SALES (Mt CO<sub>2</sub> eq/€m)</b>	<b>97</b>	<b>108</b>	<b>136</b>
<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.

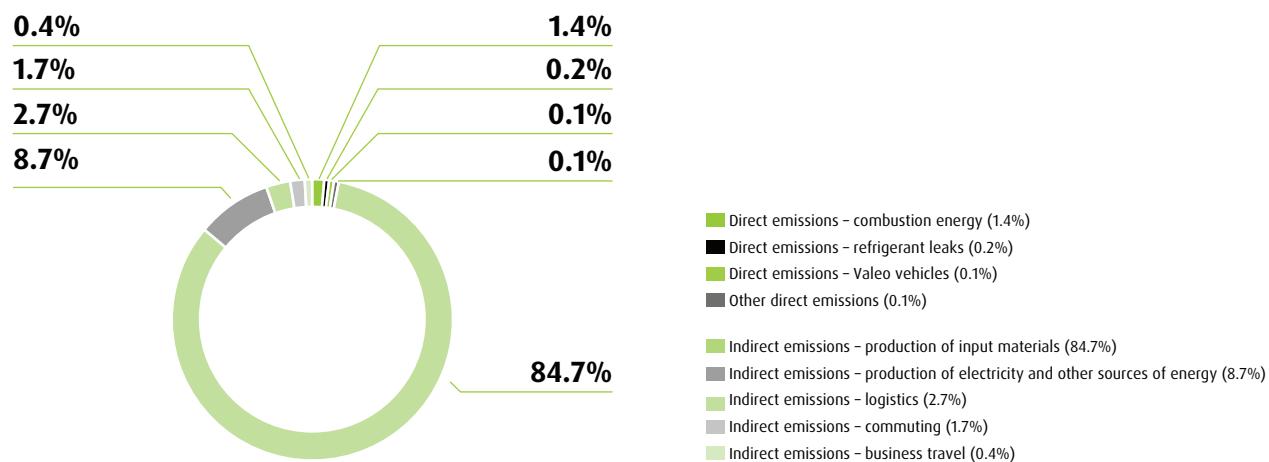
Scope 3 emissions as a proportion of sales increased by 13% between 2015 and 2016.

## 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.

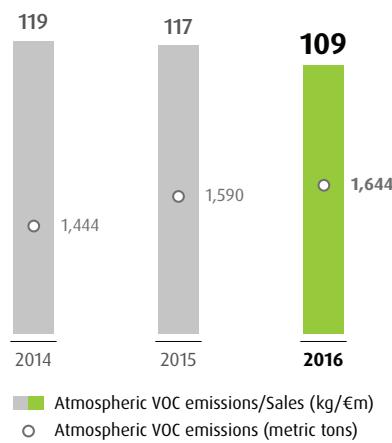
Each Valeo site assesses, particularly whenever any production processes are changed, potential ways of reducing atmospheric emissions of pollutants at source, focusing primarily on processes that do not require the installation of treatment facilities.

##### Performance

Valeo monitors emissions into the air of volatile organic compounds (VOCs), nitrogen oxides ( $\text{NO}_x$ ), lead (Pb) and trichlorethylene (TCE) resulting from its activities.

Emissions of sulfur oxides ( $\text{SO}_x$ ) are not monitored, as combustion equipment mainly uses natural gas, which does not emit sulfur oxides during combustion.

##### Atmospheric VOC emissions

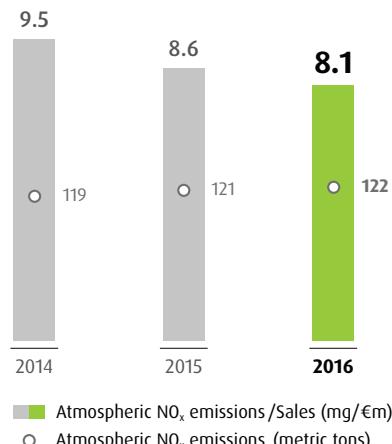


VOC emissions fell by a further 6.8% as a proportion of sales in 2016.

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 $\text{NO}_x$ 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

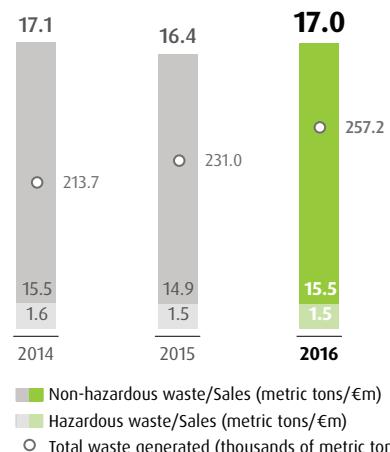
In 2016, the total amount of waste as a proportion of sales increased by 3.7% compared with 2015.

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



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>.

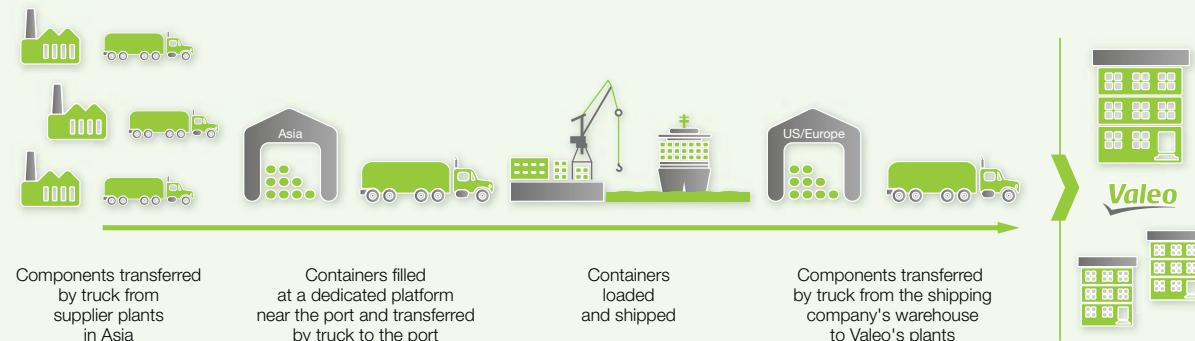
## Achievements during the year

### 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

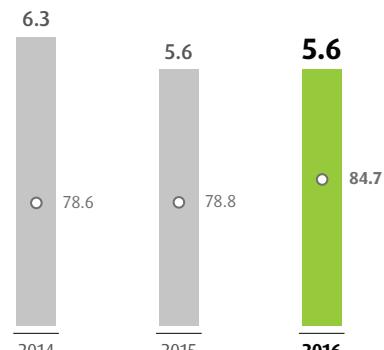
For several years, Valeo has worked to reduce its consumption of packaging materials in two main ways:

- 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



■ Total packaging materials consumption/Sales (metric tons/€m)  
○ Total packaging materials consumption (thousands of metric tons)

**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:

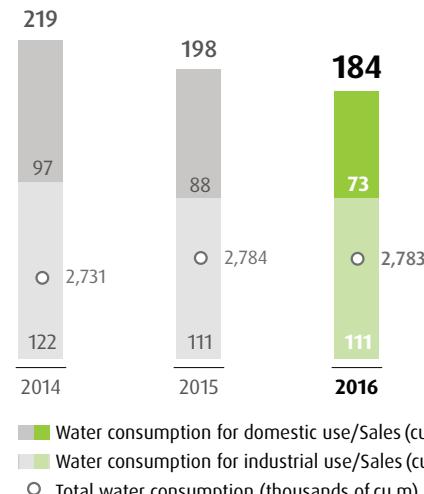
- drinking water,
- domestic use (if distinct from drinking water),
- industrial uses,
- fire uses;
- external drinking water supply wherever possible (preferably the public network);
- drinking water networks protected from contamination by other networks;
- the site performs monitoring of its water 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



■ Water consumption for domestic use/Sales (cu.m/€m)

■ Water consumption for industrial use/Sales (cu.m/€m)

○ Total water consumption (thousands of cu.m)

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.

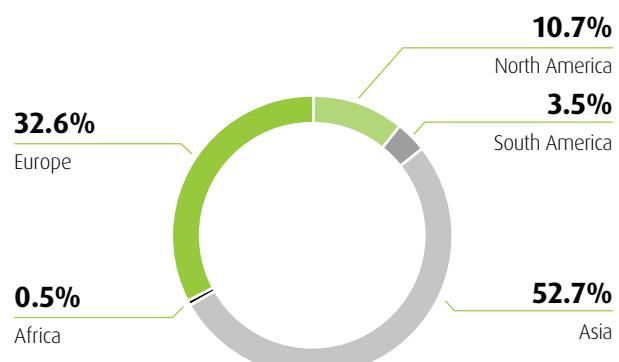
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#### Geographic breakdown of water consumption in 2016

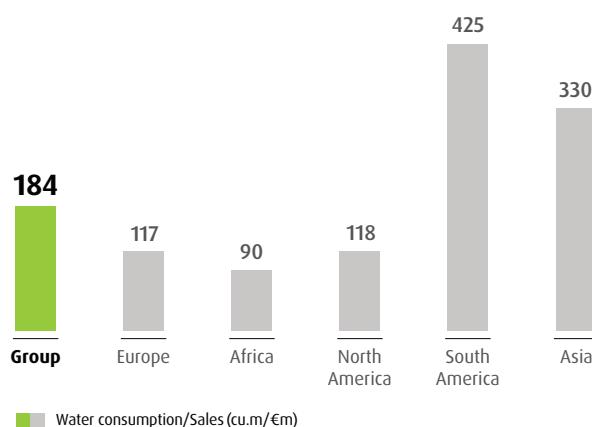
The Group's sites in Europe and Asia account for approximately 85% of its total water consumption. Water consumption as a proportion of sales at the Group's Asian and South American sites is markedly higher than in Africa, Europe and North America.

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.

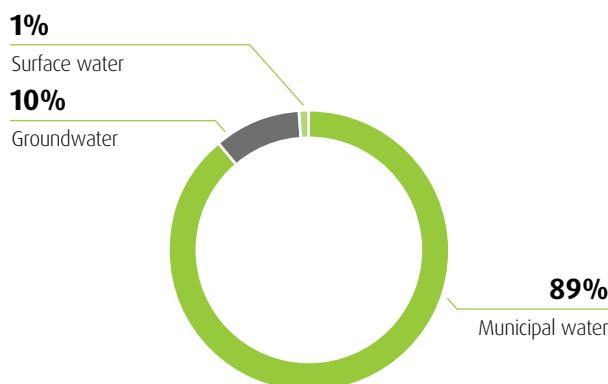
#### ► GEOGRAPHIC BREAKDOWN OF OVERALL WATER CONSUMPTION



► 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.

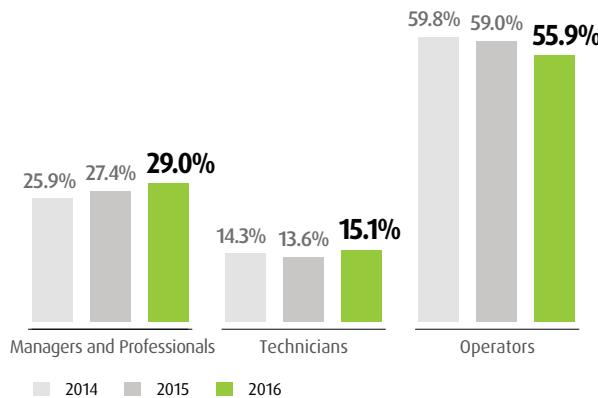
#### Approach and achievements during the year

<i>Headcount at December 31</i>	2014	2015	2016	Change (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)

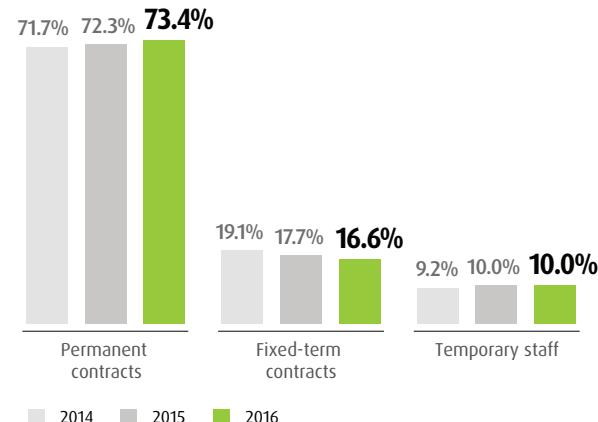


The increase in the proportion of managers and professionals in the Group's workforce to 29% at December 31, 2016 reflects Valeo's innovation efforts aimed at bringing new products and innovative solutions to market. This increase is chiefly attributable to the number of professionals working in Research 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.

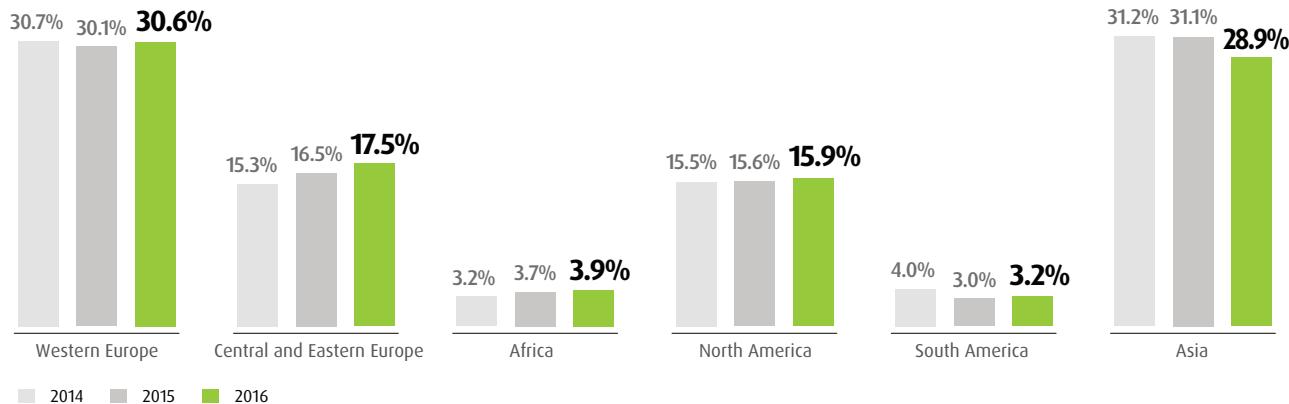
China accounts for two-thirds of the Group's workforce on fixed-term contracts, in line with the local practice of beginning careers with a renewable fixed-term contract before being offered a permanent contract.

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.

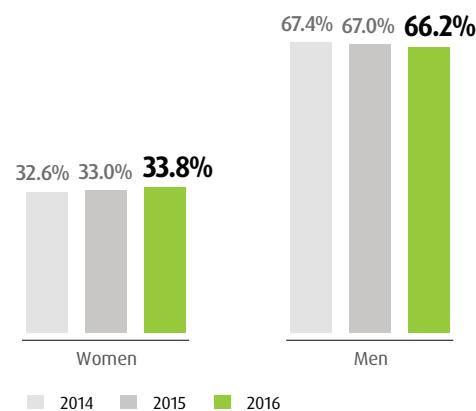
Valeo's Board of Directors has six women out of 14 members: Caroline Maury Devine, Sophie Dutordoir, Noëlle Lenoir, Ulrike Steinhorst, Mari-Noëlle Jégo-Laveissière and Véronique Weill. With women making up nearly 43% of its Board of Directors, Valeo has voluntarily chosen to go beyond statutory requirements.

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.

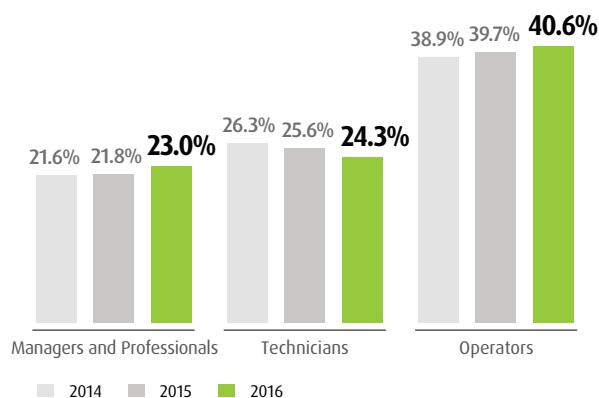
Thanks to the various on-site initiatives during the year, the proportion of women in Valeo's workforce increased in 2016.

### ► BREAKDOWN OF REGISTERED HEADCOUNT BY GENDER (2014-2016)



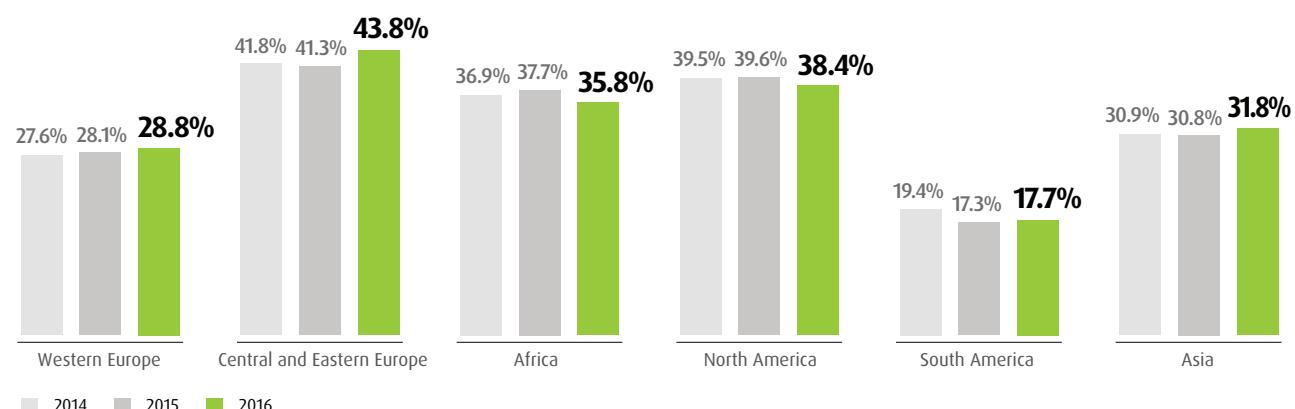
Between 2014 and 2016, the involvement of different institutions and the impetus given by the Group itself enabled Valeo to increase the number of women in its workforce (1.2 percentage point increase between 2014 and 2016).

### ► 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

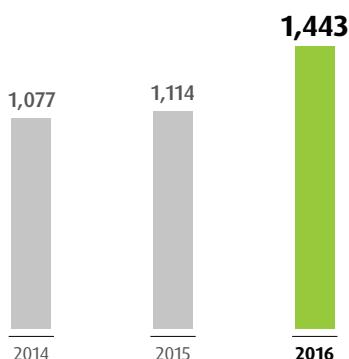
Promoting the employment of people with disabilities is a principle and a priority for the Group, as part of a process of equal access to employment and an approach designed to spur economic efficiency.

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.

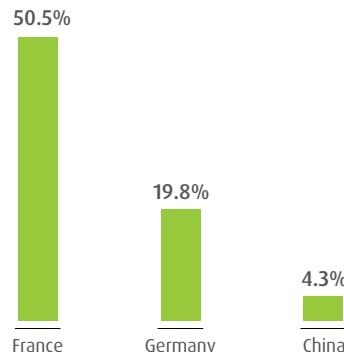
Through these actions, the number of people with disabilities employed by Valeo in its workforce worldwide has increased significantly:

### ► 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.

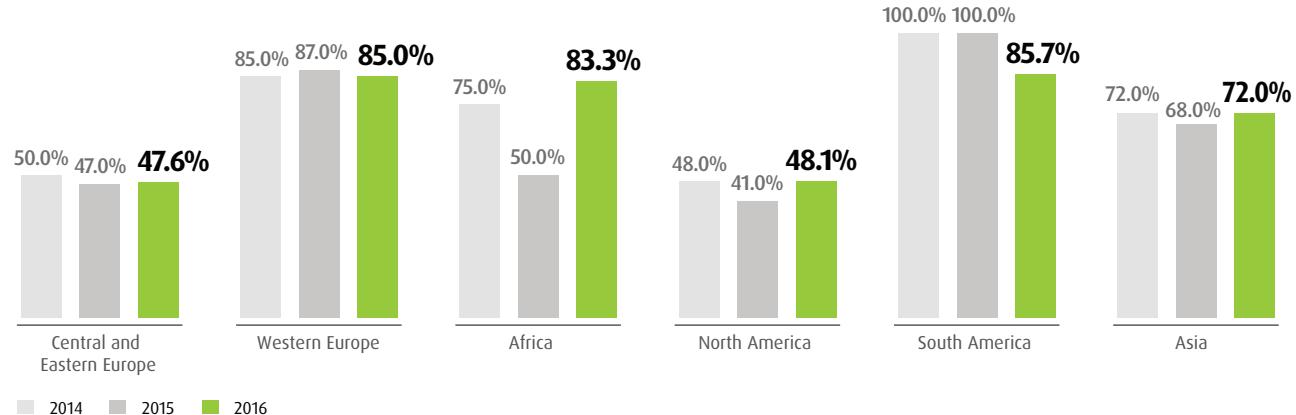
Valeo employees on international mobility have been employed in almost equal proportions by the Group for one to five years (25% of expatriates), six to ten years (24%) and 11 to 15 years (27%). They are followed by employees whose seniority is 16 to 20 years (16%), 21 to 25 years (6%) and over 25 years (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:

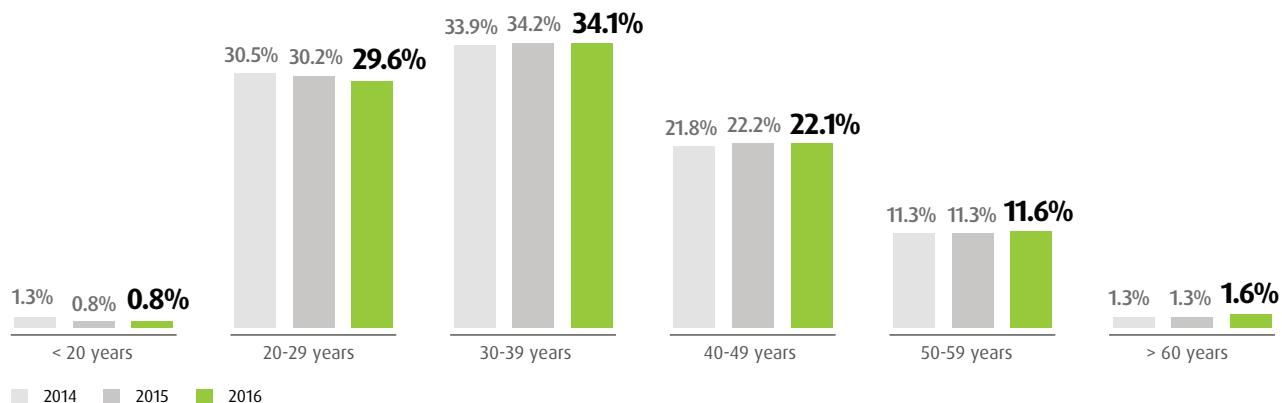
- 21 Valeo sites partnered with external organizations to promote generational diversity. Partnerships were formed with associations, schools and training centers;
- 93 sites held at least one event locally to promote generational diversity to mark the day of solidarity between generations in September. 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.

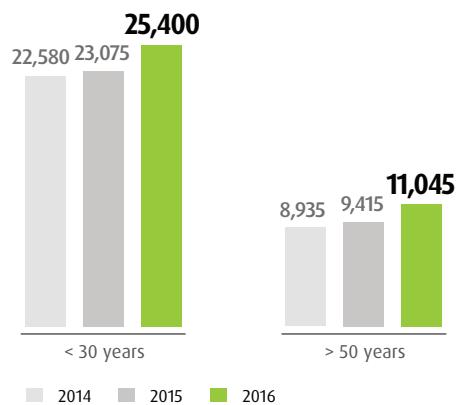
Valeo has 11,045 employees aged over 50 in its ranks worldwide, representing 13.2% of the workforce in 2016. This increase resulted from a favorable hiring policy that saw the Group hire 1,204 employees aged 50 and over in 2016.

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.

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.

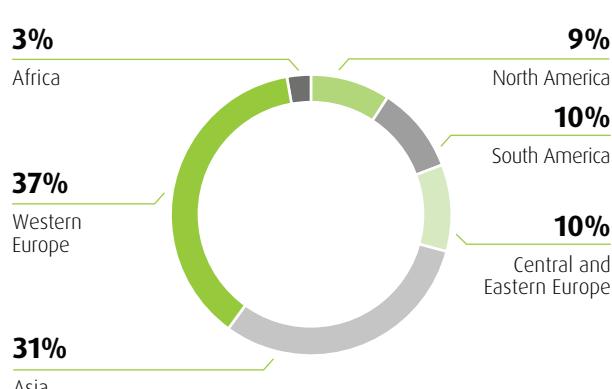
The topics covered by the highest number of agreements are wages and other compensation (35%), site working hours and competitiveness (32%) and health, safety and well-being at work (18%).

**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.

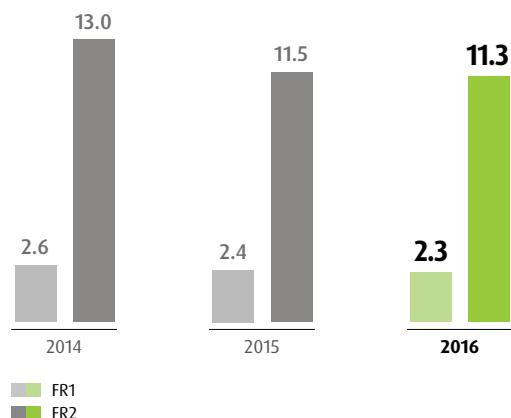
Three of the 20 key performance indicators reviewed periodically at all levels of the organization (Group, Business Group/Activity, site) relate to safety:

- 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)

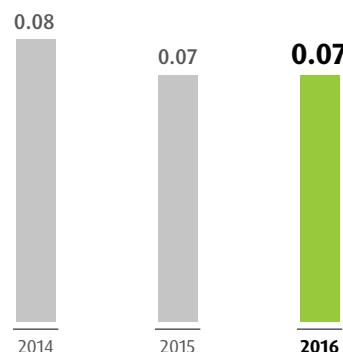


(1) Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year.

(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.

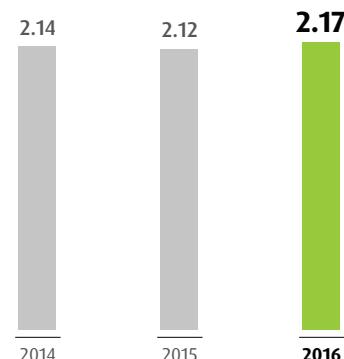
To improve prevention, new tools have been made available to reduce accidents. In addition to the guidelines mentioned above, e-learning modules are available in 18 languages on the three types of operations that cause the most serious accidents – lifting, electrical hazards and lockout procedures – 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' 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

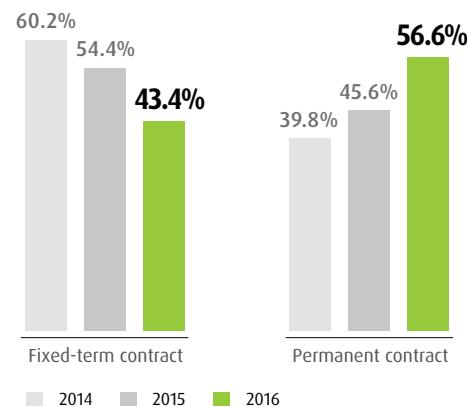
Valeo has developed a talent management policy to ensure the continuity and growth of its business, while constantly adapting to the needs of its customers worldwide. It allows the Group to drive its innovation efforts by supporting technological developments and bring new products and innovative solutions 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.

#### ► BREAKDOWN OF NEW HIRES BY CONTRACT TYPE (2014-2016)



#### 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.

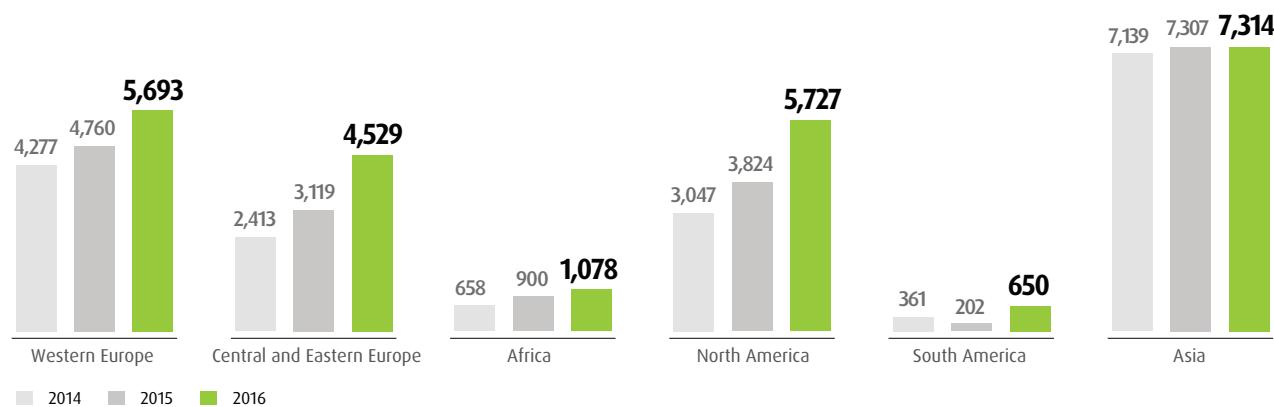
Valeo's success hinges on attracting top international talent in fast-growing markets and emerging countries, and in fields of advanced technology, such as CO<sub>2</sub> emissions reduction and intuitive driving technologies. Competent teams ensure that Valeo can offer its customers added-value support 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 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.

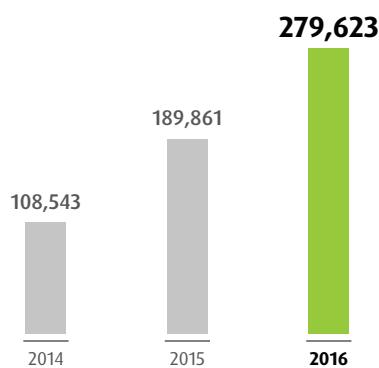
Similarly, the Group participates in various support programs aimed at integrating young people into the labor market, such as the YES program in China and the *Engagement-Jeunes* platform in France. The Group has also partnered with ShARE, an association that brings together students from the most prestigious 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* (JND), 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'Epargne 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

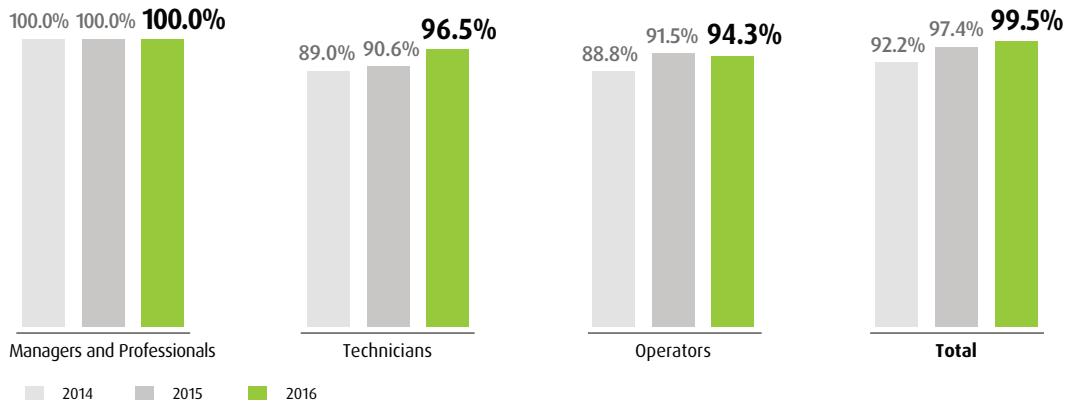
The Group has set out the following strategic objectives:

- 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)

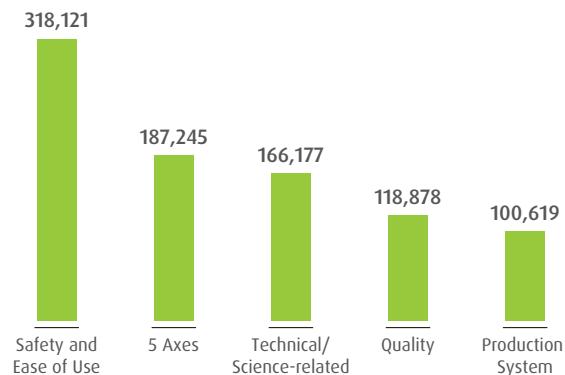


(1) Calculation of the ratio: all employees trained during the year (including those no longer in the Group)/Total headcount at end-December. This explains why the actual training rate for managers and professionals exceeds 100%, as certain managers and professionals trained during the year left in 2016.

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

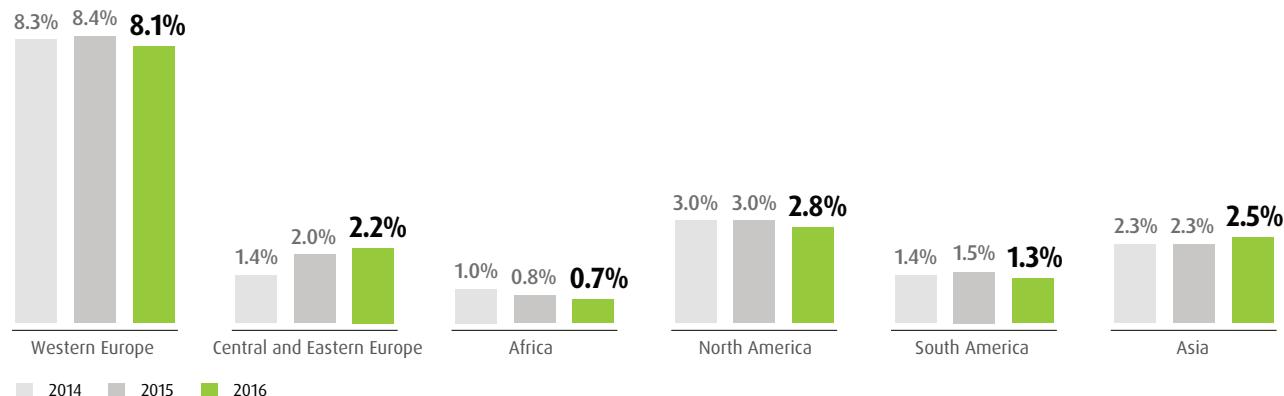
Each year, the Group appoints Experts to provide support for prospective new products and the development of industrial processes. In 2016, 161 new Experts were appointed in 16 countries. 66% of these appointments were in countries other than France. Moreover, the number of Experts in India (up 56% compared 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.

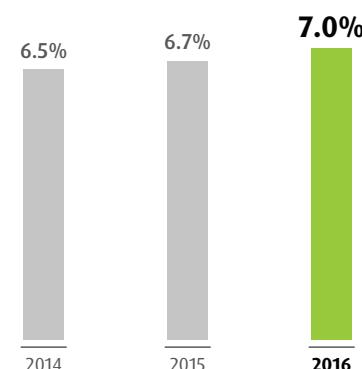
### Approach and achievements during the year

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%).

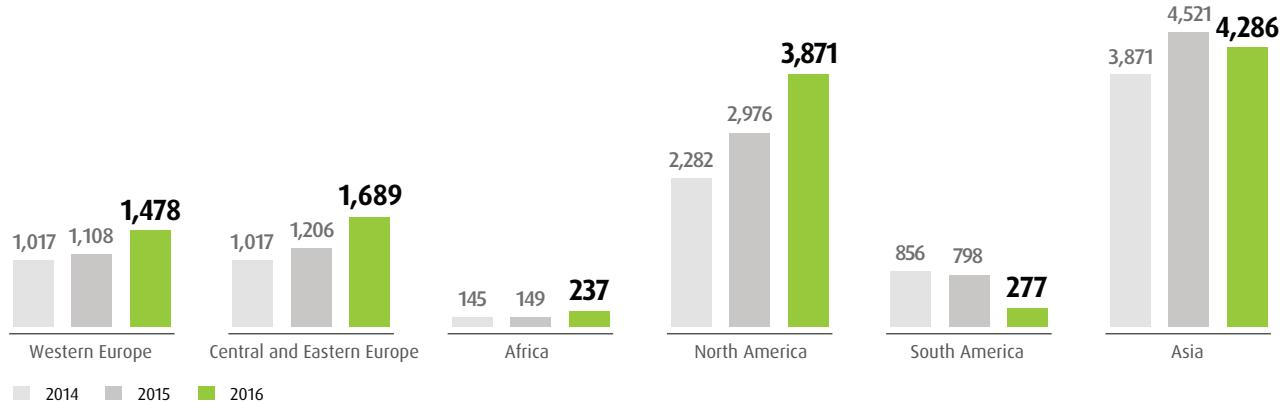
► VOLUNTARY TURNOVER OF MANAGERS AND PROFESSIONALS (2014-2016)



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.

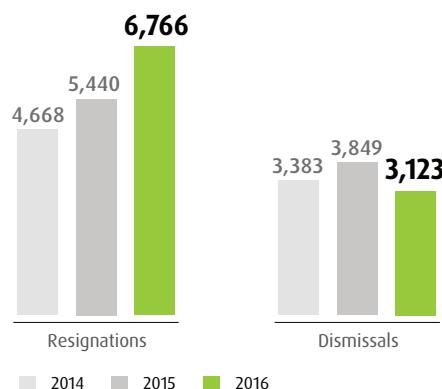
## ► BREAKDOWN OF TURNOVER BY GEOGRAPHIC AREA (2014-2016)



## ► 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 FMEA – 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.

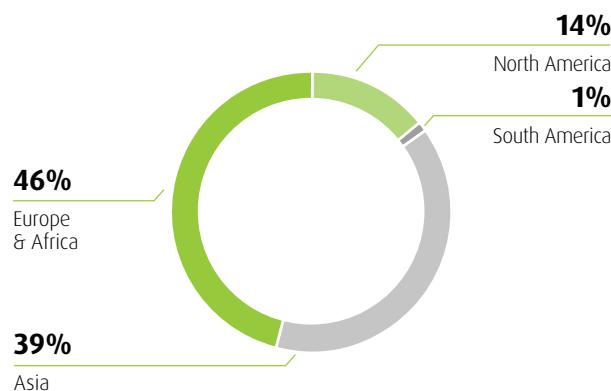
Therefore, since 2010, Valeo has created a special dialog on this issue with certain customers, based on the:

- 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:

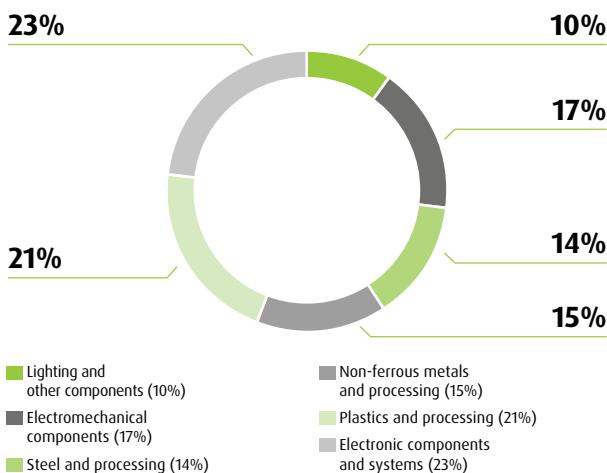
- reduce transportation-related CO<sub>2</sub> emissions;
- support local employment by developing competences;

- 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.

<sup>(1)</sup> 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.

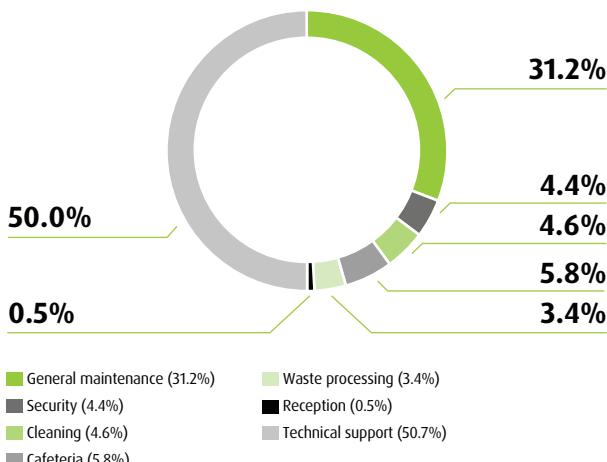
### ► BREAKDOWN OF PURCHASES BY COMMODITY



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.

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(1) The tier corresponds to the automotive supplier's position relative to the automakers. Thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

## 4.5.4 Availability of replacement products

### Challenges and approach

As a player in the aftermarket through Valeo Service, and with its strong presence in emerging countries, the Group's positioning is based on its determination to market products at the best price, over and above its multiproduct, multiregion and multichannel strategy, without compromising the environment.

Valeo Service is described at greater length in Chapter 1, section 1.3.5 "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 ERTRAC, the European Commission technology platform (see section 4.2.4 of this chapter, "European Road Transport Research Advisory Council (ERTRAC)", 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 Local government 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.

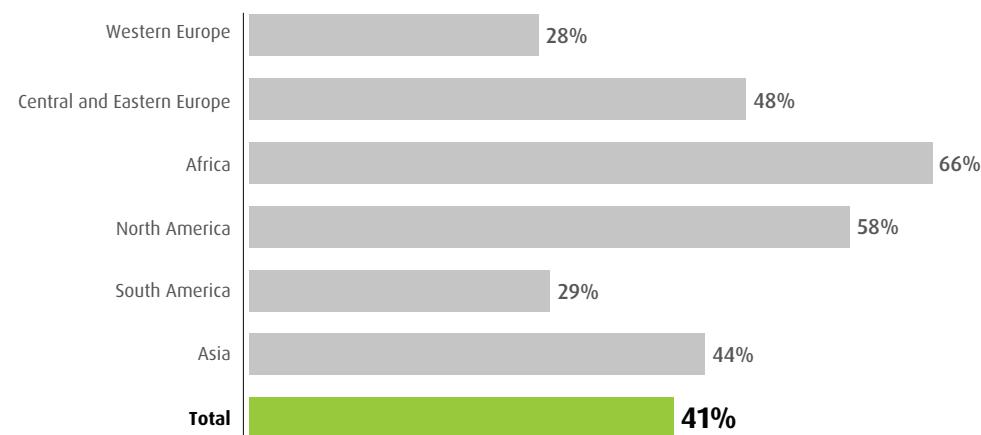
Valeo has a policy of encouraging its sites to take responsibility and to support local initiatives around the world. Each site organizes local plant initiatives which reflect locally identified needs. With the assistance of the site Human Resources managers, the site managers decide on actions that 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 *ValeoOnline 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.

#### ► 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.

### 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.

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 Odyssea 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.

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## 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 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 4.1.3.3 – Risks and opportunities related to the impacts of climate change	162 166
<b>ORGANIZATIONAL PROFILE</b>				
G4-3	● Name of the organization	-	7.1.1 – Company name and headquarters	428
G4-4	● Primary brands, products and services	-	1.3 – Businesses	45
G4-5	● Headquarters	-	7.1.1 – Company name and headquarters	428
G4-6	● Countries where the organization operates and which are specifically relevant to the sustainability topic covered in the report	-	7.2 – Information on subsidiaries and affiliates	431
G4-7	● Ownership and legal form	-	7.1.2 – Legal structure and governing law 6.6.1 – Changes in share capital	428 417
G4-8	● Markets served (geographic breakdown, sectors served and types of customers and beneficiaries)	-	1.1.1 – Key figures in 2015 1.3 – Businesses	6 45
G4-9	● Scale of the organization (number of employees, locations)	I. a) 1	1.1.1 – Key figures in 2015 1.3 – Businesses 4.4.1 – Total headcount 4.3.1 – Industrial mapping	6 45 212 186
G4-10	● Breakdown of employees by employment type, employment contract, region and gender	I. a) 1	4.4.1 – Total headcount and breakdown of employees by gender, age and geographic area	212
G4-11	● Percentage of total employees covered by collective bargaining agreements	I. c) 1	4.4.1.4 – Organization of labor relations	219
G4-12	● Description of the organization's supply chain	III. c) 2	4.1.4 – Valeo, a responsible partner 4.5.3 – Application of sustainable development principles in purchasing processes	169 240
G4-13	● Significant changes during the reporting period	-	1.2.1 – History and development of the Group 5.1.4 – Investments during the year 6.4 – Share ownership	33 277 406
G4-14	● Precautionary principle and actions in this area	II a) 4 II b) 1 II b) 2	4.3.1 – Resources devoted to the prevention of environmental risks and pollution 4.2.3 – Resources, materials and eco-design 4.3.3 – Discharges and waste 4.5.1 – Total quality and product safety	195 177 202 236
G4-15	● External charters, principles and initiatives to which the Group subscribes	II a) 1	4 – Interview with Jacques Aschenbroich 4.4.2 – Personal safety	160 221
G4-16	● Membership of associations and/or advocacy organizations	II a) 1	4.1.4 – Valeo, a key driver of a sustainable automotive industry 4.5.5 – Public and regulatory policies	169 246

### IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES

Legend:

General elements of information that are part of the core reporting option are in bold.

● Full indicator.

● Partial indicator.

○ Indicator not applied.

GRI code	Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
G4-17	● List of entities included in the consolidated financial statements and list of those not included in the report	-	4.6.1 – Sustainable development reporting methodology	250
G4-18	● Process for defining report content	-	4.1.1 – Sustainable development challenges at Valeo	162
G4-19	● List of material aspects	-	4.1.1 – Sustainable development challenges at Valeo	162
G4-20	● Boundary of each material aspect within the organization	-	4.2.1 – Valeo's Research and Development policy 4.3.1 – Environmental policy 4.4 – Valeo and its employees 4.5 – Commitment to corporate citizenship	170 186 212 236
G4-21	● Boundary of each material aspect outside the organization	-	4.2.1 – Valeo's Research and Development policy 4.3.1 – Environmental policy 4.4 – Valeo and its employees 4.5 – Commitment to corporate citizenship	170 186 212 236
G4-22	● Restatements of information provided in previous reports	-	4.3.2 – Reducing greenhouse gas emissions (scope 1, scope 2)	199
G4-23	● Changes in the scope and aspect boundaries	-	No substantial changes were observed in 2015	-
<b>STAKEHOLDER ENGAGEMENT</b>				
G4-24	● List of stakeholders	III. b) 1	4.1.4 – A sustainable development policy based on strong relationships with stakeholders	168
G4-25	● Basis for the identification and selection of stakeholders	III. b) 1	4.1.4 – A multi-stakeholder approach	168
G4-26	● Stakeholder engagement	III. b) 1	4.1.4 – Types of dialog with stakeholders	168
G4-27	● Topics raised through stakeholder engagement and how the organization has responded	III. b) 1	4.1.4 – Types of dialog with stakeholders	168
<b>REPORT PROFILE</b>				
G4-28	● Reporting period	-	4.6.1 – Sustainable development reporting methodology	250
G4-29	● Date of most recent previous report	-	03/27/2015	
G4-30	● Reporting cycle	-	4.6.1 – Sustainable development reporting methodology	250
G4-31	● Contact person	-	6.2 – Investor relations	404
G4-32	● "In accordance" option chosen and GRI G4 index	-	4.1.5 – Methodology 4.6.2 – Cross-reference with national and international guidelines	169 253
G4-33	● Independent verifier's report	-	4.8 – Independent verifier's report on consolidated social, environmental and societal information presented in the management report	265

## Legend:

General elements of information that are part of the core reporting option are in bold.

 Full indicator.

 Partial indicator.

 Indicator not applied.

GRI code	Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
<b>GOVERNANCE AND COMMITMENTS</b>				
G4-34	● Governance structure	II a) 1	4.1.2 – Sustainable development governance and structure 3 – Corporate governance	163
G4-35	● Process for delegating authority for economic, environmental and social topics from the Board of Directors to senior executives and other employees	II a) 1	1.2.2 – Operational excellence	34
G4-36	● Senior executives responsible for economic, environmental and social issues, and relationship with the Board of Directors	II a) 1	4.1.2 – Sustainable development governance and structure	163
G4-37	● Stakeholder consultation by the Board of Directors	III b) 1	7.1.10 – Shareholders' Meetings	429
G4-38	● Composition of the Board of Directors and its committees	-	3.2 – Composition of the Board of Directors, and preparation and organization of its work	96
G4-39	● Independence of the Chairman of the Board of Directors	-	3.2.1 – Composition of the Board of Directors	96
G4-40	● Nomination and selection processes for the Board of Directors and its specialized committees, and the experience and expertise of its members	-	3.2.1 – Composition of the Board of Directors 3.2.2 – Preparation and organization of the Board of Directors' work	96 116
G4-41	● Process established by the Board of Directors to avoid and manage conflicts of interest; disclosure of conflicts of interest to stakeholders	-	3.2.3 – Declarations concerning the Group's corporate officers	130
G4-42	● Role of the Board of Directors and senior management in the development, approval and update of the purpose, values or mission statements, strategies, policies and goals relating to economic, environmental and social impacts	II a) 1	-	-
G4-43	● Measures taken to develop and improve the collective knowledge of the Board of Directors on economic, environmental and social impacts	-	-	-
G4-44	● Evaluation of the Board of Directors on economic, environmental and social topics	-	4.1.2 – Review of the sustainable development policy by the Appointments, Compensation & Governance Committee	163
G4-45	● Role of the Board in the identification and management of economic, environmental and social impacts, risks and opportunities	II a) 1	3.2.2 – Preparation and organization of the Board of Directors' work	116
G4-46	● Role of the Board of Directors in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	II a) 1	3.2.2 – Preparation and organization of the Board of Directors' work	116
G4-47	● Frequency of reviews of economic, environmental and social impacts, risks and opportunities by the Board of Directors	II a) 1	3.2.2 – Preparation and organization of the Board of Directors' work	116
G4-48	● Committee or highest-level position that formally reviews and approves the sustainable development report	II a) 1	4 – The Sustainable Development Report is an integral part of the Management Report, reviewed and approved by the Board of Directors	-

## Legend:

General elements of information that are part of the core reporting option are in bold.

 Full indicator.

 Partial indicator.

 Indicator not applied.

GRI code	Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
G4-49	● Process for communicating critical concerns to the Board of Directors	III b) 1	7.1.10 – Shareholders' Meetings	429
G4-50	○ Nature and total number of critical concerns communicated to the Board of Directors and the mechanism used to address and resolve them	-	-	-
G4-51	● Compensation policy of the members of the Board of Directors and senior executives; relationship between compensation and performance (including labor-related and environmental performance)	I. a) 3	3.3 – Compensation of corporate officers	138
G4-52	● Process of determining compensation and participation in compensation committees	-	3.3 – Compensation of corporate officers 3.2.2 – Preparation and organization of the Board of Directors' work	138 116
G4-53	● Method used to seek and take into account the views of stakeholders on compensation	III b) 1	7.1.10 – Shareholders' Meetings	429
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	-	-

**INNOVATION****Material aspect: autonomous and connected vehicle and low-carbon mobility solutions**

G4-DMA	● Management approach	II c) 3 II d) 1 II d) 2	4.2.2 – Solutions that contribute to CO <sub>2</sub> emissions reduction and to autonomous and intuitive driving	175
G4-EN7	● Reduction in energy requirements of products and services	II c) 3	4.2.2 – Summary of the main innovations and their impacts	175

**MATERIAL ASPECT: RESOURCES, MATERIALS AND ECO-DESIGN**

G4-DMA	● Management approach	II b) 2 II c) 2	4.2.3 – Resources, materials and eco-design	177
G4-EN2	● Percentage of materials used that are recycled input materials (packaging only)	II c) 2	4.2.3 – Resources, materials and eco-design	177
G4-EN27	● Extent of mitigation of environmental impacts of products and services	II b) 2 II c) 2	4.2.3 – Consumption of raw materials 4.2.3 – Consumption of chemicals 4.2.3 – Percentage of materials used that are recycled input materials	180 180
G4-EN28	● Percentage of products sold and their packaging materials that are reclaimed by category	II b) 2 II c) 2	4.3.4 – Packaging	208

**Material aspect: partnership approach to Research and Development**

G4-DMA	● Management approach	III b) 2	4.2.4 – A partnership approach to Research and Development	181
G4-EC8	● Significant indirect economic impacts, including extent of impacts	III b) 2	4.2.4 – Valeo, an actor in the governance of institutional collaborative organizations 4.2.4 – Multifaceted academic partnerships	182

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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 Grenelle 2	Chapters/Sections	Pages
<b>ENVIRONMENTAL ECO-EFFICIENCY</b>				
<b>Material aspect: energy and greenhouse gas emissions</b>				
G4-DMA	● Management approach	II c) 3.1 II c) 3.2	4.3.1 – Valeo's environmental management organization 4.3.1 – ISO 50001 certification 4.3.2 – Reducing energy consumption 4.3.2 – Reducing greenhouse gas emissions	186 191 196 199
G4-EN3	● Direct energy consumption by primary energy source	II c) 3.1	4.3.2 – Total energy consumption by energy source and by geographic area	196
G4-EN4	● Indirect energy consumption by primary energy source	II c) 3.1	4.3.2 – Total Indirect energy consumption	196
G4-EN5	● Energy intensity	II c) 3.1	4.3.2 – Energy intensity in MWh/€m	196
G4-EN6	● Reduction of energy consumption	II c) 3.2	4.3.2 – Reduction of energy intensity	196
G4-EN15	● Direct greenhouse gas emissions (Scope 1)	II d) 1	4.3.2 – Scope 1 greenhouse gas emissions	199
G4-EN16	● Energy indirect greenhouse gas emissions (Scope 2)	II d) 1	4.3.2 – Scope 2 greenhouse gas emissions	199
G4-EN17	● Other indirect greenhouse gas emissions (Scope 3)	II d) 1	4.3.2 – Scope 3 greenhouse gas emissions	200
G4-EN18	● Greenhouse gas emissions intensity	II d) 1	4.3.2 – Greenhouse gas emissions per million euros of sales	200
G4-EN19	● Reduction of greenhouse gas emissions	II d) 1	4.3.2 – The Group's carbon footprint	201
<b>Material aspect: waste and discharges</b>				
G4-DMA	● Management approach	II.b) 1	4.3.3 – Discharges and waste 4.3.3 – Prevention of air emissions – Approach 4.3.3 – Prevention of discharges into the soil – Approach 4.3.3 – Waste – Approach	202 202 203 204
G4-EN20	● Emissions of ozone-depleting substances (ODS)	II.b) 1	4.3.3 – CFC and HCFC emissions	203
G4-EN21	● Emissions of nitrogen oxides (NO <sub>x</sub> ) and sulfur oxides (SO <sub>x</sub> ) and other significant air emissions	II.b) 1	4.3.3 – Atmospheric VOC emissions 4.3.3 – Atmospheric of NO <sub>x</sub> emissions	202 202
G4-EN22	● Total water discharge by quality and destination	II.b) 1	4.3.5 – Total water discharge by sites	209
G4-EN23	● Total weight of waste by type and disposal method	II.b) 2	4.3.3 – Total quantities of waste generated, characteristics of waste and percentage of waste recycled	205
G4-EN24	● Total number and volume of significant spills	II.b) 1	4.3.3 – Prevention of discharges into the soil – Performance	203
G4-EN25	● Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention	II.b) 2	4.3.3 – Amount of hazardous waste generated, amount of recovered waste and waste exported	204
<b>Material aspect: transportation and logistics</b>				
G4-DMA	● Management approach	II.c) 3 II.d) 1	4.3.4 – Transportation and Logistics – Approach and performance 4.3.4 – Packaging – Approach	206 208

## 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 Grenelle 2	Chapters/Sections	Pages
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 II.d) 1	4.3.2 – Greenhouse gas emissions related to logistics 4.3.2 – Greenhouse gas emissions related to business travel	200 200
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>				
G4-DMA	● Management approach	II e) 1	4.3.6 – Biodiversity	211
G4-EN11	● Operational sites owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	II e) 1 II c) 4	4.3.6 – Sites located in or near protected areas	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	
<b>EMPLOYEES</b>				
<b>Material aspect: health, safety and working conditions</b>				
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 4.4.2 – Absenteeism rate for the Group and by geographic area 4.4.2 – Breakdown of absences by reason (including occupational illnesses) and by geographic area	222 222 222
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

*Legend:**General elements of information that are part of the core reporting option are in bold.*

● Full indicator.

● Partial indicator.

○ Indicator not applied.

GRI code	Description of the indicator	Art. 225 Grenelle 2	Chapters/Sections	Pages
<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 4.4.3 – Employer brand 4.4.3 – Training	227 226 230
G4-LA1	● Total number and rates of new employee hires and employee turnover by age group, gender and region	I. a) 1.2 I. a) 1.3 I. a) 1.4 I. a) 2.1 I. a) 2.2	4.4.3 – Attracting talent 4.4.3 – Retaining talent	225 233
G4-LA9	● Average hours of training per year, per employee, by gender and by employee category	I. e) 2	4.4.3 – Training 4.4.3 – Breakdown of employees trained	230 231
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 I. f) 2 I. f) 3	4.4.1 – Diversity 4.4.1 – Disability diversity 4.4.1 – Generational diversity 4.4.1 – Cultural and social diversity	214 216 217 216
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 I. f) 2 I. a) 1	4.4.1 – Percentage of women on the Board and the Operations Committee 4.4.1 – Breakdown of women by socio-professional category 4.4.1 – Breakdown of women by geographic area 4.5.1 – Proportion of employees with disabilities in the world and in France 4.4.1 – Breakdown of registered headcount by gender	215 215 215 216 215
<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 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 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-SO9	● 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-SO4	● 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 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-SO6	● 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 III a) 2	4.5.6 – Local management	247
G4-SO1	● 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 4.5.5 – Proportion of sites that held an open day	247 248
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

	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 accordance 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.

(1) 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).

(2) 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

