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SUSTAINABLE DEVELOPMENT

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INTERVIEW



“OUR RECRUITMENT
OF NEW SKILLS
MATCHES THE
FOCUSES OF OUR
RESEARCH”
JACQUES ASCHENBROICH

JACQUES ASCHENBROICH
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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 CO₂ 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 such, innovations⁽¹⁾ accounted for 50% of order intake in 2016 and 2017. In addition, products that directly or indirectly contribute to reducing CO₂ emissions accounted for more than 50% of Valeo’s original equipment sales in 2017.

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 pervades 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 department dedicated to sustainable development. Its role within the Group is to define the sustainable development policy and coordinate work in this area. Outside the Group, it is tasked with ensuring the consistency of the messages shared with external stakeholders, be they our customers or analysts that monitor our performance in this area, all of which are becoming increasingly discerning. Other Group functions, including Research and Development, Risk Insurance, Health, Safety and Environment, Human Resources, Ethics and Compliance, and Purchasing, also make a direct contribution to sustainable development in their respective fields, and have developed their own tools for taking action and assessing performance.

Our sustainable development policy also reflects our desire to assess and satisfy the demands of our employees, customers, suppliers and shareholders, as well as national and international regulators and supervisory bodies.

(1) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.

WHAT WERE THE HIGHLIGHTS OF 2017?

J.A. Building on what we've achieved in previous years, we have pursued our ambition to contribute to sustainable mobility. We have intensified our efforts and investments in Research and Development to develop new products and new solutions. In 2017, investments of this nature accounted for 12% of our original equipment sales. Further enhancing our portfolio of products and solutions, the joint venture created with Siemens in December 2016 enables Valeo to deliver innovative components and systems for high-voltage electrification, which will be strategic for the future.

For the environment, Valeo pursued its strategy and objectives in terms of reducing natural resource consumption and reining in CO₂ emissions. Since 2008, Valeo has significantly reduced consumption (as a proportion of sales) of water (by 52%), energy (by 33%) and packaging (by 27%). Direct and indirect CO₂ emissions (as a proportion of sales) have been cut by 7% compared with 2009.

As regards employees, health and safety at work remain a priority. To accelerate our commitment in this area, I wanted Valeo to set an ambitious medium-term goal of reducing lost-time accidents, bringing the frequency rate to less than two accidents per million hours worked by 2020. This goal is consistent with the preventive actions carried out at all of the Group's sites.

In terms of attracting and recruiting talent, as part of our aim to recruit 6,000 new employees a year over the next five years, the Group has set up recruitment structures in our key operating countries. Today, 70% of our countries have teams dedicated exclusively to hiring and to promoting the Group. Our recruitment of new skills matches the focuses of our research on autonomous vehicles, powertrain electrification and digital mobility.

To tie social dialog in with the Group's sustainable development policy, Valeo renewed the CSR⁽¹⁾ agreement signed with them in 2016. This step was combined with an extensive training program on the topic for all site management teams and employee representatives in 30 of the Group's main countries. In 2017, Valeo provided all representatives of employees and related parties on all Group sites with a booklet listing the labor-related and social indicators monitored by General Management. Group-wide discussion sessions were held on the subject, underpinning our transparent approach to labor relations.

With regard to the Group's commitment to corporate citizenship, 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 2017, each site organized at least one such

initiative, with priority going to ideas for schools, technology institutes and universities. Initiatives in this area are monitored closely by the Group, and are improving and flourishing.

In 2017, Valeo continued its program to undertake an in-depth assessment of suppliers in terms of sustainable development, carrying out specific audits of its main suppliers of electronic components around the world. These suppliers are set to take on greater importance in the Group's purchasing value chain as a result of an increasing proportion of electronics in Valeo's products.

WHAT ARE THE CHALLENGES FOR THE COMING YEARS?

J.A. Valeo's commitment to sustainable development is enduring, and will be strengthened going forward.

Valeo is a key partner in dialog between stakeholders in the French automotive industry, the first sector to have begun such a vast undertaking. This dialog, which openly addresses all issues concerning automotive mobility with representatives from civil society and environmental organizations, allows our sector to engage with external stakeholders and to better adapt technological solutions to new mobility challenges.

Valeo is also committed to continuous improvement of its sustainable development initiatives, based in large part on the analysis criteria used by non-financial rating agencies.

At the Davos Summit in Switzerland in January 2018, Corporate Knights⁽²⁾ named Valeo third in its list of the global 100 listed companies and by far the leader in the automotive industry.

As in 2016, Valeo saw its non-financial performance recognized in 2017, enabling it to maintain its position as world leader among automotive suppliers in the RobecoSAM ranking and keep its spot in the DJSI World and Europe indices⁽³⁾.

In 2017, Valeo was also awarded the top prize covering all categories at the Grand Prix for Transparency for its financial and non-financial information by the major Paris-based financial market associations, thereby ranking first among the 120 largest listed companies on the Paris stock market (SBF 120). The prize recognizes the importance placed by Valeo on the rigor, relevance, transparency and ease of access to regulated financial and non-financial information aimed at investors, shareholders and analysts.

Our stakeholders' attachment to these rankings encourages us to continue our commitment to sustainable development.

March 29, 2018

(1) Corporate social responsibility.

(2) Canada-based group specializing in services for financial markets professionals and in economic and financial news, with a special focus on sustainable development issues.

(3) Dow Jones Sustainability Index (DJSI World and DJSI Europe).



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 carried out a materiality analysis to:

- enable stakeholders to better comprehend their interactions with Valeo;
- give its Research and Development (R&D), 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:

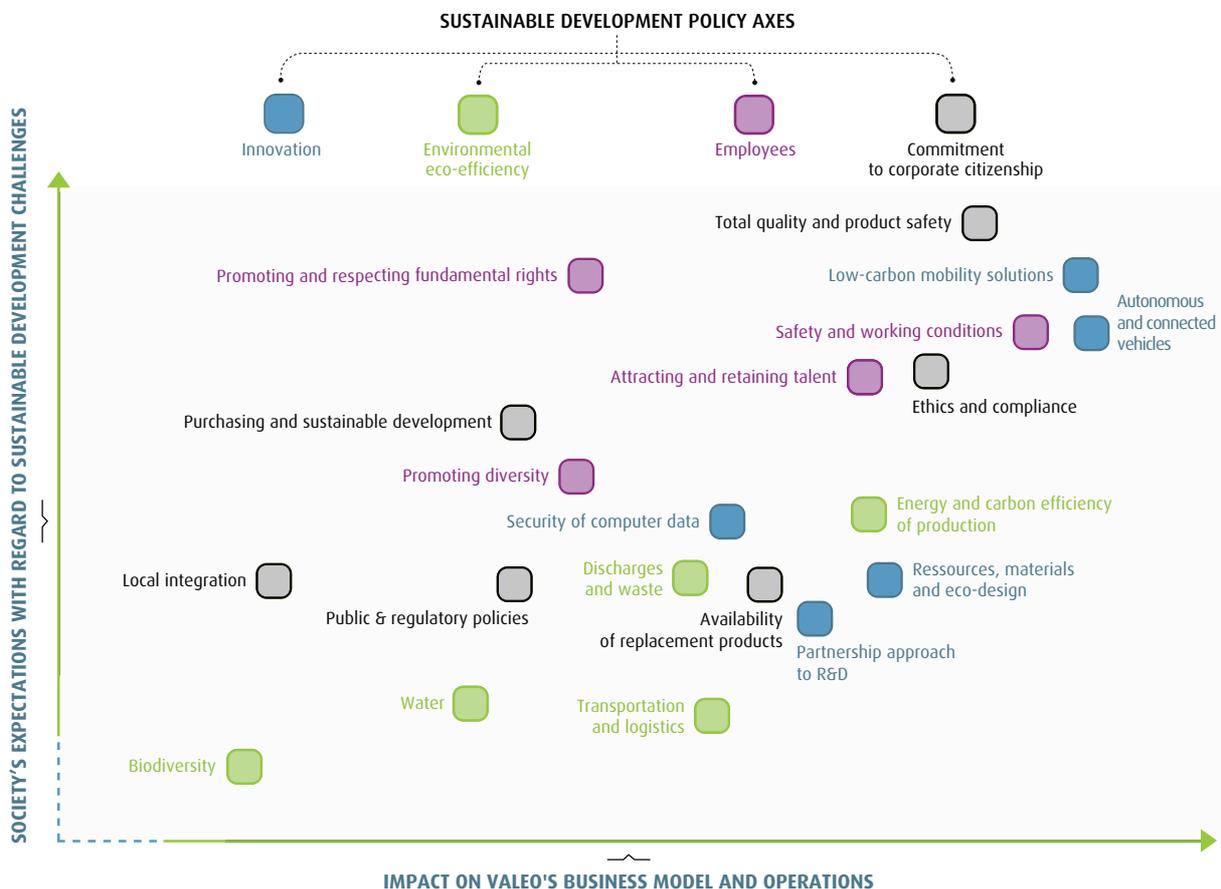
- a series of interviews with Valeo’s various departments (Purchasing, Health, Safety and Environment (HSE), Research and Development, Human Resources, Sales and Business Development) and country management teams;
- a documentary review (non-financial questionnaires, survey results, etc.);
- specific 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 have been identified. This chapter describes the relevance, approach, performance, and achievements of the year and outlook for each of these challenges. It provides a description of all key sustainable development performance indicators and the main tools used within the Group.

In 2017, Valeo submitted its materiality matrix to be thoroughly examined by 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 led Valeo to modify some of the challenges relating to the employee axis compared with 2016 by:

- introducing the “Promoting and respecting fundamental rights” challenge;
- replacing the “Attractiveness and talent development” and “Diversity” challenges with the “Attracting and retaining talent” and “Promoting diversity” challenges.

► MATERIALITY MATRIX PLOTTING THE SUSTAINABLE DEVELOPMENT CHALLENGES



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 departments. It ensures the appropriate level of interface between the Group and external stakeholders in order to satisfy their growing requirements. The Human Resources, Health, Safety and Environment (HSE), Ethics and Compliance, and Research and Development departments and the Operational Departments (Purchasing, Quality and Industrial) all contribute to Valeo's sustainable development policy.

A committee of the Board of Directors in charge of corporate social responsibility

With a view to improving governance, the Appointments, Compensation & Governance Committee was split into two separate committees on January 26, 2017:

- a Compensation Committee;
- a Governance, Appointments & Corporate Social Responsibility Committee.

The Governance, Appointments & Corporate Social Responsibility Committee has been given the following responsibilities:

- reviewing the thrusts relating to the Group's corporate social responsibility policy;
- identifying corporate social responsibility objectives and challenges;
- verifying the achievement of previously defined objectives;
- overseeing the gradual and increasing implementation of the corporate social responsibility policy, and assessing the Group's contribution to sustainable development;
- working with the Audit & Risks Committee, taking note of the risks related to corporate social responsibility challenges and staying informed regarding the resources available to the Group in pursuing its strategy in this area.

To strengthen control of the Group's sustainable development performance, which by nature concerns all Group functions, the Governance, Appointments & Corporate Social Responsibility Committee held a joint interview with the Group Vice-President, Sustainable Development and External Relations and the Group Senior Vice-President, Human Resources in January 2017.

The interview was an opportunity to:

- validate the main lines of action regarding:
 - product lifecycle management and consideration of eco-responsible products obtained thanks to an eco-efficient industrial footprint,
 - health and safety at work, development of human capital, labor relations and corporate social responsibility, development of a healthy work environment, ethics, diversity and respect for individual and collective rights;
- review achievements during the year relating to:
 - the Group's response to customer demands concerning sustainable development,
 - the deployment of sustainable development principles in the purchasing policy,
 - integration and solidarity initiatives with the communities of the cities and regions where Valeo operates;
- assess priority actions in all of the topics reviewed in the short and medium term.

4.1.3 Non-financial risks AFR

Valeo has carried out an analysis of its non-financial risks, in compliance with the French legal framework, to improve the transparency of its non-financial reporting. Since 2017, greater emphasis has been placed on non-financial aspects including risks related to ethics, child labor and human rights. The Group was keen to adopt new tools developed by actors in the non-financial sphere.

As part of the process of updating its risk factors, in 2017 Valeo began analyzing and identifying the non-financial risks to which the Group is exposed. This work was an extension of the approach undertaken in 2016 to identify risks related to the effects of climate change.

Non-financial risks: identification, analysis and definition

In 2017, the Risk Management and Sustainable Development and External Relations departments worked together to identify, analyze and define non-financial risks. Starting from a comparison of the Group's risk map (whose risk factors are set out in Chapter 2, section 2.1 "Risk factors", pages 72 to 85 with a **CSR** symbol when referring to non-financial challenges) with Valeo's materiality matrix, prepared in consultation with the Group's stakeholders (presented in section 4.1.1 of this chapter, "Sustainable development challenges", page 170), Valeo sought to identify and analyze the potential risks relating to the challenges in the matrix. The analysis conducted in 2017 also took into account change in the French legal framework and the risks associated with corruption⁽¹⁾, serious violations of human rights and fundamental freedoms, and threats to personal health and safety and the environment⁽²⁾. (see section 4.1.4 of this chapter, "Valeo's duty of care plan", pages 176 to 177).

The challenges not covered by the risk map were subject to initial analysis in 2017, which will be presented to the Group Risks Committee in 2018. Depending on the Risk Committee's requirements, additional analyses may be carried out in 2018, resulting in changes to the Group's risk map. The findings of this work will be included in the 2018 Registration Document.

Risks and opportunities related to the impacts of climate change

Valeo has chosen to present the possible effects of climate change on its business in a low-carbon scenario, in line with new legal provisions relating to the disclosure of financial risks related to the effects of climate change⁽³⁾.

In 2009, Valeo drew up a strategy aimed primarily at positioning the Group on technologies that reduce CO₂ emissions and promote autonomous and connected mobility (see the "Strategy" section of the Integrated Report, paragraph "The three automotive revolutions, offering Valeo new growth opportunities", page 14). This strategic choice aims to enable the Group to seize the opportunities offered by the mass-market penetration of technologies promoting low-carbon mobility.

In this scenario, Valeo has identified three main items, which may equally prove to be risks or opportunities:

1. changes in regulations governing reductions in greenhouse gas emissions;
2. change in consumer behavior;
3. intensification of natural events.

Further assessments will be carried out in 2018, drawing on tools developed as part of international methodological guidelines for addressing this type of risk⁽⁴⁾, particularly following the publication of the final recommendations of the Task Force on Climate-related Financial Disclosures. This international working group, which brings together experts from major business sectors, banks and rating agencies, has proposed a methodological framework for reporting risks and opportunities related to climate change. It was established at the initiative of the Financial Stability Board⁽⁵⁾.

(1) Law no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization.

(2) Law no. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.

(3) Article L.225-100-1 of the French Commercial Code.

(4) Including CDP Climate Change, a non-financial questionnaire assessing the transparency and performance of the sustainable development of enterprises, organizations and other bodies, which has developed one of the leading methodologies for monitoring risks and opportunities related to climate change.

(5) Established as a forum in 1999 at the initiative of the G7, the Financial Stability Board (FSB) was institutionalized by the G20 Heads of State at the 2009 London Summit. Its main purpose is to strengthen the international coordination of reform in respect of financial regulations. To this end, the FSB monitors the implementation of such reforms, notably through mutual assessments, by promoting cooperation between authorities and assessing financial sector vulnerabilities, including vulnerabilities to climate change.

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 (see Chapter 2, section 2.1.1 "Risks relating to the development and launch of new products", page 73).

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, for many years Valeo has had dedicated teams by product and by country who 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 ability to anticipate such changes has enabled the Group to become an expert in vehicle hybridization (micro-, mild-, full-, plug-in hybrid) and as such to offer technological solutions essential to powertrain electrification and battery thermal management (see the "Strategy" section of the Integrated Report, paragraph "The three automotive revolutions, offering Valeo new growth opportunities", page 14). Thus, products that directly or indirectly contribute to reducing CO₂ emissions accounted for more than 50% of Valeo's original equipment sales in 2017.

Changes in consumer behavior

Climate change, increasing urbanization in many countries, the determination of consumers and the development of regulations to reduce CO₂ emissions are prompting greater demand for new types of vehicles (hybrid, electric, etc.) and new forms of vehicle use (shared mobility, on-demand mobility, etc.).

Valeo has placed new forms of mobility at the heart of its strategy of developing new low-carbon, autonomous and connected products and mobility systems.

This strategy has led in particular to the development and, gradually, marketing of innovative low-carbon solutions such as the 48 V mild-hybrid system for light electric vehicles (see section 4.2.2 of this chapter, "The 48 V powertrain system for light electric vehicles", pages 187 to 188) and high-voltage electric technology under the Valeo-Siemens joint venture.

Furthermore, the Projects and R&D management teams constantly monitor the Group's innovation capacity in this area.

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 the preventive measures described in Chapter 2, section 2.1.1 "Environmental or accidental risks", page 78.

4.1.4 Sustainable development policy in the Group's business AFR

General sustainable development policy

Valeo's sustainable development approach is based on:

- the Valeo 5 Axes;
- the Code of Ethics;
- Valeo Business Partner Code of Conduct.

Building on these commitments, Valeo's sustainable development policy is built on four key priorities, the achievements of which are described in this chapter:

- innovation;
- environmental eco-efficiency of solutions and products;
- employees;
- commitment to corporate citizenship.

VALEO'S COMMITMENT TO THE CIRCULAR ECONOMY

The Group has made a commitment to the circular economy⁽¹⁾ in the following two areas:

- waste prevention and management in respect of specific waste recycling campaigns related to the production process (see section 4.3.3 of this chapter, "Discharges and waste", pages 211 to 215), or reuse of packaging materials (see section 4.3.4 of this chapter, "Packaging", pages 216 to 217), 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", page 189). As Valeo is exclusively dedicated to the design, manufacture and sale of automotive parts, initiatives to reduce food waste are not included in its environmental and corporate citizenship initiatives;
- sustainable use of resources, with policies and action plans in terms of:
 - water consumption and water supply (see section 4.3.5 of this chapter, "Water", pages 217 to 219),
 - consumption of raw materials and using them more efficiently (see section 4.2.3 of this chapter, "Resources, materials and eco-design", pages 189 to 192),
 - energy consumption and increased energy efficiency, and use of renewable energies (see section 4.3.2 of this chapter, "Reducing energy consumption", pages 207 to 209).

Measuring the Group's overall sustainable development performance

Valeo has implemented tools to measure its performance in terms of its labor-related, environmental and social responsibility, as well as compliance with competition law and the fight against corporate corruption.

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 following performance chart sets out the Group's main objectives and key performance indicators.

The objectives, which reflect the Group's priorities, have been formalized in a collaborative approach in partnership with the departments concerned and in line with the results of the materiality analysis.

⁽¹⁾ This information on the commitment to the circular economy is provided in accordance with decree no. 2016-1138 of August 19, 2016 issued for the application of Article L.225-102-1 of the French Commercial Code on environmental disclosures in companies' management reports.

► **PERFORMANCE CHART SHOWING THE KEY OBJECTIVES AND PERFORMANCE INDICATORS OF THE GROUP'S SUSTAINABLE DEVELOPMENT POLICY**

AXES	CHALLENGES	KEY INDICATORS	UNIT	2015 RESULTS	2016 RESULTS	2017 RESULTS	TARGETS (2020)
 INNOVATION	Low-carbon mobility solutions/ Autonomous and connected vehicles	■ Share of innovative products in order intake ⁽¹⁾	■ % of order intake	37%	50%	50%	>40%
		■ Share of products contributing to the reduction of CO ₂ emissions (as a % of sales)	■ as a % of sales	N/A	50%	50%	N/A
 ENVIRONMENTAL ECO-EFFICIENCY	Energy and carbon efficiency of production	■ Energy consumption (divided by sales)	■ MWh/€m	143	137 (-4% ⁽²⁾)	134 (-6% ⁽²⁾)	132 (-8% ⁽²⁾)
		■ Direct (scope 1) and indirect (scope 2) emissions (divided by sales)	■ Mt CO ₂ /€m	56.3	56.6 (+0.5% ⁽²⁾)	55.6 (-1% ⁽²⁾)	51.8 (-8% ⁽²⁾)
		■ ISO 50001 certification (energy management) of sites	■ % of sites	8%	12%	13%	20%
	Discharges and waste	■ Production of hazardous and non-hazardous waste (divided by sales)	Mt/€m	16.4	17.0 (+4% ⁽²⁾)	16.6 (+1% ⁽²⁾)	15.6 (-5% ⁽²⁾)
Water	■ Water consumption (divided by sales)	cu.m/€m	198	184 (-7% ⁽²⁾)	175 (-12% ⁽²⁾)	186 (-6% ⁽²⁾)	
 EMPLOYEES	Safety and working conditions	■ Frequency rate of occupational accidents with lost time (FR1)	Number of lost-time accidents/million hours worked	2.4	2.3	2.0	<2
	Attracting and retaining talent	■ Voluntary turnover of managers and professionals	% of the M&P workforce	6.7%	7.0%	7.3%	≤7%
	Promoting and respecting fundamental rights	■ Share of employees who acknowledged receipt of the Code of Ethics and who were trained on its content	% of total workforce	N/A	95.0%	95.0% ⁽³⁾	100%
	Promoting diversity	■ Share of women in new hires during the year	% of new hires during the year	32.4%	31.2%	32.0%	>33%
 COMMITMENT TO CORPORATE CITIZENSHIP	Purchasing and sustainable development	■ Share of production purchases for which the suppliers' sustainable development practices were assessed during the year	% of the amount of purchases	60%	63%	67%	80%
	Local integration	■ Organization of initiatives and events by the Valeo sites with the elementary and secondary schools in the regions where they operate	% of sites	N/A	N/A	48%	80%

(1) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.

(2) Change compared with 2015.

(3) 100% not yet achieved, mainly due to the integration phase following recent external growth transactions.

Valeo has set quantitative targets for 2020 for the “environmental eco-efficiency”, “employees” and “commitment to corporate citizenship” axes mentioned above. Those bearing on the “employees” and “commitment to corporate citizenship” commitments were formalized for the first time in 2017.

For the “innovation” commitment, the Group has not set a target for the “share of products contributing to the reduction of CO₂ emissions in the Group's sales” indicator (see the above chart).

This is because of the ongoing diversification of Valeo's product portfolio, in line with the current and future growth of products inspired by the two other automotive industry revolutions identified by Valeo, namely the autonomous vehicle and digital mobility, for which reducing CO₂ emissions is not a decisive factor (see section 4.2.1 of this chapter, “From analysis of megatrends to the vehicle concept of tomorrow”, pages 181 to 182).

Valeo's duty of care plan

In accordance with the provisions of the law on the duty of care of ordering companies⁽¹⁾, in 2017 Valeo drew up a duty of care plan covering the subsidiaries, subcontractors and suppliers with which the Group has business relations.

The duty of care plan is the fruit of joint work of the various departments (Internal Audit and Control Department, Legal Department, Ethics and Compliance Office, Purchasing Department, Health, Safety and Environment Department and Human Resources Department) concerned, coordinated by the Sustainable Development and External Relations Department.

In compliance with the French legal framework, Valeo's 2017 reporting describes its duty of care plan, namely⁽²⁾:

- the Group's risk mapping and non-financial risk analysis conducted in 2017 (see above), which include the provisions of the duty of care law (human rights and fundamental freedoms, personal health and safety and serious threats to the environment);
- the procedure for evaluating the situation of subsidiaries, subcontractors and suppliers;
- measures to mitigate risks or prevent serious threats;
- whistleblowing and reporting mechanisms concerning the existence or occurrence of risks.

A follow-up report setting out the measures implemented and assessing their effectiveness will be presented in the 2018 Registration Document.

Identification and definition of risks

Particular attention was paid to the duty of care during interviews and various information reviews conducted as part of Valeo's extensive work to map non-financial risks following the transposition of the 2014 European Directive⁽³⁾ on the publication of non-financial information. Gathering information served to improve the identification and definition of risks, classified based on their criticality and their possible existence prior to the introduction of the duty of care law, in the risk map.

Drawing on this analysis, Valeo has drafted an action plan, the details of which are given below (see this section, "Initiatives to mitigate risks or prevent serious threats", pages 176 to 177).

Regular assessment of the situation of subsidiaries, subcontractors and suppliers

For Valeo sites, the practice of identifying risks specific to the duty of care confirmed the existence of risk factors that had already been identified by the Group and placed under control some time ago. This work did not call into question the existing tools or assessment criteria used by the Group's subsidiaries:

- regarding human rights and fundamental freedoms, i.e., the fight against harassment and discrimination, child labor and forced labor, audit protocols include these themes in the various sites' internal audit campaigns (see section 4.4.3 of this chapter, "Promoting and respecting fundamental rights", pages 232 to 234 for further details on risk assessment mechanisms);
- in the field of workplace health and safety, particularly as regards compliance with minimum conditions governing the safety of individuals and facilities, the exposure of Valeo's sites to these risks is measured through annual 5 Axes audits (see section 4.4.1 of this chapter, "Safety and working conditions", pages 222 to 225);
- regarding serious environmental hazards, particularly concerning the risk of air, soil and water pollution, and the management of hazardous waste, the sites' environmental risk management tools ensure the regular reporting of information to the Group (see section 4.3.3 of this chapter, "Discharges and waste", pages 211 to 215).

For its suppliers, Valeo has applied criteria bearing on risks relating to human rights, workplace health and safety and serious threats to the environment since the creation of its sustainable development performance assessment tools in 2012. Tools to assess these risks are also included in Valeo's supplier selection and integration process (see section 4.5.3 of this chapter, "Application of sustainable development principles in purchasing processes", pages 243 to 248).

Initiatives to mitigate risks or prevent serious threats

In addition to assessments and audits of the Group's sites and its tier-one suppliers (see above), Valeo has implemented support and prevention tools addressing serious threats.

For Valeo sites, numerous prevention initiatives are undertaken each year along the lines of the "Safety First" campaign in 2016.

Similarly, support has been provided to help the Group's suppliers control risks relating to human rights, workplace health and safety and the environment (and more generally sustainable development), with their cooperation. This work was carried out based on the exposure of their segment to certain risks and/or their respective sustainable development performance, measured through specific evaluations and audits (see section 4.5.3 of this chapter, "Improvement in suppliers' sustainable development practices", pages 246 to 247).

(1) Law no. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.

(2) Pursuant to the provisions of Article 1 of the aforementioned law.

(3) Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

Campaigns to raise awareness about risk prevention and mitigation are conducted each year, providing a reminder of Valeo's policies and requirements in this area. Dedicated Purchasing and Health, Safety and Environment (HSE) teams are regularly mobilized to help suppliers improve their performance. At the supplier conventions held twice a year by country grouping, the Vice-President, Sustainable Development sets out the Group's requirements and shares sustainable development recommendations and best practices with the suppliers in attendance (between 300 and 400 suppliers per convention).

A whistleblowing and reporting mechanism

In an effort to streamline the whistleblowing channels available to employees (which were thus far managed by category) and extend their access to the employees of Valeo's suppliers and comply with legal provisions⁽¹⁾, Valeo has chosen to merge whistleblowing channels into a single hotline open to all staff in a number of languages to enable alerts and complaints to be treated confidentially.

The hotline will come into service in 2018 (see section 4.5.2 of this chapter, "Ethics and compliance", pages 240 to 243).

Recognition of Valeo's commitment to sustainable development

Valeo saw its non-financial performance acknowledged by various rating agencies in 2017, 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)	A- Leadership ⁽²⁾
MSCI ESG Rating	A Ranked no. 3 among automotive suppliers
OEKOM	B-, prime Industry leader ⁽²⁾ (ranked no. 1 among automotive suppliers)
RobecoSAM (DJSI)	79/100 Industry leader ⁽²⁾ (ranked no. 1 among automotive suppliers)
Sustainalytics	84/100 Leader ⁽²⁾

The Carbon Disclosure Project (CDP)⁽³⁾ gave the transparency of Valeo's communication and performance in terms of carbon impact a grade of A- Leadership for 2017 (based on its new methodology implemented in 2016), which is the second-highest possible grade (out of eight), and three levels above the average result of participating companies.

RobecoSAM⁽³⁾ 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 for the second consecutive year, with a score of 79 out of 100 in 2017. Valeo is also part of the DJSI (Dow Jones Sustainability Index) World and Europe indices.

Sustainalytics⁽³⁾ awarded Valeo a score of 84 out of 100 for sustainability in 2017, making it the leader among automotive suppliers and tire manufacturers.

Valeo also featured in several non-financial indices in 2017, 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) Law no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization, known as the Sapin II law.

(2) Status conferred by the rating agency during the year.

(3) See Sustainable Development Glossary, page 267, for a description of each agency.

4.1.5 A sustainable development policy based on strong relationships with stakeholders

A multi-stakeholder approach

Relationships between Valeo and its stakeholders span the entire process, from design (research centers, universities and engineers) to production (suppliers and employees) and sales (automakers and distribution networks).

Valeo offers a comprehensive picture of its sustainable development policy based on an analysis of its relationships with stakeholders. The analysis states the type of stakeholder, the objectives and the form of dialog. 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 responses and types of dialog undertaken
Customers	<ul style="list-style-type: none"> ■ Automakers ■ Distributors 	<ul style="list-style-type: none"> ■ Design, develop, manufacture and market innovative products and systems for sustainable mobility 	<ul style="list-style-type: none"> ■ Technology steering committees ■ Customer meetings ■ Market trend studies
Employees	<ul style="list-style-type: none"> ■ Valeo employees ■ Professional organizations ■ Administrative and governmental authorities ■ Employer representative bodies ■ Employee representative bodies and labor unions ■ Social security organizations 	<ul style="list-style-type: none"> ■ Ensure ongoing dialog with employees ■ Ensure ongoing dialog with the leaders of various labor unions and professional organizations 	<ul style="list-style-type: none"> ■ Annual survey of employee commitment ■ Diversity program ■ Well-Being at Work program ■ Collective bargaining ■ Dialog with labor unions and employers' associations
Research and Development partners	<ul style="list-style-type: none"> ■ Research partners and subcontractors ■ Start-ups and accelerators ■ Venture capital firms ■ Laboratories ■ Universities ■ Independent public bodies ■ Certification and control bodies 	<ul style="list-style-type: none"> ■ Establish cooperative and industry-oriented Research and Development ■ Organize transfers and exchanges of competences, techniques and know-how 	<ul style="list-style-type: none"> ■ Scientific events (conferences and congresses) ■ Collaborative research ■ Partnerships with universities and competitiveness clusters ■ Organization of technology days ■ Participation in technology platforms
Partners and suppliers	<ul style="list-style-type: none"> ■ Lessors/tenants ■ Suppliers ■ Innovative SMEs 	<ul style="list-style-type: none"> ■ Cooperate and co-construct in compliance with competition law 	<ul style="list-style-type: none"> ■ Supplier integration ■ Selection committees ■ Calls for tender ■ Working groups
Institutions	<ul style="list-style-type: none"> ■ Public authorities (governments) ■ European Commission ■ International organizations (UN, ITC, IFC, OECD, etc.) 	<ul style="list-style-type: none"> ■ Conduct economic, industrial and labor dialog in compliance with national, European and international laws and regulations 	<ul style="list-style-type: none"> ■ Communication on Progress of the UN Global Compact (once annually) ■ Dialog with national authorities ■ Dialog with the European Commission
Regions	<ul style="list-style-type: none"> ■ Local authorities ■ Local government ■ Associations ■ Civil society 	<ul style="list-style-type: none"> ■ Ensure positive development interaction between the Group and its local ecosystem 	<ul style="list-style-type: none"> ■ Dialog with employment agencies ■ Dialog with local authorities ■ Dialog with local stakeholders (associations, NGOs, etc.)
Financial community and individual shareholders	<ul style="list-style-type: none"> ■ Shareholders/institutional investors ■ Individual shareholders ■ Credit and non-financial rating agencies ■ Banks ■ Insurers ■ Statutory Auditors 	<ul style="list-style-type: none"> ■ Adopt a dialog-based approach building on the relevance, rigor and transparency of information relating to the Group 	<ul style="list-style-type: none"> ■ Meetings with investors and analysts (including SRI⁽¹⁾) ■ Financial results presentations ■ Shareholders' Meeting ■ Dialog with financial and non-financial rating agencies ■ Website and digital resources (webzine, flash e-newsletter, shareholders' letters, etc.)

(1) SRI: socially responsible investors.

Dialog with industry stakeholders

Within the Automotive Industry Platform (*Plateforme de la filière automobile* – PFA), Valeo supported entering into dialog with stakeholders, drawing on a panel of 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 from civil society and environmental NGOs.

The first two editions took place in 2015 and 2016. The approach has given the French automotive industry (represented in particular by Valeo, Renault, PSA, Michelin, Plastic Omnium and Delphi France) a forum for open discussion about the full range of issues currently raised in the field of automotive mobility (carbon impact of and pollution from the automotive industry, new forms of mobility, the role of the automotive industry in the regions, its social impact, relationship between contractors and suppliers, etc.).

Valeo has furthered this dialog through several stages:

- a workshop at the Paris Motor Show (October 2016);
- a preparatory session on one of Valeo's sites;
- a plenary session in January 2017.

In 2017, Valeo gained a better understanding of stakeholders' expectations through the introduction of new themes such as reducing planned obsolescence, for which Valeo represented automotive suppliers (excluding tire manufacturers). Another development was the opening of new discussion forums, such as participation in the Movin'on event (the former Challenge Bibendum), organized by Michelin in Montreal in 2017.

Valeo, a key driver of a sustainable automotive industry

As a responsible player within the French automotive industry, Valeo contributes 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*).

Along with other major industry suppliers, the Group supports tier-two suppliers and further, helping them strengthen their activities among customers.

Placing great importance on its involvement in different consultation bodies in the automotive industry, Valeo actively participates in national, European and international working groups:

- in France, Valeo took part in creating the Automotive Industry Platform (*Plateforme de la Filière Automobile* – PFA), which works to improve customer-supplier relationships and in turn to better align research and production;
- in Germany, Valeo participates in working groups of the *Verband der Automobilindustrie* (VDA), the German automotive industry body;
- in Europe, Valeo is involved in collaborative, precompetitive research through the European Road Transport Research Advisory Council (ERTRAC), the European Commission's technology platform for research on road transportation (see section 4.2.4 of this chapter, "European Road Transport Research Advisory Council (ERTRAC)", page 193);

- 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 243 to 248).

Valeo and the United Nations Sustainable Development Goals

The Group's sustainable development initiatives are in line with the United Nations Sustainable Development Goals (SDGs), which include eradicating poverty, promoting development and protecting the planet.

Depending on the countries where Valeo operates, the Group has made undertakings in respect of:

- **quality education** (goal no. 4), reflected in particular in the Group's focus on training Valeo teams at all levels of the organization. A total of 98% of Valeo employees attended at least one training course in 2017 (see section 4.4.2 of this chapter, "Training", pages 230 to 231);
- **gender equality** (goal no. 5), building on the extensive program to promote gender diversity dating back to 2011. In 2017, women represented 32.9% of the total workforce, and each year Valeo's sites implement awareness and support initiatives for women at work, in particular promoting the organization of work schedules and the adaptation of workstations (see section 4.4.4 of this chapter, "Promoting diversity", pages 235 to 236);
- **decent work and economic growth** (goal no. 8), by respecting international conventions in favor of decent work (see section 4.4.3 of this chapter, "Promoting and respecting fundamental rights", pages 232 to 234);
- **industry, innovation and infrastructure** (goal no. 9), through the production of parts and systems for the automotive industry, and through research and development. In 2017, Valeo filed more than 2,000 patents and invested more than 12% of its original equipment sales in Research and Development (see section 4.2 of this chapter, "Research and Development at Valeo: from megatrends to innovation", pages 181 to 185);

4 SUSTAINABLE DEVELOPMENT

Valeo and sustainable development: strategy, policy and organization

- **sustainable cities and communities** (goal no. 11), through the attention paid by Valeo to its plants' initiatives in favor of host communities. To this end, the Group's sites have forged numerous partnerships with local stakeholders, particularly in the world of education (see section 4.5.6 of this chapter, "Voluntary commitment to local communities", pages 250 to 252);
- **climate action** (goal no. 13), where initiatives have been closely monitored for many years, particularly in terms of reducing the plants' carbon footprints and water consumption. Since 2009, Valeo has reduced its direct and indirect CO₂

emissions as a proportion of sales by 7% (see section 4.3 of this chapter, "Environmental management and performance of Valeo's sites", pages 198 to 219); and

- **life on land** (goal no. 15), through Valeo's commitment to respect biodiversity in the areas surrounding its sites. Specific measures are put in place depending on the location and needs of the various sites. These measures are an integral part of the site's environmental certification (ISO 14001). In 2017, 95% of sites were ISO 14001-certified (see section 4.3.6 of this chapter, "Biodiversity", page 219).

4.1.6 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 253 to 255).

Article 225 of the Grenelle II 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 engagements by independent third-party bodies provide for the verification of the non-financial information published by French companies by an independent third party.

The independent third party's verification work took place in three stages:

- review of reporting processes: review of the scope, definitions of indicators, methods of calculation, consolidation processes and controls performed;
- site audits 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);

- summary of the independent auditor's findings 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 2017. The report can be found in section 4.9 of this chapter, "Independent verifier's report on consolidated social, environmental and societal information presented in the management report", pages 268 to 270.

In 2017, six sites in China, Spain, France and Poland were audited. In addition, two sites audited in 2016 underwent follow-up audits.

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 in 2016 to review its action on the basis of the Core reporting option of the GRI 4 (Global Reporting Initiative) 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 II) is also provided in section 4.6.2 "Cross-reference with national and international guidelines", pages 256 to 262.

4.2 Research and Development at Valeo: from megatrends to innovation

Effectively meeting market demand today, designing the car 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 (R&D) 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 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 stakeholders. 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 determines Valeo's future strategy. It allows the Group to anticipate structural change in the industry 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 (CO₂ emissions capped at 95 g/km by 2021) (see the "Trends" section of the Integrated Report, paragraph "Increasingly stringent regulations aimed at reducing air pollution", page 10).

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 to the reduction of emissions of greenhouse gases and other pollutants are seeing growing demand from automakers as a means of complying with future legislation and avoiding financial penalties for non-compliance. Moreover, standards governing emissions of CO₂ 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. In addition, cities across the world are lining up as new regulators, adapting urban infrastructure and encouraging new mobility behaviors through coercive regulations and "nudges" intended to curb noise and air (CO₂, nitrogen oxide [NO_x] and fine particle emissions) pollution as well as the number of road accidents. Automotive suppliers, especially Valeo's Powertrain Systems (internal 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 reducing CO₂ emissions accounted for more than 50% of Valeo's original equipment sales in 2017,



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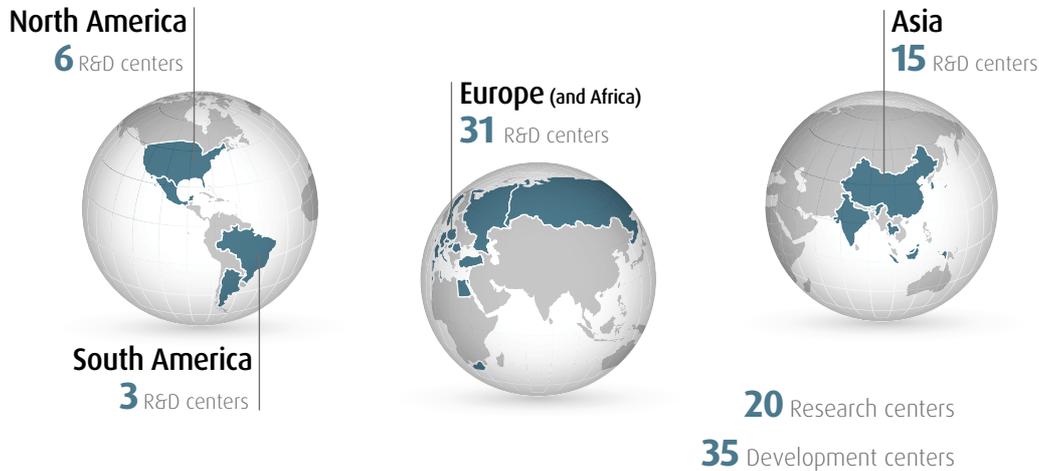
Research and Development at Valeo: from megatrends to innovation

- 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. With this in mind, 48 V medium-voltage hybrid solutions offer powertrain electrification possibilities at a competitive price. High-voltage (over 60 V) electrification for electric vehicles and plug-in hybrids offer a significant reduction in CO₂, NO_x and fine particulate emissions, as well as the option of driving in zero-emissions mode, with a positive impact on public health, especially in urban areas,
- reducing fuel consumption is not the only way to reduce a vehicle's overall environmental footprint. Controlling 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 and fewer scarce materials as well as reducing 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 CO₂ emissions reduction and environmental footprint objectives;
- **autonomous, connected and intuitive driving:**
 - like powertrain electrification, vehicle automation will spread gradually (though 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 assisting vehicles in their autonomous mobility in certain areas,
 - automated driving requires vehicles to become increasingly connected to their environment (other vehicles, urban infrastructure, etc.). As was the case with the rise of mobile telephony, connectivity will lead to the emergence of new services, such as remote, secure maintenance and updates of onboard software. Vehicle connectivity is one of the key avenues of support for full vehicle autonomy (levels 4 and 5 of autonomy),
 - 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) also facilitate other activities (reading emails, etc.) during phases of autonomous driving;
- **new mobility-based services**, resulting in:
 - the implementation of digital platforms designed to meet growing mobility needs, especially by putting users in touch with mobility players offering more efficient mobility services, notably to optimize travel time, price and accessibility,
 - the development, especially in urban areas, of new forms of mobility, both in the type of use of the means of transportation (on-demand mobility, mobility services, etc.), but also in the combination of types of transportation (public transportation, individual vehicles, bicycles, etc.).

Approach

Research and Development organization to support the Group's innovations and assist its customers worldwide

Research and Development worldwide in 2017



By identifying five major types of Research and Development centers and by combining activities by project and competence, Valeo uses a functional and operational organization, through which each center is involved and contributes to the Group's objectives:

- the 20 research centers are dedicated to fundamental research, advanced engineering and the development of new product standards;
- the 35 development centers adapt standards in line with customer requirements and coordinate the work of launch and support teams together with front office personnel;
- project launch teams are tasked with managing the shift of new products to the manufacturing phase, while Research and Development teams can provide support in response to specific needs 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 center 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, particularly research and innovation through advanced studies, collaborative projects and partnerships. Since 2016, the Group has also had a Mobility Tech Center in San Mateo, California.

In 2017, Valeo's Research and Development teams managed 2,800 projects – a direct result of the sharp rise in Valeo's order intake and 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 2017, the Group's gross Research and Development expenditure totaled 1,895 million euros, representing almost 12% 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 31% from 13,700 in 2016 to 17,900 in 2017. The Group's longstanding presence in France, where a significant portion of its research centers are located, meant that there were 3,858 employees dedicated to Research and Development in France in 2017.

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 1,151 Experts (products and production processes). This corresponds to an increase of 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 2017.



► **CHANGE IN THE NUMBER OF HOURS OF TECHNICAL TRAINING FOR TECHNICIANS AND ENGINEERS IN TECHNICAL POSITIONS BETWEEN 2015 AND 2017**

	2015	2016	2017	Change (2017/2016)
Hours of face-to-face training	161,231	205,208	217,045	+5.7%
Hours of technical e-learning	9,902	21,336	51,998	+243%
TOTAL TRAINING HOURS	171,133	226,544	269,043	+118%

Valeo has stepped up the technical training program for its technicians and engineers, with hours of training increasing by 5.7% from 205,208 in 2016 to 217,045 in 2017. The increase in the technical training effort in 2017 came in support of the large-scale 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, particularly through the Valeo Technical Institutes. Courses are now increasingly taught in e-learning format. They are run mainly through the Group's strong 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 countries where the Group operates, 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 and develops innovation aimed specifically at meeting demand from these new markets in a manner that is mindful of sustainable development challenges. 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

	2015	2016	2017	Change (2017/2016)
Research and Development expenditure, gross <i>(as a % of original equipment sales)</i>	10.4%	11.1%	11.8%	+0.7 pts
Research and development expenditure, net <i>(as a % of sales)</i>	5.5%	5.8%	6.1%	+0.3 pts
Research and Development headcount	11,620	13,700	17,900	+31%
Number of customer projects managed	2,500	2,700	2,800	+3.7%
Number of collaborative projects funded	>50	>50	>50	N/A
Number of patents filed	1,406	1,840	2,053	+11.6%
Proportion of innovative products ⁽¹⁾ in order intake	37%	50%	50%	Stable

(1) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.

Valeo's R&D indicators are performing well across the board. Starting in 2017, Valeo has chosen to add gross Research and Development expenditure to the table above, indicating its level of commitment in this area.

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 2017, the Group had 42,000 patents, of which 2,053 were filed for new inventions during the year, a 12% increase on 2016. Valeo also maintains its status as the biggest patent filer in France. In addition, for the second year in a row, it is the top French company in terms of patents filed with the European Patent Office, and now ranks in the top 20 patent filers across all nationalities.

Awards: a PACE award in 2017

Valeo won a 2017 Automotive News PACE (Premier Automotive Suppliers' Contribution to Excellence) Award for its Park4U™ Remote smartphone-based autonomous parking system from the Comfort & Driving Assistance Systems Business Group.

This prize extends the list of PACE awards won over the years, including those for 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 i-StARS micro-hybrid module in 2006 and the LaneVue™ lane departure warning system in 2005.

2017 highlights

Valeo presented its main innovations at several trade shows in 2017, including the Consumer Electronics Show (CES) in Las Vegas (United States), the Beijing Motor Show (China) and the Frankfurt Motor Show (Germany). Valeo also took part in exhibitions dedicated to new technologies and new players, such as the Viva Technology show in Paris in June 2017.

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

4.2.2 Solutions that contribute to CO₂ emission reduction and to autonomous and intuitive driving

Challenges

To meet changing and increasingly stringent laws globally (in Europe, emissions capped at 95 g of CO₂/km in 2021, tougher safety regulations with Euro NCAP⁽¹⁾), and stay abreast of market trends (see section 4.2.1 of this chapter, “From analysis of megatrends to the vehicle concept of tomorrow”), Valeo designs, develops, manufactures and markets products and solutions that help reduce CO₂ emissions and promote intuitive driving. Its activities are split between the four Business Groups (see Chapter 1, section 1.4 “Operational organization”, pages 42 to 59).

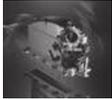
Approach

Fifty percent of Valeo’s 2017 order intake⁽²⁾ was made up of innovations, i.e., products or technologies that have been in series production for less than three years.

The innovations presented in the table below are among the category of innovative products brought in production in 2017, i.e., those that are produced and sold to a customer automaker, promoting sustainable mobility thanks to:

- reduced CO₂ and pollutant emissions (environmental aspect): products that directly or indirectly contribute to CO₂ emissions reduction accounted for more than 50% of Valeo’s original equipment sales in 2017;
- driving assistance for a safer, more connected and more autonomous vehicle (driving comfort and safety).

► SUMMARY OF THE MAIN INNOVATIONS IN SERIES PRODUCTION IN 2017 AND THEIR IMPACTS

Innovation and technical features	Description	CO ₂ impact or eco-design	Driving assistance for a safer, more connected and more autonomous vehicle
48 V belt-driven alternator-starter 	Hybridization combining traditional powertrains (gasoline and diesel) with a low-voltage (48 V) electric motor. Energy is recovered when the driver reduces speed or brakes. Cost per gram of CO ₂ avoided using this system halved compared with hybrid vehicles currently available on the market.	5% to 10% reduction in fuel consumption depending on the application and measuring cycles. All-electric mode over short distances and in urban traffic jams.	
Electric supercharger 	A key element in downsizing and downspeeding (two related techniques to provide maximum low-end torque and optimize combustion) gasoline and diesel powertrains. Coupled with a micro- or mild-hybrid system, it uses electrical energy recovered in braking phases.	With 12 V architecture, fuel savings of between 8% and 10% through engine downsizing. Combined with a 48 V mild-hybrid system, the saving can be as high as 20%.	Faster acceleration, safer overtaking.
Very high-efficiency filter 	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 ultrafine particles (< 2.5 µm).	
Air intake module of internal combustion engines 	Improved management of combustion through lower temperature, with variations better controlled.	Potential reduction of 2% to 3% in NO _x emissions on diesel vehicles through better distribution of the gas mixture from cylinder to cylinder.	Reduction of turbo lag (and greater driving pleasure) of up to 500 ms.
Battery thermal management modules 	Optimization of thermal management solutions for batteries designed for hybrid and electric vehicles.	Increased vehicle driving range and battery life.	

(1) Euro NCAP provides consumers with a realistic and independent assessment of the safety performance of European cars.

(2) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kaptec.

Innovation and technical features	Description	CO ₂ impact or eco-design	Driving assistance for a safer, more connected and more autonomous vehicle
BiLED™ headlamps 	100% LED headlamp technology with one lens used for both low- and high-beam headlamps.	Reduced electricity consumption.	Enhanced visibility and driving safety.
Remote Clean4U™ 	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.
Valeo Mov'InBlue™ 	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.
Back-over Protection System 	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 of the rear of the vehicle to ensure earlier warning of obstacles/hazards.
Remote Park4U™ parking assistance system 	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.

2017 was also marked by the first year of the Valeo-Siemens joint venture dedicated to high-voltage powertrain systems for cars. Founded in December 2016, it has created a global leader for the supply of innovative and affordable high-voltage electric components and systems. The portfolio includes e-motors, range extenders, onboard chargers, inverters and DC/DC converters for the entire range of electric vehicles (hybrids, plug-in hybrids and full electric vehicles).

Achievements

The products and systems outlined below were first presented to the public in 2017 and January 2018. They are currently the focus of discussions with the Group's customers with a view to starting series production in the coming years.

Valeo XtraVue

Valeo has developed an innovative system that gives drivers a clear view of the outside environment, even outside their natural field of vision and through any obstacles that may be encountered.

Valeo XtraVue uses a telematics antenna installed on the car, combined with a laser scanner and Valeo's vision camera system linked to a video stream of cameras from other connected vehicles

and cameras on the road infrastructure. This information is merged to produce a clear and enhanced field of vision. External data is integrated using existing public 4G and V2V (Vehicle-to-Vehicle) networks.

By enabling drivers to see through obstacles ahead of the vehicle and giving them improved vision and greater information, they will be able to overtake safely and calmly.

The 48 V powertrain system for light electric vehicles

Valeo has designed a prototype full electric vehicle operating at low voltage (48 V). As countries and major cities become increasingly intent on reducing CO₂ emissions, this system, which made its debut at the CES in Las Vegas, offers a new angle on the future shape of urban mobility.

The small two-seater electric tech demo car, which charges at any EV charging station, delivering a top speed of 100km/h and offering a range of 100km, is ideally suited to the short distances and low speeds of urban driving. The new solution is 20% more economical than a high-voltage full electric solution, largely because it can do without some of the components and systems that high-voltage vehicles require for user safety reasons. The price of a small 48 V all electric vehicle is estimated at 7,500 euros.

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The prototype is the first vehicle in the world fully powered by Valeo technologies (excluding the battery). Until now, Valeo had designed the various components needed for powertrain and drivetrain operation but never before the engine itself. Building on its 48 V expertise in hybrid applications, Valeo has developed an unprecedented, comprehensive solution for full electric vehicles based exclusively on 48 V technology, opening up new perspectives.

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 to make an emergency stop 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.

Valeo Nebulizer

Valeo presented an innovative air conditioning system for back-seat passengers at the 2017 Frankfurt Motor Show and the 2018 CES. The new system, which works on the principle of a water mist, diffuses freshness to provide comfort and air-conditioning with quick effect.

Using a small amount of water to release a fine mist for passengers, the system reduces the temperature by 3°C in less than three minutes and increases air humidity by more than 15% to return to a natural level of comfort.

To guarantee the quality of air inside the vehicle, the system incorporates a microparticle filter that can filter out 99.9% of bacteria.

CO₂ EMISSIONS RELATED TO THE USE OF VALEO PRODUCTS (SCOPE 3)⁽¹⁾

In accordance with the new recommendations on identifying and reporting the volumes of indirect CO₂ emissions related to Valeo's business⁽²⁾, in 2017 the Group undertook vast work to lay down a methodology for calculating emissions relating to the use of its products, in the absence of existing methodology in the industry:

- in view of the wide range of uses offered by Valeo products, varying depending on the choices made by automakers, on which Valeo only has a certain amount of information, this work drew on the modeling of its products' carbon impacts and was based on the parameters set out below;
- the work benefited from scientific and technical advice from EMISIA SA, an offshoot of the Applied Thermodynamics Laboratory of the University of Thessaloniki (Greece) and a recognized expert in modeling transportation-related CO₂ impacts in Europe⁽³⁾.

Valeo's approach was to evaluate the level of emissions of products representative of the diversity of its product portfolio, throughout their use phase, which most often corresponds to the lifespan of a vehicle, factoring in the following parameters:

- the products' weight and power consumption characteristics;
- the technical characteristics of the vehicles fitted with Valeo products, with a differentiated approach by segment, taking into account the specificities of use of the vehicle (rolling, product life);
- the penetration of Valeo technologies in the market and within the specific segments reviewed;
- the characteristics of the global market.

The study covered a representative sample of the Group's main product families (powertrain systems, thermal, lighting and wiper systems, and autonomous and connected vehicles), which accounted for more than half of the Group's revenue in 2017.

Valeo estimates the CO₂ impact of the selected products sold in 2017, in their phase of use over their entire lifecycle, at 108,000 kMt CO₂.

(1) The two other indirect emissions (scope 3) sources relating to products (i.e., emissions related to the installation of our products in vehicles and to processing end-of-life vehicles) are not dealt with by Valeo as they are not considered material (see section 4.2.3 of this chapter, "Reducing greenhouse gas emissions", page 210).

(2) Article 173 of law no. 2015-992 of August 17, 2015 relating to the energy transition for green growth.

(3) EMISIA is notably in charge of managing the European TRACCS database, resulting from a European project financed by the Directorate-General for Climate Action of the European Commission, DG-CLIMA (TRACCS, for "Transport data collection supporting the quantitative analysis of measures relating to transport and climate change").

4.2.3 Resources, materials and eco-design

Challenges

Pursuing the objective of designing, developing, manufacturing and marketing products incorporating sustainable development principles, especially in respect of the environment and the health and safety of users, Valeo has built its entire Research and Development approach on an action plan geared toward:

- reducing the carbon footprint of its products;
- limiting the consumption of raw materials and chemicals;
- using recyclable and recycled materials.

In connection with the goal of reducing vehicle CO₂ emissions (and reducing vehicle weight), Valeo is committed to a process of eco-design and to reducing its consumption of raw materials.

Approach

The Group's eco-design approach is based on various design assistance tools, as well as on assistance tools developed by the Group for the treatment of hazardous substances.

Tools for integrating eco-design

Valeo uses internal documents such as the EcoDesign Standard and eco-design guidelines for each 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 three years. Its purpose is to:

- reduce CO₂;
- increase the recyclability of materials or systems;
- ensure that materials are safe.

Project teams refer to this checklist in their qualitative and quantitative analysis in respect of electricity consumption, hazardous materials use and component weight to reduce the amount of components and materials that do not benefit the environment or the consumer.

It also responds to changes in the European End-of-Life Vehicle (ELV) Directive⁽¹⁾, which since January 1, 2015 has required automakers to achieve a minimum rate of reuse and recycling of 85% by weight of the ELV, or 95% when disposing by incineration. As a result, automakers have established increasingly higher standards with their suppliers to gradually raise 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 that take into account recyclability and the best circuits in the industrial value chain.

As well as working closely with automakers, Valeo has for many years been 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 248).

EXAMPLES OF RECYCLABILITY OF TWO VALEO PRODUCTS

- The new generation Valeo i-StARS starter-alternator has a recycling rate of 98.2% and a recovery rate of 99.5%⁽²⁾ (based on an internal evaluation).
- The Valeo e-supercharger has a recycling rate of 94.8% and a recovery rate of 97.6%⁽²⁾ (based on an internal evaluation).

Integration of Life Cycle Assessment (LCA) criteria into EcoDesign Checklist

In the automotive industry, the automaker or order-giver is responsible for performing the Life Cycle Assessment (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 standards (in particular when using non-documented materials) must be justified. By systematically referring to the standards, Valeo demonstrates its determination to embed eco-design (including CO₂ impact analysis) as far upstream as possible in the product development phase.

(1) See Sustainable Development Glossary, page 267.

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

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A Life Cycle Assessment (LCA) was carried out on LED fog lights. The aim was to assess their environmental impacts throughout their lifecycle: production phase (LEDs and electronic controls), use phase (fuel consumption, CO₂ emissions) and end-of-life or recycling/reuse phase. The Group has gained considerable expertise in performing this analysis.

The sheer size of Valeo's portfolio rules out the performance of LCAs on the entire product range.

RAISE Methodology

In 2010, the Group introduced methodology that is now an integral part of Valeo's Research and Development policy. It is based on a collective approach known as RAISE, 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 identify, understand, learn, implement and verify. This is essential for ensuring that they are properly applied in a group like Valeo, whose employees speak a variety of languages and come from different cultural backgrounds;
- communicate on the standards and circulate them within the Group. Knowledge-sharing involves ensuring that standards are available in a single, global database (the PLM or Product Lifecycle Management database), and providing training provided at the Valeo Technical Institutes;
- verify that standards are implemented. To this end, 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 them.

At the end of 2017, 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.

REACH regulation

The Group also gives priority to eliminating hazardous substances in its products.

The European regulation commonly known as REACH has established a single system for the Registration, Evaluation, Authorization and Restriction of Chemicals. REACH is aimed at increasing knowledge of the properties of chemical substances manufactured or marketed in the European Union so as to contain risks related to them and, where necessary, restrict or ban their use.

It covers nearly 30,000 substances out of the 100,000 currently on the European market. Of them, 1,500 are deemed particularly hazardous. Their use is controlled by the European authorities. As such, at the end of December 2017, 181 SVHCs (Substances of Very High Concern) had been identified by the competent European authorities. Their use has been progressively subject to authorization. Among other substances, they include solvents, primarily used during procedures involving materials and plasticizers, or to soften polymers and perform surface treatments. Moreover, due to the increasing integration of electronic components in requiring the use of nanomaterials in its products, Valeo is closely following work by the European Commission in this area, especially via the REACH regulation, in order to anticipate possible substitutions of nanomaterials as well as modifications to their supply processes and their use in manufacturing.

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 including a representative in each division. They set the list of hazardous substances and decide on whether to eliminate them from Valeo's products and processes. 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 regarding the substances used.

These documents include a reference database created by Valeo of banned or restricted substances in the automotive industry. The database was updated in 2015, 2016 and 2017. 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 has begun to replace them with substances with less environmental impact. It 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⁽¹⁾, 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.

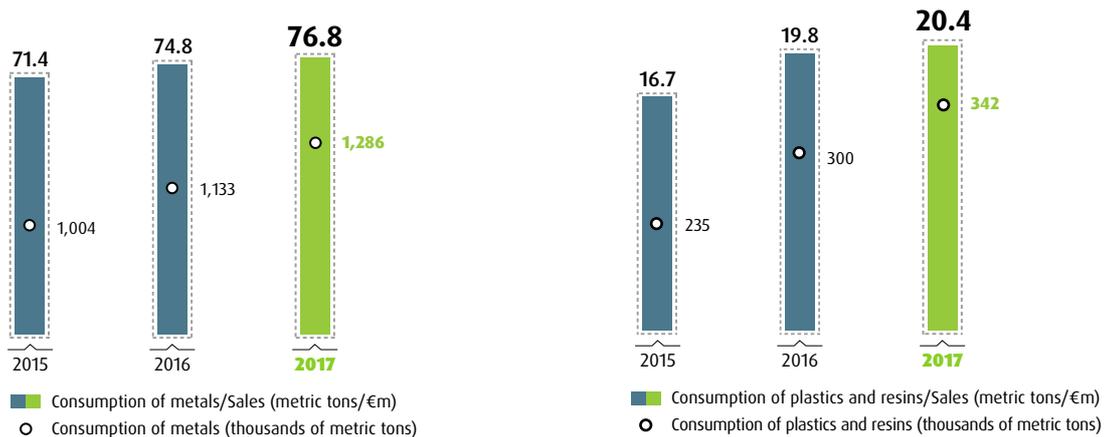
Valeo actively participates in the work of professional associations in Europe and internationally. The Group follows the recommendations of the Automotive Industry Guide issued by the French Federation of Automotive Suppliers (*Fédération des industries des équipements pour véhicules* - FIEV). It took part in the REACH task force within the European Association of Automotive Suppliers (which is known under the French acronym CLEPA). Valeo is also active in the dedicated working group of the Automotive Industry Platform, which aims to identify materials and substances that have a negative impact on the environment.

The purpose of this work is to anticipate regulatory change and to modify choices in respect of materials and/or substances upstream.

Valeo has asked suppliers from which the Group purchases between 1 and 100 metric tons of substances to comply with the REACH regulation (in line with the methodology advocated by ACEA and CLEPA⁽²⁾). The audits carried out by Valeo in 2017 showed that the Group complies with all mandatory requirements, well ahead of the legal deadline of May 31, 2018.

Performance

Consumption of raw materials



In 2017, total consumption of metals as a proportion of sales increased by 1% compared with 2016. This is a fairly muted trend in view of the Group's strong growth. It can be attributed to contained growth in production volumes of metal-heavy products.

However, relying particularly on the eco-design tools adopted throughout the Group, Valeo has gradually begun replacing metal with lighter materials such as plastics and resins. Consumption of such materials increased by nearly 2% year on year in 2017 (as a proportion of sales). The use of these materials has a significant impact on the weight of components and the vehicle.

Consumption of heavy metals

The Group's consumption of heavy metals has fallen by 50% since 2012 to 7.7 metric tons in 2017. The Group's consumption of heavy metals stems solely from the presence of lead in welding materials used by certain Valeo activities. Determined to phase out the use of lead in the development of its products, Valeo has worked on

optimizing its industrial welding process in order to reduce the consumption of materials used for this purpose. Its medium-term objective, depending on change in industrial processes and their acceptance within the industry, is to completely replace the lead used in welding with tin.

(1) Diethylhexyl phthalate or di-2-ethylhexyl.
 (2) Joint ACEA-CLEPA position paper of June 28, 2016: REACH registration - 2018 Deadline.

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Consumption of chemicals

Valeo stopped using chlorinated solvents in 2017 following major work on its industrial process. This success concluded a steady decline in their use in recent years.

Consumption of carcinogenic, mutagenic and reprotoxic (CMR) substances as a proportion of sales decreased by 70% from 24.1 kg/€m in 2016 to 7.2 kg/€m in 2017, and from 365 to 121 metric tons in absolute terms. This is the result of extensive

work to update safety data sheets as well as inventories of CMR usage by each site. These updates then made it possible to identify potential avenues for reducing the use of CMRs.

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 10,947 metric tons in 2017.

4.2.4 A partnership approach to Research and Development

Challenges

A global player in Research and Development (R&D), 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 2017 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 national, regional and international levels. These programs involve public and private actors with a view to advancing Research and Development in the automotive industry.

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 industry'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. The two groups pool their skills and know-how in a research program dedicated to human-machine-environment interfaces and automation. The program aims to involve research institutes and universities, as well as innovative SMEs. In 2017, 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. For Valeo, this joint work is aimed at developing civil applications for autonomous vehicles.

2016 was marked by numerous strategic transactions, such as (i) the acquisition of peiker in the field of telematics and connectivity, (ii) the acquisition of Spheros, a leader in thermal bus systems, (iii) the acquisition of a stake in Navya, a French company specializing in the development of autonomous shuttles, and (iv) the reinforcement of the Valeo-Gemalto cooperation in virtual key security. 2017 saw European antitrust authorities approve the acquisition of FTE automotive, a leader in active hydraulic actuator systems for automatic transmissions, a strategic and fast-growing market for Valeo, particularly given the rise of hybrid and electric vehicles. The acquisition of Valeo-Kapeç, world leader in torque converters for automatic and continuously variable transmissions, was also finalized in 2017.

Partnerships were also formed in 2017, for example with Cisco for the development of the Cyber Valet Services solution, which allows drivers to step out of the driver's seat and let their vehicle park itself in connected car parks. In telematics, Valeo entered into partnerships with Kuantic, a designer of innovative integration solutions for the onboard telematics market for fleet managers, and with Capgemini, with which Valeo has developed a unique smart mobility solution (Mov'InBlue™) that allows virtual keys to be exchanged via smartphone for fleets of corporate vehicles and vehicle rental companies.

In the field of vehicle electrification, the Valeo-Siemens joint venture in high-voltage powertrain systems recorded order intake of 10 billion euros between its creation in December 2016 and the end of February 2018. Valeo is developing e-motors, range extenders, onboard chargers, inverters and DC/DC converters for all types of hybrid, plug-in hybrid and full electric vehicles.

The open innovation strategy⁽¹⁾ and links with start-ups

Valeo is adapting its way of innovating to keep abreast of market megatrends and tailor products to its customers' needs.

2017 was marked by the creation of Valeo.ai, the first automotive applications global research center dedicated to artificial intelligence and in-depth learning in automotive applications. Its close ties with a large scientific and academic community, i.e. through its strategic partnerships with such recognized players as Inria (French National Institute for Research in Computer Science and Control), Télécom ParisTech, Mines ParisTech and CEA (the French Alternative Energies and Atomic Energy Commission), will allow Paris-based Valeo.ai to become a key industry player and contribute to the ongoing transformation of transportation and mobility models.

To strengthen this shared innovation strategy with other players, including those with different research cycles, Valeo has sought to foster cooperation with start-ups, through various channels (simple cooperation, investments and acquisitions). This strategy is supported by Valeo's presence in the leading global innovation ecosystems (mainly France, Germany, Silicon Valley, Israel and China), interests in venture capital funds, including Cathay Innovation, which is particularly active in the San Francisco Bay Area, China and France, and internal tools for identifying and analyzing new high-potential start-ups. Valeo reviews more than a thousand start-ups each year.

Start-ups also help Valeo find and integrate new business models, primarily concerning the arrival of the digitalized economy in the automotive industry. Shared and on-demand mobility solutions today rank as one of the critical skills in the ecosystem of start-ups surrounding the automotive industry.

This is why Valeo this year acquired all of the outstanding shares of gestigon, a German start-up specialized in developing 3D image processing software for the vehicle cabin. Designed to reinforce Valeo's technological leadership in automated driving, this acquisition provides a solution to the need to develop simple, intuitive and effective human-machine interfaces (HMIs) in a hyper-connected world. These technologies are a key differentiator in the automotive industry.

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, is responsible for directing and coordinating land transportation research policy (excluding railroads) with EU bodies. Valeo is its co-chair alongside German automaker BMW.

With its industry-led governance, ERTRAC's main goal is to guide actors in land-transportation to sustainable, environmentally friendly and connected solutions building on research roadmaps endorsed by all stakeholders. This requires interaction between industrial players, providers of technological solutions and representatives of society or institutions. As such, selected research roadmaps are subject to broader validation, which is highly appreciated by the Commission and Member State authorities.

ERTRAC is built around public and private bodies (national governments and city associations working for mobility, the environment and consumers), the relevant European Commission directorates, industry (automakers, suppliers), and public and private research bodies. This diversity and quality of the partners involved are what drive the quality of the expertise provided by ERTRAC, particularly through the regular publication of medium-term technology roadmaps on various topics relating to automotive mobility. Expertise of this nature is used in preparatory work for the definition of European framework programs. In 2017, the ERTRAC platform continued to provide advice and guidance on calls for projects under the 2020 Horizon Framework Programme (FP8), and began providing guidance on the next program (FP9). Strategic roadmaps have been updated in the field of autonomous vehicles, in the ecosystem linked to mobility in European cities.

Valeo has made its own contribution to this work, and also contributed to the preparation of the largest European event on research in the field of land transportation (Transport Research Arena - TRA), to take place in Vienna in 2018.



(1) See Sustainable Development Glossary, page 267.

ARTEMIS, the European Technology Platform

ARTEMIS, the European Technology Platform, is the European Commission's official technology platform dedicated to collaborative research into onboard and intelligent systems, bringing together industry players in these areas from a wide range of disciplines (aerospace, railways, space, defense, automotive, food industry, health and pharmaceutical industry, microelectronics, etc.). Valeo was keen to take part in the governance of ARTEMIS IA because the Group wishes to promote collaborative European research projects in the fields of electronics and embedded systems. Electrification, driving range, connectivity and digital advances relating to mobility highlight the common core of research represented by cyber-physical and embedded components and systems. ARTEMIS IA and its governance body, ECSEL JU (Electronic Components and Systems for European Leadership Joint Undertaking, bringing together the European Commission and Member States) will provide a new opportunity for research and development and sustainable development teams to get involved.

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 the Institute for Energy Transition. These two institutions launched several projects involving Valeo in 2014, in the fields of vehicle electrification (reducing CO₂ emissions) and automated driving.

Valeo had the opportunity to propose topics covering research issues related to decarbonization and connected and progressively autonomous transportation.

Collaborative projects

Valeo participates in collaborative research programs in the automotive industry in the various countries and regional groupings where it operates.

2017 was marked by the award of numerous public projects for all of the Group's Business Groups:

- three projects supported by the European Commission (Trustvehicle, Safetrip, Silence) and two by national funding (@city in Germany and Cocoon in France) for driving assistance and connectivity;
- a project supported by the European Commission in the field of innovative thermal systems (Ghost);
- two projects supported by French research funding for hybridization and electrification solutions for motors (the Veloce and Espresso projects).

These projects cover the Group's main areas of research and innovation, and involve teams based in Germany (Bietigheim, Bad Rodach and Kronach), France (Bobigny, Créteil and La Verrière) and Ireland (Tuam).

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.

VELOCE project

Within the scope of the PIA 2 (Future Investment Program), France's R&D support program, Valeo has obtained funding for the VELOCE project (from a French acronym for Low-Cost Efficient Electric Vehicle), which aims to develop an innovative, modular 48 V electric powertrain that can be integrated into a large number of electric and hybrid vehicle applications and segments.

The innovative nature of this project lies in its aim of developing an efficient and low-cost powertrain. From a technical perspective, this involves attaining maximum power with 48 V voltage and reduced power consumption, while achieving driving range and a speed greater than 100 km/h for full electric applications. This project has an interesting impact for A- and B-segment electric vehicles, and for hybrid vehicles.

One of the objectives of this project is to make two prototypes that represent the various applications and constraints of use:

- a low-cost A-segment electric vehicle for urban and peri-urban use;
- a new six-seater autonomous passenger vehicle for urban environments.

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 industry.

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.

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 2017 are in line with the comprehensive mobility challenges identified by the Group (CO₂ emissions reduction and intuitive driving).

In 2017, Valeo entered into a partnership with the University of Ústí nad Labem in the Czech Republic, mobilizing more than 150 students for computer software research for future projects in the field of autonomous vehicles. One of the main focuses of this collaboration is to increase the recognition capacity of onboard vehicle cameras.

Funding of doctoral theses

The Group is providing funding for more than 50 doctoral theses dealing, among other things, 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 formed through academic chairs aim to promote research and innovation activities with high value-creation potential. For Valeo, they offer the opportunity to deepen research and innovation activity close to academic centers, offering them subjects and areas of thinking focused on strategic areas for the 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 and Europe);
- an industrial teaching and research chair on embedded lighting systems (ELS), 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 presence in two areas provides the opportunity for multicultural comparisons of expectations, usages and conceptions of connected objects;
- two chairs, one on big data and the other on connected vehicles and cybersecurity, have been established by Valeo and other technology partners with the Télécom ParisTech engineering school. The latter of these chairs focuses on cybersecurity challenges in terms of the operational safety of vehicles, data protection and flows, and user identification technologies in vehicles. It also aims to address the legal and social aspects of the management of personal data and guarantees as to their security.

VALEO INNOVATION CHALLENGE

2017 saw the fourth edition of the Valeo Innovation Challenge, a competition offering students in higher education institutions worldwide the opportunity to play an active role in automotive innovation by proposing and developing bold and groundbreaking solutions for cars as we head to 2030. Students were able to compete in two categories, “Technological innovation” and “New ways of using cars”. For the first time, each team was allowed to include a university teacher.

More than 1,600 teams from 748 universities in 80 countries registered for the 2017 edition. Contestants represented some of the world’s most prestigious schools, including MIT, Berkeley, HEC, Supélec, Tokyo University and the University of British Columbia. To select the 24 best projects, 70 Valeo Experts and independent scientists vetted the proposals received on the basis of the following selection criteria: the project’s boldness and its innovative and original character; the challenges and relevance of the issue addressed and the consideration of social expectations; the presentation quality; the grasp of the associated technical elements; and the feasibility and realization of the model.

After an initial evaluation, 24 teams from 13 countries were selected for the prototype phase. Eleven teams were selected in the “Technological innovation” category and 13 in the “New ways of using cars” category. Valeo gave each team 5,000 euros to help build a working prototype within four months. After a second evaluation by the Valeo Experts and independent scientists, Valeo announced the seven finalist teams selected to present their project before an international panel in Paris.

On October 27, 2017, in Paris, the panel, chaired by Jacques Aschenbroich and composed of personalities from the scientific world and Valeo executives, selected the winning teams:

- the CLEY team from the Universidad Autónoma de San Luis Potosi (Mexico) won the first prize of 100,000 euros in the “Technological innovation” category, with its system allowing hydrogen to be created during the vehicle’s braking phases, and then to be blended with the gasoline to improve engine combustion efficiency. CLEY also won the chance to join a Valeo-partnered start-up accelerator to help develop its concept;
- the FUTUCITY team from the Academy of Fine Arts Jan Matejko (Poland) won the first prize of 100,000 euros in the “New ways of using cars” category with its autonomous vehicle serving as a means of transportation, a means of delivery and a sleep capsule. At night, parking spaces become sleeping places, and vehicles become sleep capsules on demand.

To mark the occasion, Jacques Aschenbroich kicked off the fifth edition of the Valeo Innovation Challenge, which has been revamped to give students worldwide the opportunity to create a start-up to actually develop the innovation that their team pitches during the contest.

4.2.5 Security and use of computer data

Challenges

Information systems and the data they contain (particularly personal) are important for the Group's operations to run smoothly. They embody the intellectual capital formed from the Group's R&D strategy, expertise and creativity – and the resulting patents. Data protection is a major challenge for Valeo.

Approach

There are numerous risks with varying degrees of economic, operational, legal and reputational damage. The Group is required to fully comply with the regulations governing its business and the personal data of its employees, and above all the EU's General Data Protection Regulation (GDPR).

Today, information system security is of paramount importance as it provides a good guarantee of data integrity, confidentiality, availability and traceability of computer processes, and also because it reassures customers and partners by providing the ability to anticipate, reduce 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 75).

The protection of this asset – information technology or simply information itself – relies on the most advanced technical measures being implemented and continuously updated. These technical measures are only relevant if Valeo employees individually contribute on a daily basis 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 all its dimensions. Valeo personnel only have access to the information they need to perform their duties within the company (segregation of access).

Achievements during the year

For this reason, and in view of the Group's digitalization process, Valeo completed a vast plan to raise employees' awareness of the problem of IT security in 2017. All employees received Valeo's new Charter for the Use of New Information and Communication Technologies (NICT) and a copy of its Privacy, Image and Social Media Policy. The security policy has been reviewed and supplemented in a process of continuous improvement. Employees connected to Valeo's information system also received a copy of the *My IT Security Booklet*, a short guide organized by key issue. It gives advice on the use of IT systems when the employee is traveling, away from Valeo sites.

Outlook

In 2018, Valeo will further intensify work on the issues of data and IT system 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 1.6.4 "Automation and digitalization", page 67), and the development of programs initiated in the field of information protection, among which the protection of networks and the resources entrusted to staff who work outside the Group's premises. A training plan will be launched across the Group in 2018, drawing on the strategy set out in the security policy revised in 2017. A project aimed at improving the detection of security incidents (from vulnerability to the threat represented by hackers) will also be launched. It will be run over 2018 and 2019.

PROTECTION OF PERSONAL DATA

To ensure the Group's compliance with the General Data Protection Regulation (GDPR)⁽¹⁾, Valeo has set up an internal steering committee aimed first of all at drawing up an inventory of personal data and associated processes, and second at ensuring the effective and timely development of internal tools to meet the GDPR requirements. This preparatory work served to support the various users of internal personal data (the Human Resources, R&D, Finance, IT and Customer Relations networks), in order to enable them to gradually meet requirements in this area⁽²⁾.

This work was performed over the whole of 2017.

(1) Regulation no. 2016/679, known as the General Data Protection Regulation.

(2) See Chapter 2, section 2.1.1 "Cybersecurity and IT systems failure risk", page 75.

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 Health, Safety and Environment Department (HSE). 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 environmental audit program
- 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 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

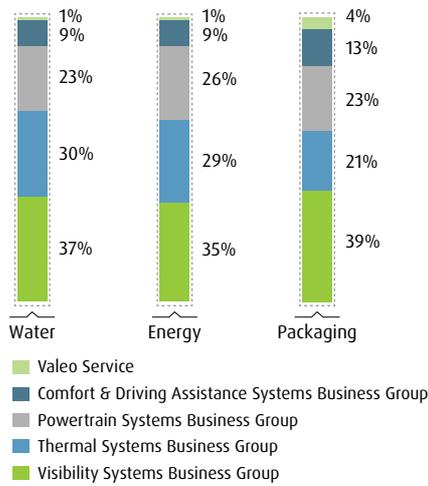
The industrial activities of the Group's sites differ in nature. The risks they pose to the environment accordingly vary as well. In 2017, as part of its risk management policy, the HSE Department updated the map of Valeo's industrial activities and the major emissions and consumptions of the Business Groups and Valeo Service, in order to target the environmental issues facing each site as closely as possible.

	Number of sites	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Valeo Service
Manufacturing	132	20	30	40	32	10
Assembly/installation	116	19	29	37	30	1
Processing	78	9	24	23	20	2
Injection molding	56	13	4	17	22	0
Heat treatment (ovens, furnaces)	78	10	24	22	21	1
Painting/varnishing	54	10	12	10	22	0
Welding	70	9	22	20	18	1
Use of vanishing oils (VOC-emitting*)	28	2	7	16	3	0
Degreasing (surface cleaning)	50	5	13	17	15	0
Surface treatment (altering the surface properties of a part)	33	1	6	7	19	0

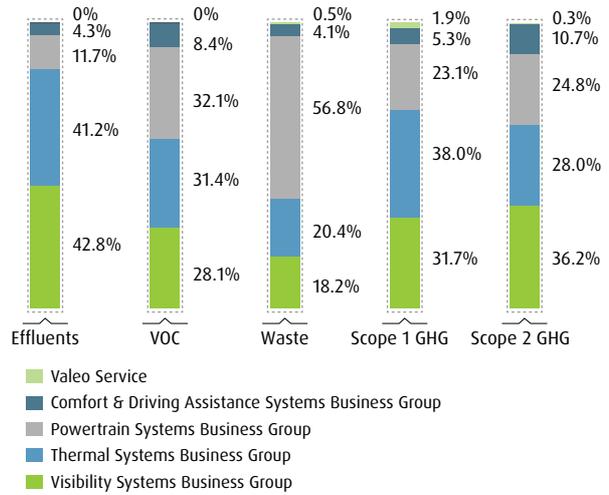
* See Sustainable Development Glossary, page 267.

The following two charts show the breakdown of resource consumption and emissions by the Business Groups and Valeo Service in 2017, reflecting the analysis contained in industrial mapping.

► **BREAKDOWN OF RESOURCE CONSUMPTION**



► **BREAKDOWN OF EMISSIONS, DISCHARGES AND WASTE**



The two charts above show that the Powertrain Systems, Thermal Systems and Visibility Systems Business Groups house the Group's most resource-intensive manufacturing activities (water, energy and packaging), and also those most liable to generate discharges (effluents, volatile organic compounds, waste and greenhouse gases).

Key environmental challenges for Valeo

The issues identified during the materiality analysis (see section 4.1.1 of this chapter, "Sustainable development challenges", page 170) are broken down between the various Business Groups 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"> Energy consumption Indirect GHG emissions* 	<ul style="list-style-type: none"> Energy consumption Direct and indirect GHG emissions* 	<ul style="list-style-type: none"> Energy consumption Direct and indirect GHG emissions* 	<ul style="list-style-type: none"> GHG emissions* related to the transportation of goods
Discharges and waste	<ul style="list-style-type: none"> VOC emissions* 	<ul style="list-style-type: none"> VOC emissions* Management of chlorinated solvents Waste production 	<ul style="list-style-type: none"> Management of refrigerants 	<ul style="list-style-type: none"> VOC emissions* 	
Transportation and logistics				<ul style="list-style-type: none"> Packaging consumption 	<ul style="list-style-type: none"> Packaging consumption
Water		<ul style="list-style-type: none"> Water consumption 	<ul style="list-style-type: none"> Water consumption 	<ul style="list-style-type: none"> Water consumption 	
Biodiversity					

* See Sustainable Development Glossary, page 267.



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 4.1.4 of this chapter, "Recognition of Valeo's commitment to sustainable development", page 177).

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.

Resources devoted to the prevention of environmental risks and pollution

The Group has developed working and assessment tools to ensure that sites comply with both the prevailing regulations and internal standards, in order 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 Health, Safety and Environment (HSE) Department, reporting to the Industrial Department, which has its roots in an **organization structured around the Business Groups, countries and sites**: a network of Health, Safety and Environment managers therefore ensures compliance with Valeo's environmental policy and fulfillment of its objectives.



The **Health, Safety and Environment Department** develops and implements the HSE policy, which involves defining 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 are applicable across all of the Group's sites.

The HSE Department relies on a **network of Health, Safety and Environment (HSE) managers** mirroring the Group's matrix-based organization.

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, in a process of continuous improvement, is to assist the sites in applying the Group's operational directives and complying with regulations in force. It is also to foster the implementation of best practices between the sites of their respective Business Groups and to back requests for investment aimed at meeting environmental objectives set by the HSE Department.

At each plant, a **site HSE manager** is tasked with overseeing the practical implementation of Group standards in respect of workplace health and safety, environmental aspects, and the security and safety of buildings and facilities. HSE managers lead and coordinate existing management systems and train staff with regard to compliance with internal and external requirements. They are also internal auditors within the meaning of the ISO 14001⁽¹⁾, ISO 50001⁽¹⁾ and OHSAS 18001⁽¹⁾ standards.

Country HSE managers are appointed at the national level after being selected from among the site HSE managers. They coordinate national environmental projects, such as 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 cross-disciplinary work, such as the monitoring of local regulations, to be conducted. 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.

In 2017, the Health, Safety and Environment (HSE) Director set up a monthly on-site network meeting to:

- work on improving operational guidelines;
- verify that current guidelines are correctly understood and applied;
- share the knowledge of HSE managers from other Business Groups;
- obtain direct feedback from the site hosting the meeting.

In 2017, these meetings also dealt with HSE network resource management and competence development. They also offered an opportunity for Valeo to invite internal and external speakers from different fields of expertise.

Under the guidance of the HSE network and with the participation of the Purchasing and Insurance networks, all industrial projects (construction of new plants, extensions, etc.) are now reviewed on a monthly basis to determine the resources needed in view of environmental, safety and security concerns.

(1) See Sustainable Development Glossary, page 267.

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. 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 2017, the HSE network provided nearly 65,102 hours of environmental training 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 HSE regulations. The HSE 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 2017, the Group drafted a certification process for certain critical topics such as lockout. It also made efforts to simplify tools such as the safety briefings.

The HSE Department aims to maintain binding requirements that meet or exceed the most stringent local regulations. These directives are 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 have 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 fires, explosions and accidental pollution, leaving each site scope to identify other relevant scenarios such as earthquakes or floods. Each site is then required to implement procedures, response sheets or lists of contacts to use in the event of a crisis, for each phase from triggering the alert to business recovery, including intervention and securing people and the site.

Maintaining a high level of operational safety

The Group's policy has always enabled it to ensure the highest possible level of prevention and protection 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 environmental liabilities, hazardous surroundings or potential natural risks;
- 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;
- Valeo sites are either located outside of flood zones or equipped with flood protection systems and emergency response plans;
- sites located in areas exposed to heavy snowfall or strong winds systematically conduct roofing resistance studies and, in some cases, reinforcement work to reduce the risk of collapse;
- all sites in seismic risk zones have been purpose-built or upgraded to comply with the most recent seismic standards;
- new Valeo plants are located as far as possible from high-risk potential sites (Seveso sites⁽¹⁾, etc.) that could have a knock-on effect;
- in 2011, tsunami risk was added to the document used to select potential locations and to the risk management policy;
- Valeo is continuing to reinforce the quality of security systems at its facilities (access control, video surveillance and intrusion detection). The Group also commissions intrusion tests to verify their effectiveness.

Adapting to the consequences of climate change

Valeo operates in areas that in recent years have experienced exceptional natural events, particularly Asia and America. The HSE Department requires sites to take preventive measures, for example through hurricane-resistant roofing, flood protection and grading prior to construction.

Analysis of natural hazards is systematically performed before any land or new sites are acquired.

Noise and other forms of pollution

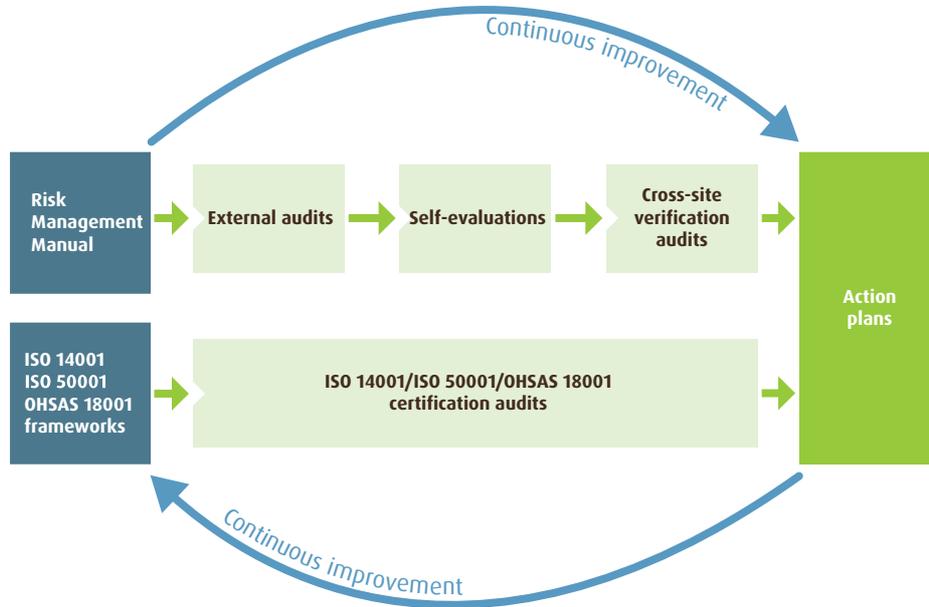
Valeo strives to follow up all environment-related complaints submitted to its sites. In 2017, eight complaints were registered across the Group as a whole; they related to noise and odors, as well as liquid discharges. The sites concerned are required to implement appropriate measures.

(1) See *Sustainable Development Glossary*, page 267.

Evaluation and certification processes

An ambitious global audit program

Valeo has implemented a comprehensive global audit program, including external compliance and certification audits as well as self-evaluations and cross-site verification audits performed by site HSE managers.



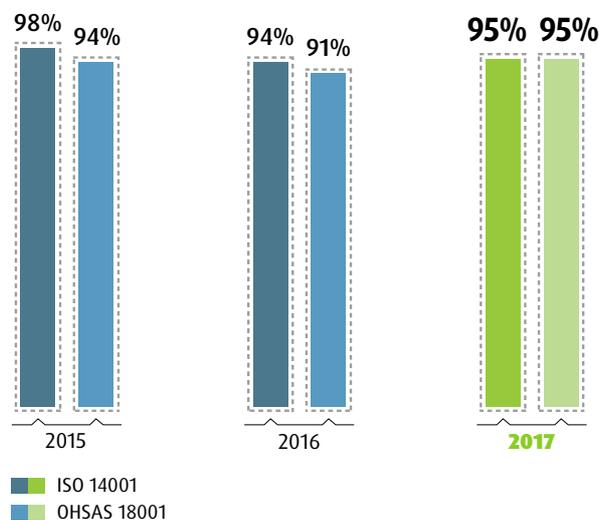
ISO 14001, ISO 50001 and OHSAS 18001 certification audits

More than 20 years ago, the Group undertook a process to obtain certification for its management systems in order to meet its commitment to reduce its environmental impacts and improve health and safety conditions for its employees. ISO 14001 environmental certification, OHSAS 18001 workplace health and safety certification and ISO 50001 energy management certification

provide assurance to stakeholders of the Group's firm commitment to HSE issues. The current practice is to obtain certification for individual sites. Certification may also be obtained for product lines, across all the sites concerned.

By the end of 2017, 95% of Valeo sites had obtained ISO 14001 and OHSAS 18001 certification.

► PERCENTAGE OF PLANTS CERTIFIED ISO 14001 AND OHSAS 18001



The Group aims to bring newly acquired or created sites 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 2017, several sites already certified ISO 14001 obtained OHSAS 18001 certification:

- Ibaraki (Comfort & Driving Assistance Systems Business Group, Japan);
- Jonan (Comfort & Driving Assistance Systems Business Group, Japan);
- Akita (Comfort & Driving Assistance Systems Business Group, Japan);
- Shenyang (Powertrain Systems Business Group, China).

ISO 50001 certification

This new standard, released in 2011, requires significant commitment from sites, which undertake to establish organizational and technical resources to reduce their energy consumption in a sustainable manner.

In line with its objectives on improving environmental performance during the 2016-2020 period, Valeo has set itself the target of ensuring that 20% of its sites obtain ISO 50001 energy management certification by the end of 2020.

Three additional sites received ISO 50001 certification in 2017:

- Limoges (Powertrain Systems Business Group, France);
- Pianezza (Visibility Systems Business Group, Italy);
- Sens (Visibility Systems Business Group, France).

This brought the proportion of ISO 50001-certified Valeo sites to 13% at the end of 2017 (up from 8% in 2015).

External audits worldwide

At the initiative of the HSE Department, the Group's sites are regularly audited 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 HSE Department determines the sites to be audited, taking this average into account.

Audit standards based strictly on the 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 cross-site comparison 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 HSE Department.

Action plans are drawn up for each site based on the findings and recommendations, in order of the level of risk. The action plans of all sites are reported to the HSE Department and monitored by the Business Group HSE managers via a system known as **HSE Action Plan**. This database provides a fast and reliable way of consolidating audit results, and makes it possible to monitor progress on the associated action plans.

Self-evaluations

In addition to external audits, a self-evaluation tool 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 HSE Department with an overview of the degree of compliance with the directives at the operational level.

In 2018, the Group plans to verify the correlation between the results of external audits and those of self-evaluations. Using sampling techniques, the auditors will examine the accuracy of inputs into this tool. In the event of discrepancies between the self-evaluation and the external audit, the frequency of audits will be increased to once a year.

Cross-site verification audits

Within the framework of HSE coordination in a given country, the various sites audit each other in order to verify the implementation of HSE management systems and ensure consistency between self-evaluation findings and the practical measures taken. Cross-site verification audits also serve to promote performance improvement, exchanges between sites and competence-sharing and good practices.

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 is used to collect over 200 indicators, allowing regular measurement of the environmental performance of the Group's sites and ensuring that Group objectives 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 challenges, its performance objectives, the relevance of the indicator to the automotive supplier industry, 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. This approach involves asking sites to document significant year-on-year changes in data, in order to make the final indicator more reliable. In all, nearly 100,000 data items are processed and validated.

In 2017, the Group's HSE Department developed a new reporting tool that will facilitate data input and the monitoring of indicators by the sites, and which will also be interfaced with consolidation and analysis software. The new software will be used for 2018 reporting.

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 253 to 254.

External audit required by the "Grenelle II" law

Article 225 of the Grenelle II 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 engagements by independent third-party bodies provide for the verification by an independent third party of information disclosed by French companies.

There were three stages to this engagement:

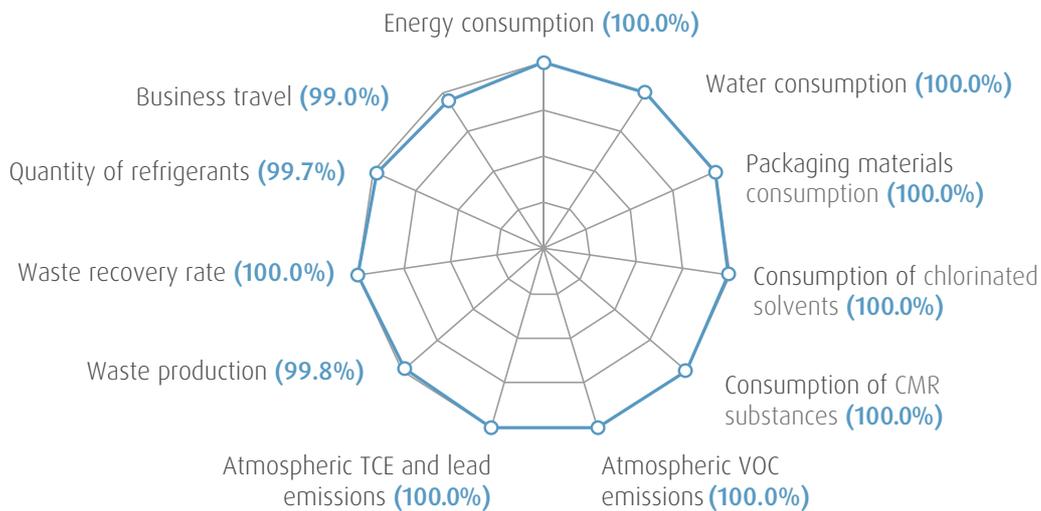
- in the first stage, the reporting process (scope, definitions of indicators, methods of calculation, consolidation process and controls) was reviewed;
- in the second stage, site audits were performed to verify the proper implementation of reporting procedures and the relevance of the information reported. This stage was rounded out by a review of consolidated information (review of the completeness and accuracy of the information);

- in the third stage, the independent verifier produced a summary of observations in the form of a limited assurance report including a statement of completeness and an opinion as to the accuracy of the information contained in the Management Report in respect of 2017. The report can be found in section 4.9 of this chapter, "Independent verifier's report on consolidated social, environmental and societal information presented in the Management Report", pages 268 to 270.

In 2017, six sites were audited in China, France, Poland and Spain. In addition, two sites audited in 2016 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 that responded to the indicator divided by total sales of all sites in the reporting scope. In 2017, the response rate per indicator was generally good, the aim being to reach 100% on each of the indicators.

► RESPONSE RATES FOR MAIN INDICATORS IN 2017

Achievements

To meet the continuous improvement challenges of the sustainable development policy, the HSE Department sets goals for improving environmental performance. 2017 was the second year of the 2016-2020 plan aimed at improving environmental performance.

Review of the 2016-2020 performance

Objectives	Unit	2020 target (base = 2015)	2015 results	2016 results	2017 results	Change 2015/2017
Sustainable use of resources						
Water consumption	cu.m/€m	-6%	198	184	175	-12%
Energy consumption	MWh/€m	-8%	143	137	134	-6%
Waste production						
Production of hazardous and non-hazardous waste	Mt/€m	-5%	16.4	17.0	16.6	1%
Carbon emissions						
Direct and indirect greenhouse gas emissions (Scopes 1 and 2) [*]	Mt tCO ₂ /€m	-8%	56.3	56.6	55.6	-1%
Management systems						
ISO 50001 certification (energy management)	% of sites	20%	8%	12%	13%	+5 pts

^{*} See section 4.3.2 of this chapter, "Reducing greenhouse gas emissions", pages 209 to 211 for a description of the scope of the objective.

Valeo has continued to invest in reducing water consumption. Its efforts have resulted in a 5% reduction in total water consumption as a proportion of sales compared with 2016, i.e., a 12% reduction compared with the 2015 baseline.

Energy consumption as a proportion of sales was reduced by 2% compared with 2016, i.e., a 6% reduction compared with the 2015 baseline.

In 2017, the total amount of waste as a proportion of sales was reduced by 2% compared with 2016. To achieve this goal, Valeo has decided to intensify efforts to generate synergies between the Purchasing, Industrial and R&D Departments, with the following aims:

- continue reducing consumption of raw materials;

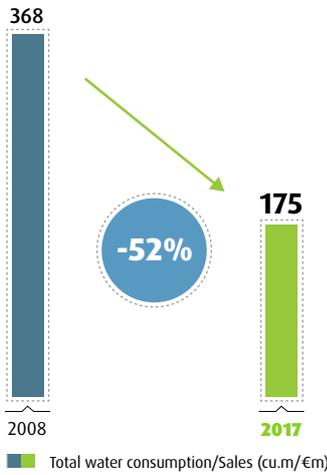
- improve development time in the launch phase for new projects (products and processes);
- establish monthly monitoring of the main producers of waste. For example, the Valeo plants in Taegu (Powertrain Systems Business Group, South Korea) and San Luis Potosi (Powertrain Systems Business Group, Mexico) alone account for 22% of the Group's total waste.

Direct and indirect greenhouse gas emissions as a proportion of sales were down 2% compared with 2016, i.e., a 1% reduction compared with the 2015 baseline.

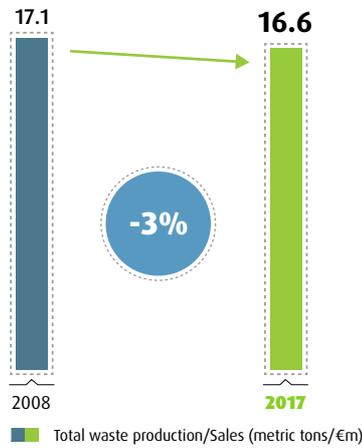
In line with its commitments, the Group pursued its ISO 50001 energy management certification target, bringing the proportion of ISO 50001 certified sites to 13% of the total at the end of 2017.

Review of the 2008-2017 performance

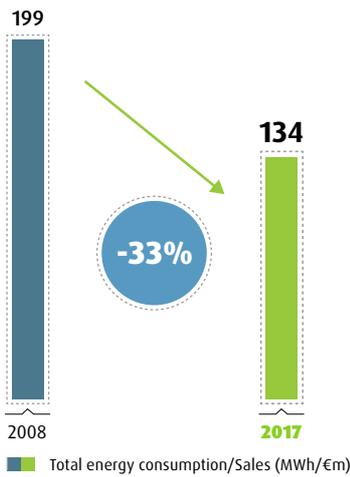
► WATER CONSUMPTION



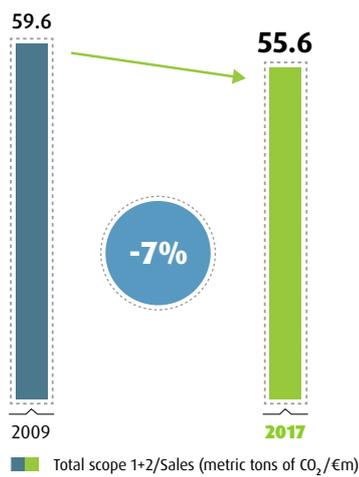
► WASTE PRODUCTION



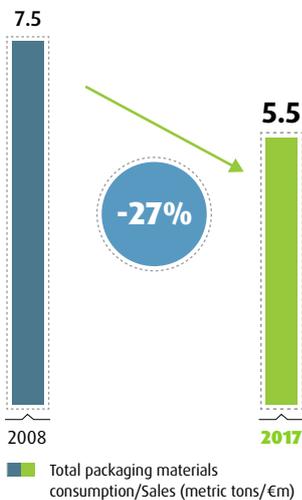
► ENERGY CONSUMPTION



► DIRECT AND INDIRECT CO₂ EMISSIONS



► PACKAGING CONSUMPTION



The charts on this page show the significant reductions achieved by Valeo since 2008 in water (52%), energy (33%) and packaging (27%) consumption as a proportion of sales. Waste production as a proportion of sales has decreased by 3% since 2008. Since 2009, Valeo has reduced its direct and indirect CO₂ emissions as a proportion of sales by 7%.

Environmental expenditure and investment

Total environmental protection expenditure and investment

Operating expenses relating to the environment amounted to 19 million euros in 2017. They include the cost of waste treatment, analysis of effluents, operation of internal treatment plants and environmental studies. In addition to these expenses, 1.1 million euros were spent on cleaning up active sites.

In 2017, Valeo invested 5.7 million euros in environmental protection at its active sites. This amount includes the cost of installing air treatment systems, implementing retention systems for better management of hazardous materials and developing waste storage areas.

Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

None of the Group's sites received significant administrative sanctions in 2017.

Amount of provisions and guarantees for environmental risks

Provisions set aside for site remediation or for the environment amounted to 15.5 million euros at December 31, 2017.

4.3.2 Reducing energy consumption and greenhouse gas emissions

Reducing energy consumption

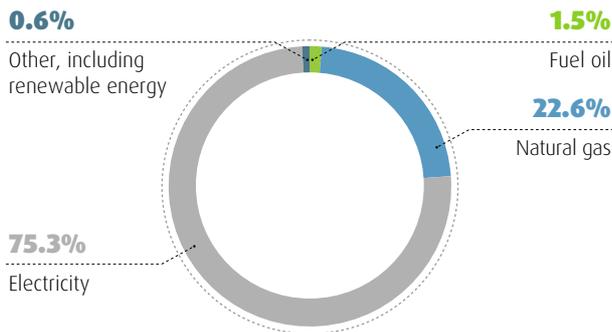
Challenges

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 (solar) energy generated on site, which currently 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 Group's total energy consumption.

► BREAKDOWN OF ENERGY SOURCES IN 2017



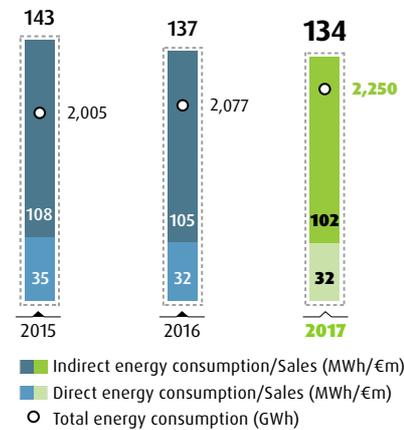
Approach

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 2.2% compared with 2016. This calculation includes an additional 12 sites in 2017.

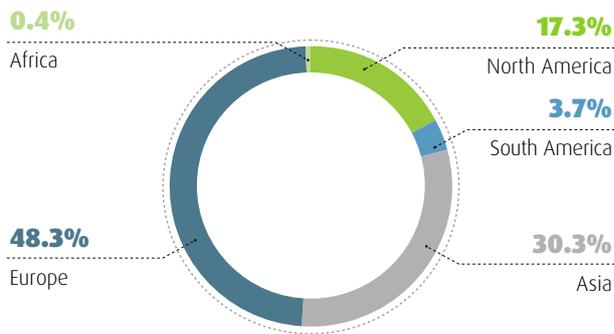
► TOTAL DIRECT AND INDIRECT ENERGY CONSUMPTION IN 2017



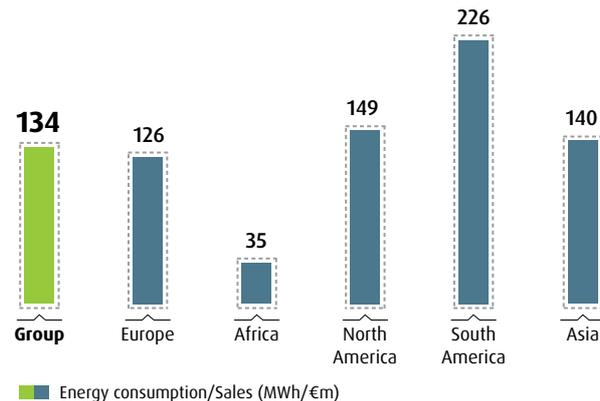
Analysis of the geographic breakdown of energy consumption

The Group's sites in Europe, Asia and North America account for 96% of total energy consumption. This breakdown changed very little between 2016 and 2017.

► GEOGRAPHIC BREAKDOWN OF TOTAL ENERGY CONSUMPTION IN 2017



► ENERGY CONSUMPTION AS A PROPORTION OF SALES BY GEOGRAPHIC AREA



Energy consumption as a proportion of sales is markedly higher at the Group's South American sites than in Africa, Europe, North America and Asia. With the exception of Asia, where it edged up from 136 kWh/€k to 140 kWh/€k, energy consumption as a proportion of sales was better in all geographies, resulting in an overall improvement for the Group from 137 kWh/€k to 134 kWh/€k.

Achievements during the year

The indicator used by Valeo for quantifying savings is the energy intensity ratio (MWh/€m), which decreased by 2.2% between 2016 and 2017.

This outcome was achieved thanks to numerous initiatives at individual sites (ranking below based on the number of initiatives in the Group), including:

- **replacement of lighting systems** using conventional fluorescent or metal-halide lights with more energy-efficient LEDs. Sites generally stagger the replacement of this equipment over several years. In 2017, 45 sites reported having begun or continued this process;

- **optimization of lighting and air conditioning systems** through the implementation of **automation mechanisms** such as timers, motion detectors and other more complex systems, as was the case in 2017 at Meslin-l'Évêque (Visibility Systems Business Group, Belgium), where the site installed temperature sensors in each part of the plant and developed a program to automatically trigger the plant's boiler;
- installation of **systems to recover heat from compressors or furnaces** for reuse in other plant areas (showers, production hall, etc.). The sites in Bursa (Powertrain Systems Business Group, Turkey), Czechowice (Powertrain Systems Business Group, Poland) and Jingzhou (Thermal Systems Business Group, China) began this process in 2017;
- **optimization of compressed air systems** by such means as the reduction of pressure in air networks, implementing an organizational procedure for switching on and off compressors supplying the compressed air network, the detection of leaks and the replacement of old compressors that consume too much energy. Examples of sites that took measures regarding this equipment in 2017 include Akita (Comfort & Driving Assistance Systems Business Group, Japan), La Suze (Thermal Systems Business Group, France), Chrzanow (Visibility Systems Business Group, Poland) and Seymour (Visibility Systems Business Group, United States);
- replacement of constant-speed engines with **variable-speed engines**, which consume less energy. The following sites carried out this replacement in 2017: Bursa (Powertrain Systems Business Group, Turkey), Châtelleraut (Visibility Systems Business Group, France), Chennai (Visibility Systems Business Group, India) and Gyeongju (Powertrain Systems Business Group, South Korea);
- **insulation of buildings**: the sites in Abbeville (Powertrain Systems Business Group, France), Châtelleraut (Visibility Systems Business Group, France), Czechowice (Powertrain Systems Business Group, Poland) and Issoire (Visibility Systems Business Group, France) launched projects of this nature in 2017;
- installation of **insulation systems** on machines that need to be maintained at a given temperature, such as injection presses and cooling water circuits: the insulation of hot or cold parts serves to reduce the loss of heat or cold and in turn the energy consumption needed to heat or cool them. Systems of this nature were installed in 2017 in Martos (Visibility Systems Business Group, Spain) and Sainte-Florine (Powertrain Systems Business Group, France), two ISO 50001-certified sites wishing to go a step further in reducing their energy consumption;
- lastly, **awareness campaigns** at the majority of the Group's sites on the responsible use of energy, especially during Sustainable Development Week in early June.

A total of 71 sites declared that they had begun new energy efficiency projects in 2017. All sites estimate that they achieved combined energy savings amounting to 2.5% of the Group's total energy consumption in 2017, i.e., approximately 54 GWh.

Valeo continued the roll out of the ISO 50001 energy management standard at its sites in 2017. By the end of the year, 17 sites, or 13% of the total number of sites, had obtained this certification.

Outlook

Based on the mapping carried out in 2017 of all initiatives already implemented on each site, Valeo will in 2018 focus on sites that have not yet implemented measures, with a view to encouraging them to adopt a plan to reduce their energy consumption.

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. In 2017, the following operations-related emissions sources (excluding product use) were included in the review:

- **direct GHG emissions:** combustion emissions from stationary sources on sites, emissions from fuel combustion by Group vehicles, direct emissions from non-energy processes such as

the incineration of VOCs⁽¹⁾, and direct fugitive emissions relating to refrigerant leaks (included in Scope 1 of the international framework);

- **indirect GHG emissions** associated with energy consumption, related to the consumption of electricity, steam, compressed air and other sources (included in Scope 2 of the international framework);
- **other indirect GHG emissions** related to purchases of products used in industrial processes, and the transportation of goods and people (included in Scope 3 of the international framework).

Approach

To reduce its greenhouse gas emissions, Valeo has chosen to focus on its direct (Scope 1) emissions and its indirect emissions related to energy consumption (Scope 2), for which the sites are implementing initiatives to reduce their energy consumption.

Performance

Scope 1

Direct GHG emissions as a proportion of sales increased by 3% between 2016 and 2017.

Direct GHG emissions (kMt CO ₂ eq.)	2015	2016	2017
Emissions generated by fuel oil and gas combustion at sites (kMt CO ₂ eq.)	118.0	119.3	132.8
Direct emissions from non-energy processes (kMt CO ₂ eq.)	1.9	2.8	7.4
Emissions caused by Valeo's vehicle fleet (kMt CO ₂ eq.)	7.4	8.9	10.4
Fugitive emissions (refrigerant leakage) (kMt CO ₂ eq.)	14.5	14.9	16.3
TOTAL DIRECT EMISSIONS (kMt CO₂eq.)	141.8	145.8	166.9
TOTAL DIRECT EMISSIONS/SALES (Mt CO₂eq./€M)	10.1	9.6	9.9

Scope 2

Indirect GHG emissions as a proportion of sales decreased by 3% between 2016 and 2017.

Indirect emissions related to electricity consumption ⁽¹⁾ and other energy such as steam, compressed air, etc.	2015	2016	2017
TOTAL INDIRECT EMISSIONS (kMt CO₂eq.)	649.8⁽²⁾	710.9	763.9
TOTAL INDIRECT EMISSIONS/SALES (Mt CO₂eq./€M)	46.20⁽²⁾	46.97	45.60

(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.

(1) See Sustainable Development Glossary, page 267.

► **GEOGRAPHIC BREAKDOWN OF DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS (SCOPES 1 AND 2) ASSOCIATED WITH THE GROUP'S ENERGY CONSUMPTION IN 2017**



The chart opposite 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 this section, "Analysis of the geographic breakdown of energy consumption", page 208) shows that while Valeo's European sites consume around 48% of the Group's total energy, the associated GHG emissions account for approximately 35% of the Group total. By contrast, sites in Asia consume nearly 30% of the Group's total energy but emit almost 44% 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 therefore results in an increase in absolute terms in indirect emissions of greenhouse gases.

Scope 3

In 2017, Valeo estimated all other indirect emissions sources (Scope 3) linked to its activity.

The following indirect GHG emissions (Scope 3) related to Valeo's operations are considered significant:

- emissions linked to purchases of materials used in industrial processes (steel, aluminum, copper, zinc, plastics, electronic components, chemicals and packaging);
- emissions related to the use of the Group's products (see section 4.2.2 of this chapter, "CO₂ emissions related to the use of Valeo products (Scope 3)", page 188).

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 processing of end-of-life products;
- emissions from downstream product transportation. Transportation of this nature is mainly handled by our customers.

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 employee travel (commuting and business trips).

Other relevant indirect GHG emissions (kMt CO ₂ eq.)	2015	2016	2017
Emissions generated by the production of the main materials used in industrial processes of which:	5,614	6,904*	7,770
Materials (metals)	3,416	4,274*	4,817
Materials (other)	2,198	2,630*	2,953
Emissions generated by upstream logistics:	237	223	296
Road/rail/maritime transportation	174	106	164
Air/express transportation	63	117	132
Emissions generated by employee travel of which:	139	169	195
Commuting	108	136	153
Business trips	31	33	42
TOTAL OTHER INDIRECT EMISSIONS (kMt CO₂eq.)	5,990	7,296	8,261
TOTAL OTHER INDIRECT EMISSIONS/SALES (Mt CO₂eq./€m)	426	482	493

* Emission factors for aluminum, plastics and steel were updated in 2016.

Scope 3 emissions as a proportion of sales increased by 2.3% between 2016 and 2017.

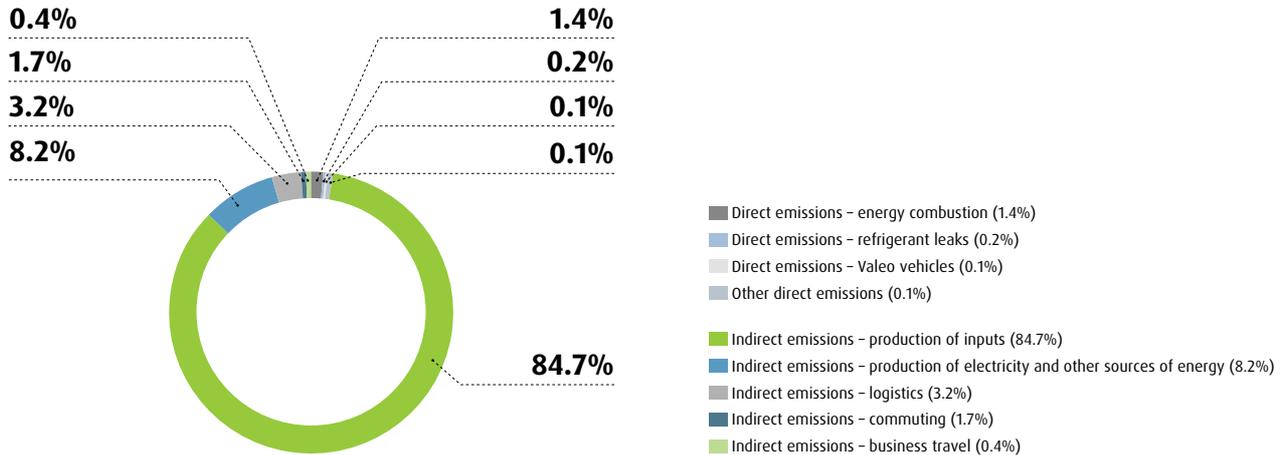
Emissions related to products (installation in the end vehicle, use, end of life) are described in section 4.2 of this chapter, "Research and Development at Valeo: from megatrends to innovation", page 188.

The Group's industrial carbon footprint

In 2017, the Group's overall carbon footprint (scopes 1, 2 and 3, excluding emissions from the use of its products) was 9.2 million metric tons of CO₂.

The chart below shows that materials used in industrial processes account for the majority of the Group's overall carbon footprint (approximately 85%, of which two-thirds from metals), whereas direct emissions represent just under 2% of the overall footprint.

► **2017 BREAKDOWN OF GHG EMISSIONS**



Achievements during the year

The Chennai site (Powertrain Systems Business Group, India) stood out in 2017 after forming a partnership with a wind farm company in order to source its electricity from wind power. In return for a stake in the company, the site receives green energy at a reduced price, resulting in savings of 15,000 euros per month and lower indirect CO₂ emissions (Scope 2).

Outlook

Valeo has set itself the goal of reducing its direct and indirect greenhouse gas emissions (Scopes 1 and 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 to avoid pollution.

Valeo sites are therefore required to identify any substances prohibited or controlled by local regulations or by customers in its buildings, manufacturing equipment and products.

All such prohibited or controlled substances are listed in a Banned, Regulated and Declared Substances (BRDS) database established by the Group.

The Group also prohibits the use of the following substances:

- asbestos;
- PCBs (polychlorinated biphenyls);
- refrigerants such as halons, chlorofluorocarbons, etc.;
- RCFs (refractory ceramic fibers);
- radioactive substances.

Valeo has for several years sought to take a proactive approach to reducing emissions of ozone-depleting substances. 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 stay ahead of the elimination deadlines set under the Montreal Protocol. To comply with this directive, the sites have taken action to service equipment containing refrigerants.

Because of the hazard they represent and their longstanding use in industrial processes on its sites, the Group is also working 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 atmospheric emissions

Approach

Each site must establish a system to ensure compliance with regulatory requirements on atmospheric emissions.

This system requires each site to draw up an emissions inventory aimed at:

- identifying the sources of atmospheric 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 based on their origin (emissions from combustion plants or production processes);
- quantifying emissions in order to determine whether operating permits need to be obtained 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.

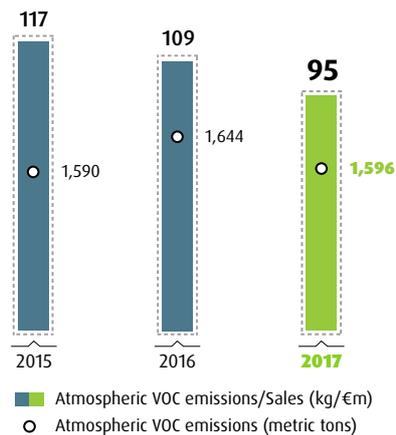
As far as possible, the Group provides standardized tools to be used by all Valeo sites to ensure that these indicators are calculated in a consistent manner.

Performance

Valeo monitors atmospheric emissions of volatile organic compounds (VOCs), nitrogen oxides (NO_x), lead (Pb) and trichlorethylene (TCE) resulting from its activities.

Emissions of sulfur oxides (SO_x) are not monitored as combustion equipment mainly uses natural gas, which does not emit sulfur oxides during combustion.

Atmospheric VOC emissions

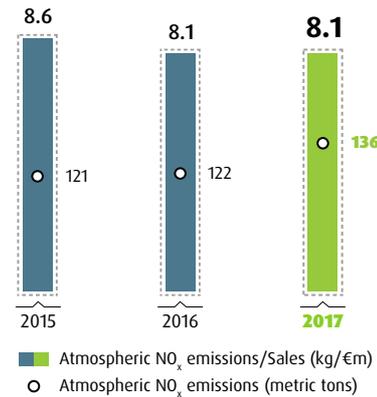


VOC emissions fell by a further 12.8% as a proportion of sales in 2017.

The Comfort & Driving Assistance Systems Business Group was the main source of the reduction.

The Group is constantly improving the methodology used to obtain a consistent estimate of VOC emissions at each site, thereby increasing confidence in the figures reported each year.

Atmospheric NO_x emissions



NO_x emissions are estimated based on the consumption of oil and gas, which are mainly used in heating, heat treatment processes and VOC incinerators.

NO_x emissions as a proportion of sales were stable between 2016 and 2017 (up 1%).

Lead and TCE emissions

The Group monitors the atmospheric emissions of lead and TCE, two substances that have long been used in production processes.

Lead emissions remain immaterial, representing 40 kg in 2017, compared with 13 kg in 2016. The inclusion of the Juarez site (Comfort & Driving Assistance Systems Business Group, Mexico) was the main source of this increase.

Concerning TCE emissions, the Taegu site (Powertrain Systems Business Group, South Korea), which until 2016 accounted for 100% of the Group's total consumption, modified its production process in 2017. As a result, the Group no longer consumes any TCE.

Emissions of ozone-depleting substances

In the interests of transparency, the Group again performed an overall estimate of CFC and HCFC emissions in 2017: 513 kg of CFC-11 equivalent (the reference component for measuring ozone-depleting potential), an increase of 5% compared with 2016.

Achievements during the year

Several sites took measures to reduce their atmospheric emissions. They include:

- the sites in Chonburi (Comfort & Driving Assistance Systems Business Group, Thailand) and Etaples (Powertrain Systems Business Group, France), which changed their production process to discontinue the use of substances containing volatile organic compounds;
- the Tianjin site (Thermal Systems Business Group, China), which installed a VOC incinerator to reduce its atmospheric emissions;
- the Bietigheim-Bissingen site (Visibility Systems Business Group, Germany), which has installed a biological treatment facility to replace its former incinerator. The new system treats emissions from paint curing ovens using bioreactors built from wood chips and compost. The advantage of this system is that it does not produce greenhouse gas emissions since it operates without fossil fuels.

Prevention of discharges into the soil

Approach

Although Valeo's industrial wastewater does not contain large amounts of pollutants, **each site is required to manage its effluents**. Management of effluents 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' rain-fed 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 natural 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 transfer 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 for 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 designing and building retention systems and tanks, specifying notably minimum volumes, 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 until it is sold.

Performance

No significant spills have been reported since 2015.

The total volume of industrial effluents discharged from the Group's sites in 2017 was 794,000 cu.m, compared with 820,000 cu.m in 2016, and the amount of heavy metals discharged from internal treatment stations was 20 kg, compared with 28 kg in 2016.

Achievements during the year

In 2017, the San Luis Potosi site (Visibility Systems Business Group, Mexico) installed a new treatment facility for water used by the plant, thereby ensuring the quality of discharged water.

This brought the number of sites equipped with such facilities to 27.

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 on quality or customer requirements as regards the end product.

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 consistently across all the sites, the Group has drawn up an operational directive setting rules aimed at:

- minimizing the production of waste: hazardous and non-hazardous waste can be reduced by:
 - reducing the weight of packaging,
 - replacing raw materials,
 - changing procedures or processes;
- collecting and storing waste: waste containers are labeled with the type of waste and characteristics of the hazard (e.g., flammability);
- transporting waste: waste must be transported in optimal safety conditions by selected service providers;
- disposing of 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 being 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.

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

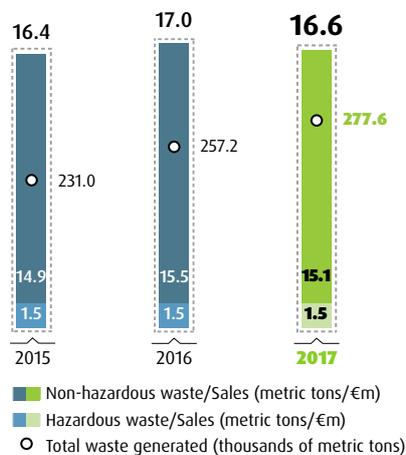
In 2017, the total amount of waste as a proportion of sales decreased by 2.4% compared with 2016.

The 8% increase in absolute terms compared with 2016 had two main causes:

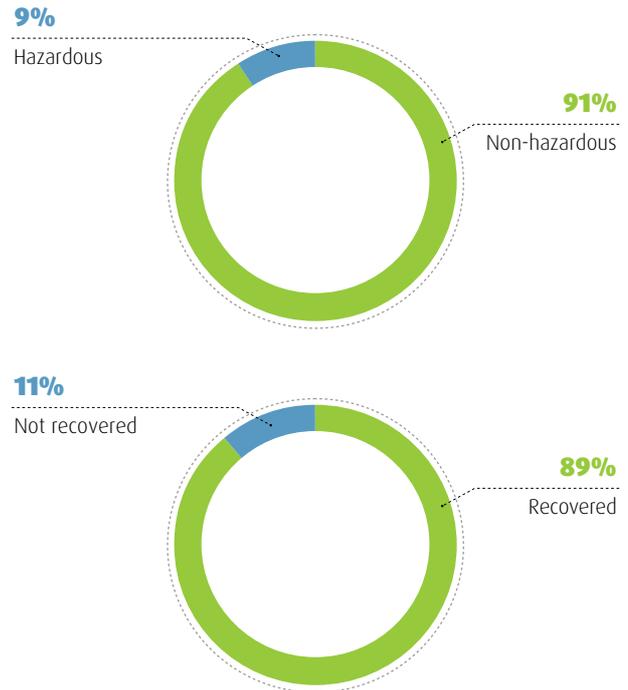
- first, an 11% increase in the Group's industrial activity compared with 2016;
- second, the opening of new sites, which generate more waste during the start-up phase, and the development of new products at existing sites, which also generate more waste during the launch phase due to a higher reject rate than during a period of stabilized production.

The Powertrain Systems Business Group alone generates almost 60% of the Group's total waste.

PRODUCTION OF HAZARDOUS AND NON-HAZARDOUS WASTE



Characteristics of waste produced in 2017



The share of recycled waste compared with non-recycled waste was broadly 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 Business Group, Ireland), which exports its waste to Germany, the Netherlands and other parts of Ireland;
- Meslin-L'Évêque (Visibility Systems Business Group, Belgium), which exports a small amount of waste to France.

Total waste exports amounted to 1,613 metric tons in 2017, a reduction of 19% compared with 2016.

Achievements during the year

Each year, Valeo's sites adopt numerous initiatives to reduce their waste consumption. Initiatives carried out in 2017 include:

- reusing the packaging of parts and components delivered by suppliers, either directly for packaging intended for products, or by returning them to the suppliers. Fifteen of the Group's sites continued or adopted this initiative in 2017;

- improving waste sorting. For example, the Martos site (Visibility Systems Business Group, Spain) has employed a dedicated person to allow a larger quantity of waste to be sorted. This has resulted in 30 metric tons of waste being recovered or recycled each month instead of being landfilled as before;
- forming local partnerships to transform waste into energy or raw materials:
 - the Chennai site (Powertrain Systems Business Group, India) has reduced the amount of waste landfilled through a partnership with a cement company that uses it both as fuel (waste is burned and the resulting energy used) and as a raw material (some residues are used in cement),
 - the Cordoba site (Visibility Systems Business Group, Argentina) has reached an agreement with a non-profit organization that recovers used plastic bottles and transforms them into ecological bricks distributed to families in need or for the construction of public infrastructure.

Outlook

Valeo has set itself the goal of reducing its waste production as a proportion of sales by 5% between 2016 and 2020.

To achieve this goal, Valeo has decided to intensify efforts to generate synergies between the Purchasing, Industrial and R&D Departments, with the following aims:

- continue reducing consumption of raw materials;
- improve development time in the launch phase for new projects (products and processes);
- establish monthly monitoring of the main producers of waste. For example, the Valeo plants in Taegu (Powertrain Systems Business Group, South Korea) and San Luis Potosi (Powertrain Systems Business Group, Mexico) alone account for 22% of the Group's total waste.

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 line with its product development strategy aimed at reducing the impact of vehicles on the environment, in 2017 Valeo pursued its transportation optimization strategy to reduce associated CO₂ emissions.

Performance

Valeo limits the use of **air freight** as much as possible in its logistics. Nevertheless, the Group sometimes authorizes this type of transportation, as in the following cases:

- for series production, if a supply chain breaks down, so as to ensure deliveries to customers and avoid substantial financial penalties;
- for projects, to reduce development time (transportation of samples or prototypes);
- for specific products: certain technological products can be scarce on the markets (permanently or temporarily) or have special characteristics that require them to be fitted quickly in order to maintain their optimal properties.

In 2017, emissions related to air transportation for the delivery of parts from suppliers amounted to 132,416 metric tons of CO₂. Emissions related to air transportation for the delivery of Valeo products to customers amounted to 2,042 metric tons of CO₂.

Concerning **road transportation**, optimization work performed in previous years continued in 2017, involving:

- load consolidation by the use of logistics platforms to collect as many parts as possible from multiple sources, which are then re-routed in fully loaded trucks to each plant;
- development of new solutions for packaging parts for customers, to guarantee the quality of deliveries and ensure optimum truck fill rates;
- where technically feasible and as permitted by domestic law, use of dual-capacity trailers (double deck in a single trailer or double trailer) to further improve fuel consumption ratios per part delivered and, therefore, CO₂ emissions.

Emissions related to road transportation for the delivery of parts from suppliers amounted to 127,738 metric tons of CO₂. Emissions related to road transportation for the delivery of Valeo products to customers amounted to 18,221 metric tons of CO₂.

The increase in CO₂ emissions from road transportation had three main causes:

- the strong growth recorded by Valeo the previous year resulted in higher demand for transportation;
- an increase in continental supplies resulted in maritime transportation being replaced by road transportation for certain parts;
- Valeo is itself transporting a growing volume of components from its suppliers' plants.

Concerning **maritime transportation**, the Group also continued its longstanding approach of pooling shipments between the different production sites.

In 2017, emissions related to maritime transportation for the delivery of parts from suppliers amounted to 35,586 metric tons of CO₂. Emissions related to maritime transportation for the delivery of Valeo products to customers amounted to 476 metric tons of CO₂.



Valeo opted for the development of **rail transportation** on the China-Europe and North America routes in 2017, because it cuts transportation time while being more environmentally friendly. As a result, rail transportation is today the fastest-growing mode of transportation in the Group.

In 2017, emissions related to rail transportation for the delivery of parts from suppliers amounted to 520 metric tons of CO₂. Emissions related to rail transportation for the delivery of Valeo products to customers amounted to 33 metric tons of CO₂.

Achievements during the year

In 2017, Valeo's Mexican sites excelled by forming several working groups in partnership with carriers to improve container fill rates:

- one such working group was set up to deal with the issue of loads containing non-stackable pallets (estimated at 60% of total pallets). These pallets had previously caused a significant amount of space to be wasted in each container. The solution is to create a temporary double floor above a first level of pallets. The robust and inexpensive double floor is made to measure and dismantled on delivery. This optimization approach makes it possible to use 250 fewer containers per year;
- a second working group was set up to adapt site deliveries based on different container sizes and available stocks. Local teams studied the various types of containers delivered and identified possible compatibilities enabling containers to be filled as much as possible. Sites adopt optimization measures of this nature when they have sufficient stocks.

Outlook

In 2018, Valeo will continue to cover transportation from its suppliers' plants.

The additional volumes will enable the Group to continue its efforts to consolidate road flows for all sites, while at the same time optimizing the load factors of its various means of transportation.

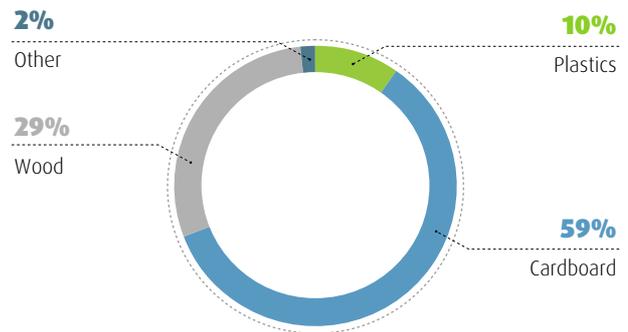
For maritime transportation, the logistics teams of the different plants will continue to pool their shipments. Valeo also plans to continue its efforts to transport its goods by rail wherever possible.

Packaging

Challenges

Packaging is essential to the handling of Valeo products. It is required for transporting, storing and protecting products and, in the case of aftermarket products, selling 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 IN 2017



Approach

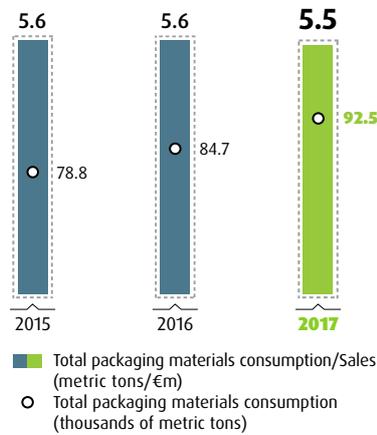
For several years, Valeo has worked to reduce its consumption of packaging materials in two main ways:

- 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 consumption of packaging materials as a proportion of sales has been steady for three years.

To reduce its environmental footprint, Valeo pays particular attention to the use of recycled materials. In 2017, 1,150 metric tons of packaging materials were recovered internally and reused.

Achievements during the year

In general, Valeo sites work on several fronts to reduce their use of packaging materials, for example by:

- replacing disposable packaging with reusable packaging. This policy can be adopted both for customer packaging and packaging for the storage of semi-finished products. The sites in Foshan (Thermal Systems Business Group, China), Fuenlabrada (Powertrain Systems Business Group, Spain) and Timisoara (Visibility Systems Business Group, Romania) undertook initiatives of this nature in 2017;
- optimizing packaging configuration so that it can contain a greater number of finished products. The Chennai site (Powertrain Systems Business Group, India) adopted this type of measure in 2017.

Both initiatives have been widely adopted within Valeo sites.

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 supply sources 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 water supply source 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;
- sites regularly update their map of water supply and distribution networks.

The plan distinguishes between:

- drinking water;
- domestic use (if distinct from drinking water);
- industrial uses;
- water used to extinguish fires:
 - external drinking water supply wherever possible (preferably the public network),
 - drinking water networks protected from contamination by other networks,
 - the site monitors 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 variation in water consumption and take swift action in the event of leaks in the network;
- draw up 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 water cooling circuits and fire extinguishing).

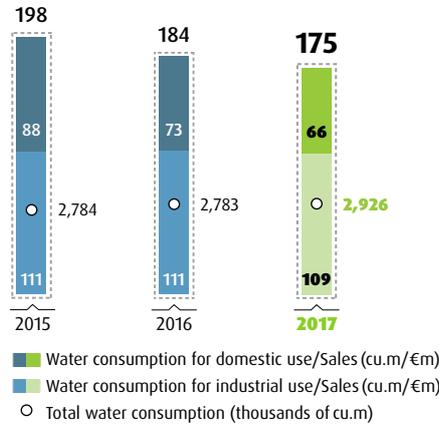
To minimize their water consumption, sites are urged to take action on the following key points:

- optimizing washing operations;
- setting up recycling systems such as recovering discharge water from cooling towers and using it to wash floors and equipment;
- taking into account the optimization of water management and possible water savings when purchasing equipment that consumes water;
- collecting rainwater.



Performance

► **WATER CONSUMPTION**



In 2017, Valeo reduced its water consumption as a proportion of sales by a further 5% compared with 2016, bringing the overall reduction to nearly 12% compared with the 2015 baseline.

Consumption of water for industrial purposes is estimated at approximately 62% of total water consumption.

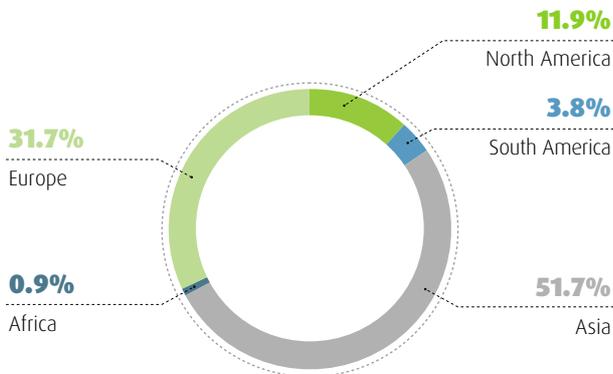
The reduction in consumption as a proportion of sales between 2016 and 2017 was most visible in the Thermal Systems (11%) and Propulsion Systems (8%) Business Groups; see "Achievements during the year", page 219.

Geographic breakdown of water consumption in 2017

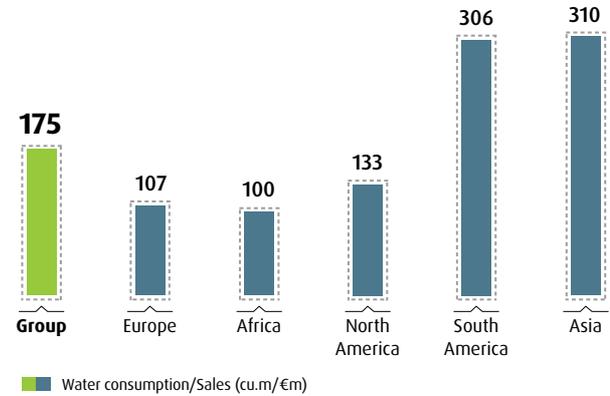
Sites in Europe and Asia account for slightly more than 83% of total water consumption. Water consumption as a proportion of sales at the Group's Asian and South American sites is markedly higher than in Africa, Europe and North America.

Progress 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.

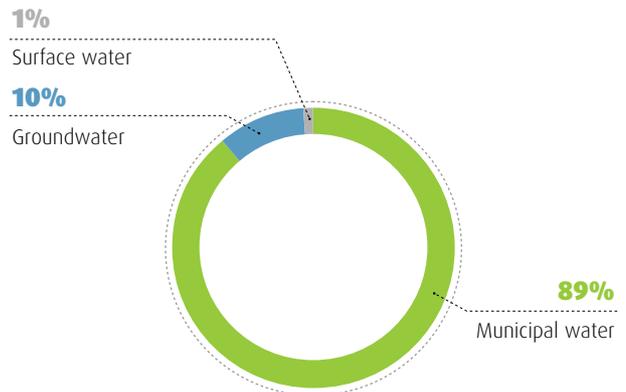
► **GEOGRAPHIC BREAKDOWN OF TOTAL WATER CONSUMPTION IN 2017**



► **WATER CONSUMPTION AS A PROPORTION OF SALES BY GEOGRAPHIC AREA IN 2017**



Sources of water in 2017



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 breakdown of the various sources of water is identical to 2016.

Water restrictions

In 2017, two sites were affected by water restrictions: Istanbul (Thermal Systems Business Group, Turkey) and São Paulo (Visibility Systems Business Group, Brazil).

The sites in Shenzhen (Comfort & Driving Assistance Systems Business Group, China), Elkhart (Thermal Systems Business Group, United States), São Paulo (Visibility Systems Business Group, Brazil) and Wenling (Visibility Systems Business Group, China) were affected by public water network outages.

Such outages have occurred since 2014 in Wenling, and for three consecutive years in São Paulo. Cuts or restrictions of this nature had no impact on production, and compensatory measures were not necessary, except at the São Paulo site, where drinking water was delivered by truck.

With a view to ensuring that the Group's future operations do not face water restrictions or outages, Valeo this year added a chapter on the availability of water in the area surrounding the prospective site to the audit questionnaire that must be completed before new industrial projects are undertaken.

Water reuse

In 2017, four sites reported collecting rainwater for reuse, namely Chennai (Powertrain Systems Business Group, India), Itatiba (Thermal Systems Business, Brazil), Reilly (Visibility Systems Business Group, France) and Breuilpont (Valeo Service Activity, France). A further ten sites recycle and reuse their industrial water internally.

Achievements during the year

In 2017, 41 sites reported having taken action to reduce their water consumption.

Sites may adopt such technical measures as:

- reducing domestic water flow rates;

- introducing closed circuits in new projects;
- replacing water-based cooling systems with air-based systems;
- installing systems to collect and reuse rainwater or industrial water after treatment.

The sites in Annemasse (Comfort & Driving Assistance Systems Business Group, France), Ferentino (Thermal Systems Business Group, Italy), Rayong (Thermal Systems Business Group, Thailand), San Luis Potosi (Powertrain Systems Business Group, Mexico) and Shenyang (Visibility Systems Business Group, China) adopted technical measures of this nature in 2017.

Other sites have taken action to improve network maintenance (leak detection, pipe replacement, etc.) and to educate users so that they can reduce their consumption.

Outlook

Valeo has set itself the goal of reducing its total water consumption as a proportion of sales by 6% between 2016 and 2020. Although the target has already been achieved, Valeo will continue its efforts in this area in 2018.

4.3.6 Biodiversity

Challenges

The 132 sites in the reporting scope occupy a total area of approximately 718 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 likely to significantly alter ecological processes (no extraction or spraying, for instance).

To more accurately understand its potential impacts the Group conducts an annual biodiversity inventory at plants located in or near (within 10 km of) protected areas. Seventeen such sites were identified in 2017, one in Africa, four in South America and 12 in Europe. They include seven plants in France, chiefly in the vicinity of Natura 2000⁽¹⁾ areas or Natural Areas of Ecological, Fauna and Flora Interest (ZNIEFF⁽¹⁾).

Approach

The precise identification of significant direct impacts on biodiversity is conducted across sites through 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 selection, construction, operation and closure of plants.

Achievements during the year

Many sites are active on the issue of biodiversity, particularly during the sustainable development week held in June. Examples include:

- the San Luis Potosi site (Powertrain Systems Business Group, Mexico) undertook to collect all hazardous household waste from its employees in order to process them in the appropriate channels. Employees also receive trees to plant every year;
- the Itatiba site (Thermal Systems Business Group, Brazil), as part of a project to enlarge the site, identified 189 protected cacti that the teams removed and had replanted by a specialized botanist at another location in the Valeo plant;
- the São Paulo site (Visibility Systems Business Group, Brazil) planned a broad program for planting a variety of trees in order to recreate the conditions that allow biodiversity to develop.

(1) See Sustainable Development Glossary, page 267.

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 based on 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 6,000 employees to its global workforce each year over the next five years.

Operational excellence specific to Valeo's 5 Axes culture cannot be achieved without the ongoing commitment of all of the Company's employees. To this end, processes are in place and priorities have been set to create a safe working environment conducive to the well-being of all.

The Human Resources Department's priorities are shown in the materiality matrix (see section 4.1.1 of this chapter, "Sustainable development challenges", page 170). They form the foundations of the Group's actions in respect of:

- **safety and working conditions** (see section 4.4.1 of this chapter, pages 222 to 225);
- **attracting and retaining talent** (see section 4.4.2 of this chapter, pages 225 to 232);
- **promoting and respecting fundamental rights** (see section 4.4.3 of this chapter, pages 232 to 234);
- **promoting diversity** (see section 4.4.4 of this chapter, pages 235 to 238).

In addition to putting its people first, the Human Resources Department promotes and ensures compliance with the following five Valeo Values:

- ethics;
- transparency;
- autonomy;
- professionalism;
- teamwork.

► CHANGE IN THE TOTAL HEADCOUNT OVER THREE YEARS

Headcount at December 31	2015	2016	2017	Change (2017/2016)
Managers and Professionals	20,410	23,960	29,365	22.6%
Technicians	10,141	12,518	17,852 ⁽²⁾	42.6%
Operators	43,956	46,183	52,686	14.1%
Registered headcount⁽¹⁾	74,507	82,661	99,903	20.9%
Interim staff	8,293	9,139	11,697	28.0%
TOTAL HEADCOUNT	82,800	91,800	111,600	21.6%
of which:				
■ Permanent staff	59,884	67,383	80,788	19.9%
■ Non-permanent staff (fixed-term and temporary)	22,916	24,417	30,812	26.2%

(1) The registered headcount corresponds to permanent and fixed-term employees.

(2) Employees on internships, Volontariat International en Entreprise (VIE) programs and combined work-study arrangements (apprenticeship or professional training contracts) are counted as technicians.

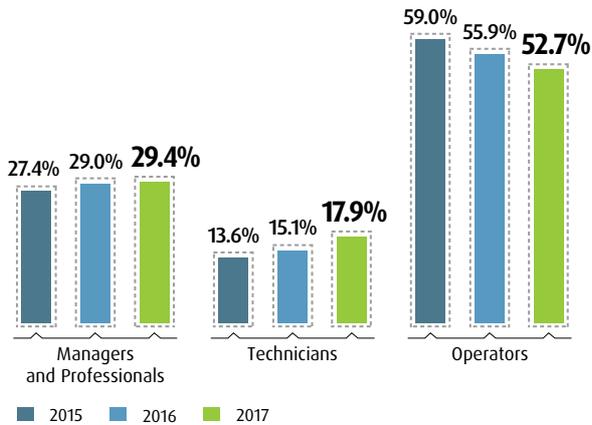
At December 31, 2017, the Valeo Group had 111,600 employees, an increase of 21.6% compared with 2016, resulting from:

- strategic transactions completed in 2017:
 - Ichikoh: 5,508 employees,
 - FTE automotive: 3,795 employees,
 - Valeo-Kapec: 1,084 additional employees;
- a high level of hiring on fixed-term contracts and permanent contracts in all regions where Valeo operates.

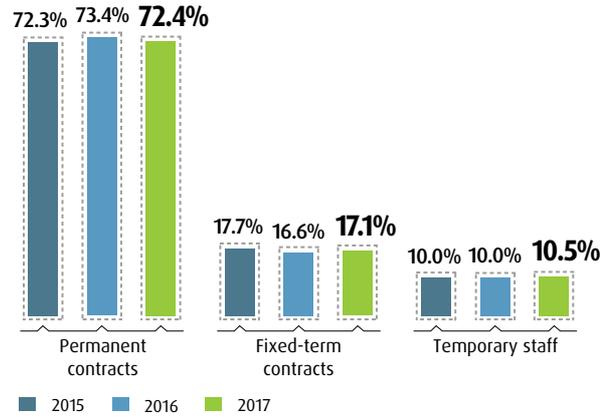
One of the key challenges for 2017 and future years will be to integrate these 10,387 new employees following acquisitions in 2017.

Integration plans serve to ensure that all Valeo standards, processes, procedures – and in particular the 5 Axes culture – are grasped and applied by the new employees.

► **BREAKDOWN OF REGISTERED HEADCOUNT BY SOCIO-PROFESSIONAL CATEGORY**



► **BREAKDOWN OF REGISTERED HEADCOUNT BY CONTRACT TYPE**



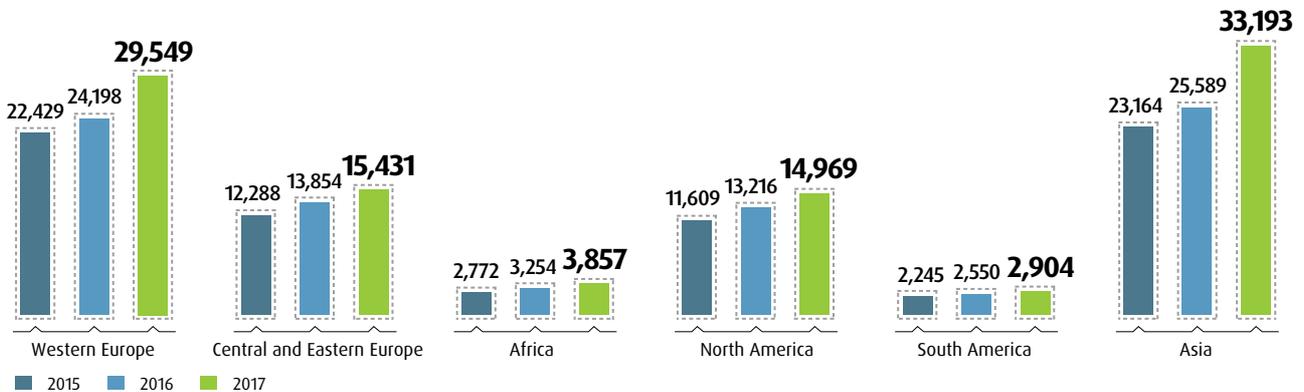
Valeo's activity requires a variety of skills for the development and production of its products and systems. These skills are constantly evolving in line with changes in the automotive industry, and to meet the challenges of automation and digitalization.

The increase in the proportion of managers and professionals in the Group's workforce at December 31, 2017 (a gain of two points between 2015 and 2017) reflects Valeo's innovation efforts aimed at bringing new products and innovative solutions to market. It was attributable chiefly to growth in the number of Research and Development engineers. This population, which represented 11,620 employees in 2015, now represents 17,900 employees.

The automotive market is cyclical, and considerable flexibility is required to constantly adapt production capacity to fluctuating demand from customers around the world. This is why Valeo employs interim staff representing 27.6% of its total workforce.

China accounts for half 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.

► **BREAKDOWN OF REGISTERED HEADCOUNT BY GEOGRAPHIC AREA**

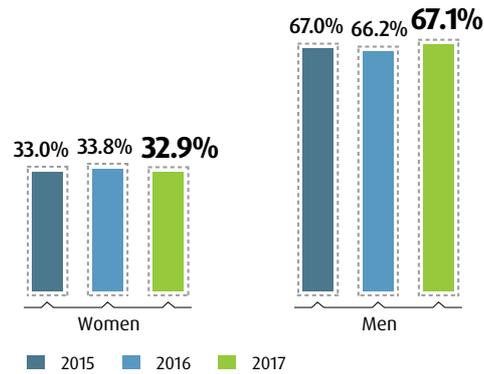


The breakdown of Valeo's workforce needs to be consistent with the Group's growth strategy worldwide, especially as regards industrial development in high-growth countries.

Between 2015 and 2017, the Group's workforce grew in all regions of the world:

- in Africa, growth of 39.1% driven by Egypt, Morocco and Tunisia;
- in North America, growth of 28.9% driven by expansion in the United States, Mexico and Canada;
- in South America, growth of 29.3% driven by Argentina and Brazil;
- in Asia, growth of 43.3% driven in large part by China and India, following the takeover of Ichikoh and the creation of Valeo-Kaptec;
- in Central and Eastern Europe, growth of 25.6% driven by expansion in Hungary, Poland and Romania;
- in Western Europe, growth of 31.7% driven primarily by France and Germany with the acquisition of FTE automotive.

► BREAKDOWN OF REGISTERED HEADCOUNT BY GENDER



Between 2015 and 2017, the proportion of women within the Group was broadly stable. Growth nevertheless continued in the number of women hired in professional categories where their numbers are generally lower (managers, professionals and technicians) (see section 4.4.4 of this chapter, "Promoting diversity", pages 235 to 236), thanks to Valeo's initiatives to promote gender diversity.

4.4.1 Safety and working conditions

Workplace health and safety

Challenges

Valeo's Human Resources policy 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 Group's 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 General Management and the participation of all staff. Progress is monitored by the Group Safety Committee chaired by the Chief Operating Officer, assisted by the Industrial Director, the Health, Safety and Environment Director and the Senior Vice-President, Human Resources.

Valeo has established systematic audits by external consultants to ensure more rigorous risk assessment and management, as well as to improve quality performance. The Group continued its program of external audits in 2017, with a view to ensuring the proper implementation of Group guidelines and its target of seeing all of its sites achieve OHSAS 18001 certification. To date, 95% of the Group's sites are OHSAS 18001-certified.

Continuous improvement is managed in accordance with the Quick Response Quality Control (QRQC) approach adapted to safety issues at work, based on the following principles:

- the QRQC methodology ensures that accidents or instances of non-compliance with safety standards trigger the implementation of a measure designed to avoid further incidents;

- a thorough analysis of the cause of the incident is made to prevent it from reoccurring;
- a description of the incident and an analysis of its causes are published on a dedicated intranet page to which all health and safety staff, and management as a whole, have access;
- each site manager must inform the head of his Business Group or activity of the occurrence of a workplace incident within four hours so that they can be addressed properly.

In 2017, health and safety guidelines were expanded to provide the best response to operational needs. For each area, they lay down minimum risk management requirements. 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: at end-2017, 2,568 members of the Management Committees had completed these training modules.

Prevention is also managed in accordance with internal rules and procedures related to the involvement of personnel, which contains a section devoted entirely to preventing and managing 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.

In 2017:

- 67% of sites had a Safety and Ergonomics Committee comprising the management team and employees, which meets monthly;
- 61% of sites had formalized local safety and ergonomics priorities and updated them each month.

Variable compensation awarded to all Group managers is hinged in part on the continuous improvement of workplace safety. It is increased or reduced depending on the number of workplace accidents with lost time.

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. A training program entitled "Safety First" was created in 2015

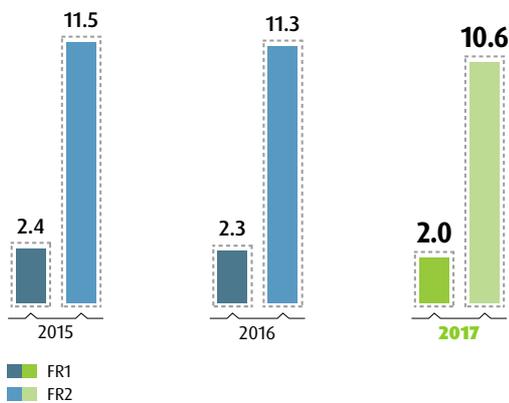
to improve the conduct of employees at work, 57,520 employees have been trained since the program began. This approach has served to train very different populations within the Group, from operators to managers.

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. In 2017, the Group's objective was to reduce FR1 to a level equal to or less than 2. In 2020, the Group's objective is for FR1 to be strictly below 2;
- 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.

The accidents covered by these indicators include all Valeo employees, regardless of their type of contract (permanent, fixed-term, apprenticeship, internship), as well as non-Group employees working on Valeo premises (interim staff and service providers). By contrast, hours worked are confined to Valeo employees (hours worked by interim staff and service providers are not taken into account in these calculations). This has the effect of accentuating the Group's frequency and severity rates.

► **FREQUENCY RATE (FR1⁽¹⁾ AND FR2⁽²⁾) OF OCCUPATIONAL ACCIDENTS**



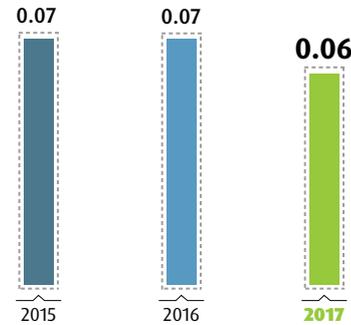
(1) Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year.
 (2) Calculation of FR2: number of occupational accidents, with or without lost time x 1,000,000/number of hours worked during the year.

Since 2015, frequency rate 1 (FR1) and frequency rate 2 (FR 2) have improved each year at Group level:

- the improvement in FR1 recorded in 2016, with a reading of 2.3, was confirmed in 2017, with an FR1 of 2.0. In 2017, Valeo achieved its target of reducing FR1 to 2.0;
- the continuous improvement in both FR1 and FR2 reflects tighter control of safety risks;

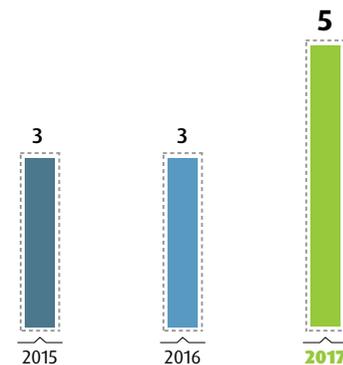
- FR1 performance varied between countries. In Argentina⁽¹⁾, France⁽²⁾ and Italy⁽¹⁾, the rate was 13.9, 10.4 and 9.5 respectively. It was 2.0 in Germany, 0.3 in China and 0.5 in Mexico;
- the number of accidents with or without lost time has also eased, as shown by the FR2 reading of 10.6 in 2017.

► **SEVERITY RATE (SR1⁽¹⁾) OF OCCUPATIONAL ACCIDENTS**



(1) Severity rate calculation: number of calendar days lost during the year x 1,000/ number of hours worked during the year.

► **NUMBER OF CATEGORY 1 ACCIDENTS⁽¹⁾**



(1) Category 1 accidents: accidents resulting in amputation, disability, major trauma or the death of an employee.

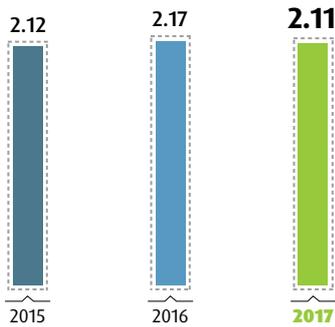
Although the severity rate improved between 2015 and 2017, the number of category 1 occupational accidents increased. A total of 11 category 1 accidents were noted between 2015 and 2017. They involved an interim member of staff, four Valeo employees and six service provider employees.

Since 2009, the frequency rate (FR1 and FR2) and the severity rate have improved significantly:

- frequency rate 1: 4.08 in 2009 and 2.0 in 2017;
- frequency rate 2: 22.57 in 2009 and 10.6 in 2017;
- severity rate: 0.10 in 2009 and 0.06 in 2017.

(1) Argentina and Italy have small workforces (fewer than 260 employees). This means that each accident in these countries has a significant impact on the calculation of the accident frequency rate (accidents/number of hours worked). In 2017, for instance, the frequency rate of occupational accidents fell from 13.9 to 7.9 in Argentina. This change can be attributed to three accidents that occurred in 2017, whose classification as occupational accidents was invalidated after the end of the year.
 (2) Historically, these rates have been high (9.9% in 2016, 10.76% in 2015 and 10.06% in 2014) as the safety culture at French sites is not sufficiently advanced.

► ABSENTEEISM RATE⁽¹⁾



(1) Calculation of absenteeism: actual hours of absence expressed as a proportion 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.

Between 2015 and 2017, Valeo's actions resulted in a stabilization of the overall absenteeism rate at around 2%. The Group's objective is to bring it below 2% in 2018. Action plans are conducted at the plants with the highest absenteeism rates to bring them more closely in line 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.

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 2017 should accelerate going forward thanks to the implementation of all the new initiatives rolled out during the year and the continuation of the "Safety First" training module.

Valeo has set itself the objective of bringing the FR1 firmly below 2 in 2020.

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.

As part of its Well-Being at Work policy, Valeo has identified five levers to improve employee quality of life in the workplace:

- a work environment free of risk of accidents: Valeo ensures the health and safety of employees, offers ergonomic workstations and prevents psychosocial risks;
- work-life balance: Valeo promotes the "right to disconnect" and work remotely;

- 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

Aware of the need to formalize and regulate its Well-Being at Work policy, Valeo implemented an ad hoc procedure in 2016. This initiative allowed the Group to clarify its commitments and goals, by establishing internal control processes to ensure the policy's effective implementation. The procedure was set out in greater detail in 2017 and applies to all the Group's employees worldwide.

Well-Being at Work Committees have been established at all Valeo sites worldwide. They are composed of a multidisciplinary team (site manager, employee representatives, and members of the HR network, Quality Safety Environment network and the site's medical team).

They are tasked with establishing 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.

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, which is based on 13 questions to monitor the achievement of the Group's well-being objectives. Each year, Valeo's internal auditors check that the action plans drawn up as part of the roadmaps are properly implemented. By 2017, Valeo sites had achieved 40% compliance with the roadmap, compared with 32% in 2016;
- 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 2017, considerable progress was made in terms of quality of life in the workplace at Valeo:

- 1,234 employees had the right to work remotely, representing 4.2% of managers and professionals (compared with 3.5% in 2016);
- 82% of sites have implemented at least one Well-Being at Work initiative;
- 7,177 employees have participated in Well-Being at Work training/awareness modules;
- 54% of sites have set up a fund to assist employees experiencing financial hardship.

Outlook

In 2018, Valeo will run a global “Engagement Survey” with all its employees to listen to and better meet their expectations. The survey offers Valeo employees the opportunity to share their comments and their perception of the Group’s Well-Being at Work policy in the form of an anonymous questionnaire.

Valeo has set itself a dual objective in terms of Well-Being at Work of achieving, by 2020:

- response rates of 85% from managers and professionals and 75% from non-management employees to the “Engagement

Survey”. In 2015, the survey (formerly known as the “Employee Feedback Survey”) was given to managers and professionals in 36 countries, with an 85% response rate. In 2014, the Well-Being at Work survey was given to non-management employees, with a 69% response rate;

- achieve a site compliance rate of 45% with the Well-Being at Work roadmap, compared with 40% in 2017.

4.4.2 Attracting and retaining talent

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.

Valeo’s success hinges on attracting top international talent in fast-growing markets and emerging countries, and in fields of advanced technology, such as CO₂ emissions reduction and intuitive driving technologies. Competent teams ensure that Valeo can offer its customers added-value and support their technical and regional development around the world.

To support its rapid growth, Valeo aims to add 6,000 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 through various communication channels. For the fourth consecutive year, the quality of Valeo’s Human Resources policies and practices was recognized with the “Global Top Employer” label. In 2017, it obtained “Top Employer” certification in 24 countries, mainly on three continents (North America, Asia and Europe).

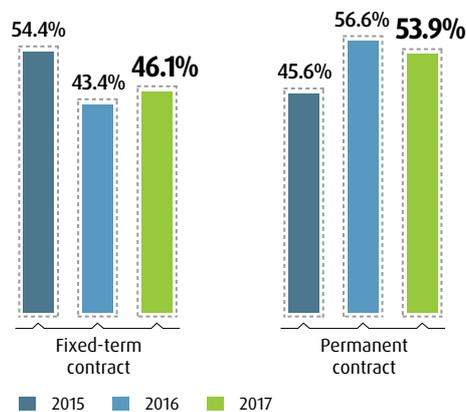
Approach and achievements during the year

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.

In 2017, Valeo continued work to develop a comprehensive IT solution to manage the hiring process. It was rolled out in all Group entities in 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 available employment opportunities.

To accommodate strong growth in a highly volatile market and recruit individuals with scarce skills, the Human Resources teams have been reorganized, grouping recruitment specialists by country. Today, 70% of countries have teams fully dedicated to hiring and to promoting the employer brand.

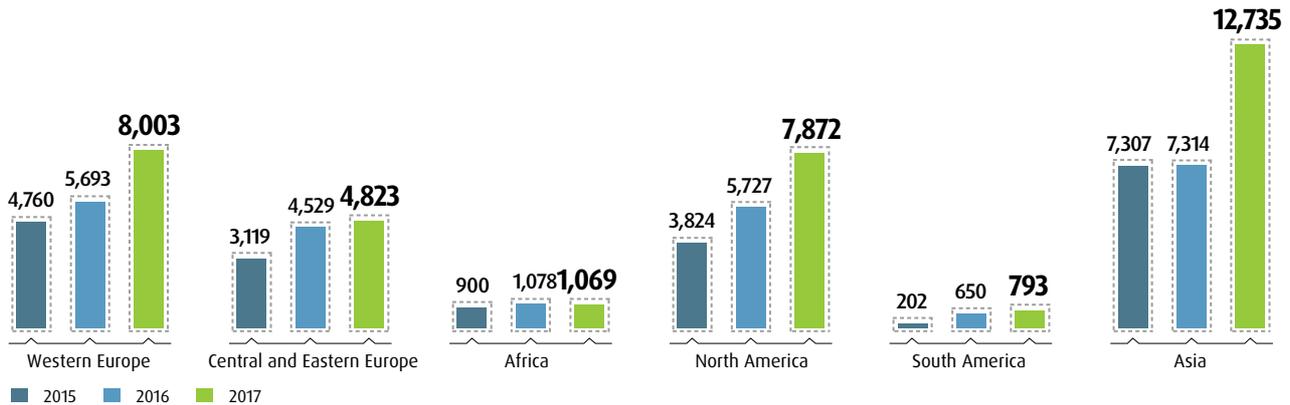
► BREAKDOWN OF NEW HIRES BY CONTRACT TYPE⁽¹⁾



In 2017, Valeo hired 35,295 employees worldwide, 19,022 of whom on permanent contracts and 16,273 on fixed-term contracts.



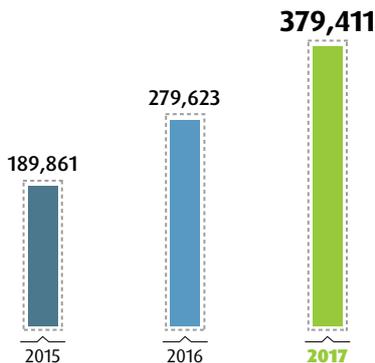
► BREAKDOWN OF NEW HIRES BY GEOGRAPHIC AREA⁽¹⁾



The Group's continued international expansion resulted in an increase in the number of new hires across all geographic areas.

To assist and support its ambitious hiring policy, Valeo maintains a constant and consistent presence on social networks, posting several times a week on LinkedIn, Facebook and Twitter, and regularly on YouTube, Xing in Germany and WeChat in China.

► CHANGE IN THE NUMBER OF LINKEDIN FOLLOWERS



In 2017, the number of LinkedIn followers grew further to 379,411:

- the Group has developed its presence on social networks by communicating in a transparent and regular manner on its latest technological innovations, job vacancies and the events in which Valeo participates;
- in 2017, more than 1,290 managers and professionals were hired via social networks.

At the end of 2016, the Group's Communications Department launched an Employee Advocacy program on social networks, focusing in particular on LinkedIn. In 2017, 500 Valeo employees contributed to Valeo's visibility and attractiveness by sharing the Group's news on social networks (LinkedIn, Facebook, Twitter, Instagram, WeChat and Xing). The content shared by this community of internal ambassadors reached an audience of over 100 million people on LinkedIn over the year.

Through its academic partnerships, the Group has numerous initiatives to develop its reputation with the talent of the future:

- throughout the academic year, Valeo 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. In 2017, 82% of Valeo's plants maintained relationships with universities, engineering schools or business schools. 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);
- 2017 saw the fourth edition of the Valeo Innovation Challenge, offering students in higher education from around the world the opportunity to play an active role in automotive innovation by imagining equipment that will create smarter and more intuitive cars by 2030. Students were able to compete in two categories, "Technological innovation" and "New ways of using cars". For the first time, each team was allowed to include a university teacher. More than 1,600 teams from 80 countries and 748 universities, including some of the world's most prestigious institutions (MIT, Berkeley, HEC, Supélec, Tokyo University, British Columbia, etc.), registered to propose and develop bold and revolutionary solutions for the car of tomorrow.

Outlook

Valeo will continue to develop new partnerships to support the transformation of certain professions (digitalization and automation, for instance). It is vital to identify the skills of the future and to anticipate prospective needs by developing close relationships with appropriate training institutions.

The Human Resources network will continue to strengthen its presence, by setting up dedicated recruitment teams that will contribute to Valeo's appeal, support its diversity policy in the field and facilitate links between prospective employees and operational teams.

⁽¹⁾ Hires resulting from acquisitions are not shown in this chart.

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 development. In 2018, the internal community of members of the “Employee Advocacy” program will double, with 1,000 employee ambassadors on social networks.

By 2020, Valeo aims to have 450,000 LinkedIn followers.

Retaining talent

Challenges

The Group relies on its employees to support its growth and maintain relationships with its major customers worldwide.

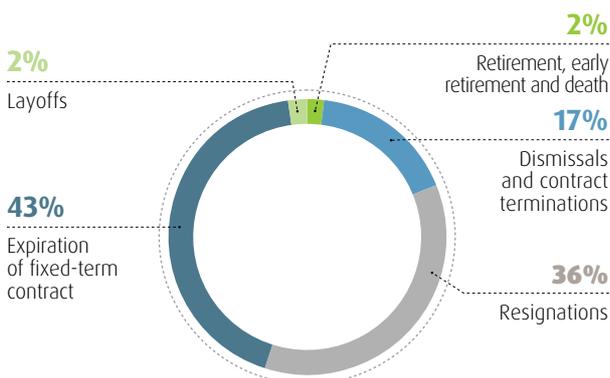
To this end, it is essential to be able to develop a policy that promotes loyalty among employees and to capitalize on their expertise and knowledge. This is critical to ensuring operational excellence.

Approach and achievements during the year

Valeo is committed both to recognizing and valuing talent, while retaining talented employees thanks to an ambitious compensation, professional development and internal mobility policy.

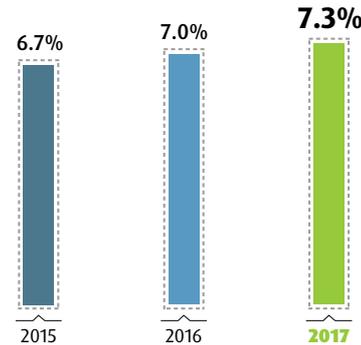
Voluntary turnover represents the number of voluntary departures of managers and professionals expressed as a percentage of the total number of managers and professionals on the payroll (retirements and contract terminations are not taken into account). Turnover of managers and professionals is analyzed 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.

► BREAKDOWN OF TURNOVER BY CAUSE IN 2017



In 2017, 21,591 employees left the Valeo Group. The end of fixed-term contracts and resignations were the two main causes of departures, representing 79% of the Group-wide total in 2017.

► VOLUNTARY TURNOVER OF MANAGERS AND PROFESSIONALS



In 2017, the turnover of managers and professionals in the Group was 7.3%. 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 were visibility concerning career development and compensation.

- Younger age groups (25-34 years) had the highest turnover rates: 9.33% for 25-29 year olds and 10.27% for 30-34 year olds.
- Turnover was lowest in Japan (3.16%), India (4.15%), Spain (4.29%), France (5%) and Germany (5.04%).
- Turnover was highest in Hungary, Morocco and Romania, where special measures have been taken (compensation, career development, promotion of diversity, etc.) to bring the rate down significantly.
- In 2017, Asia accounted for one-third of turnover among managers and professionals across the Group, and China accounted for a quarter of the Group’s resignations.

To increase team loyalty and permanently lower the turnover rate, Valeo informs each manager and professional at their mid-year or year-end appraisal of prospective career developments. In addition, to give them a role in their professional development, managers and professionals were given the opportunity to communicate their desired career development opportunities ahead of the year-end appraisal in 2017. Their wishes are then reviewed and discussed by line management and the HR network, with a view to giving precise feedback on career prospects during the year-end appraisal.

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. It has implemented various types of compensation in order to retain its employees (see section 4.4.2 of this chapter, “Compensation”, pages 228 to 229). 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, paid vacation, bonuses, etc.).



Outlook

In an increasingly competitive environment, Valeo has recruited several compensation and employee benefits Experts at different organizational levels and in different regions in order to establish a competitive and attractive compensation policy in line with local market practice.

The Group's objective is to stabilize the voluntary turnover rate among managers and professionals at 7% by 2020.

Employee compensation

Challenges

The challenge for Valeo is to define a compensation policy that is competitive with regard to the job market in each of the Group's businesses in order to attract and retain talent and motivate teams,

while complying with all the laws, regulations and collective bargaining agreements to which each institution is subject, and with internal equity principals.

Approach and achievements during the year

The economic climate in each country, and even at individual sites, is a major consideration in ensuring that the compensation paid by the various Group entities remains competitive.

The information used to develop compensation policy is obtained from reliable and varied sources, including market practices from specialized compensation consulting firms, central bank and government agency forecasts.

► PAYROLL COSTS AND PERSONNEL EXPENSES

<i>(in millions of euros)</i>	2015	2016	2017	Change (2017/2016)
Payroll costs excluding social security contributions and interim staff (A)	2,019	2,290	2,633	+15.0%
Social security contributions (B)	492	531	617	+16.2%
Pension costs under defined benefit plans (C)	48	37	59	+59.5%
Pension expenses under defined contribution plans (D)	78	83	109	+31.3%
Total payroll costs (excluding interim staff) (E)	2,637	2,941	3,418	+16.2%
Contribution rate ((B+D)/A)	28.2%	26.8%	27.6%	-

<i>(in millions of euros)</i>	2015	2016	2017	Change (2017/2016)
Total personnel costs (including interim staff)	3,017	3,341	3,890	+16.4%
As a % of sales	20.7%	20.2%	21.0%	-

► BREAKDOWN OF PAYROLL BY GEOGRAPHIC AREA IN 2017

<i>(in millions of euros)</i>	France	Europe (excl. France)	Outside Europe
Payroll costs excluding social security contributions and interim staff (F)	675	895	1,063
Social security contributions (G)	248	196	173
Total payroll costs (excluding pension costs) (H)	923	1,091	1,236
Contribution rate (G/F)	36.7%	21.9%	16.3%

The payroll increased by 16.2% in 2017, due to the increase in the Group's registered headcount over the period (up 21.6%) and pay increases awarded under wage policies implemented in the various countries where the Group operates.

Social security contributions grew more slowly, due to the ceiling reached in some countries. Pension costs increased by 40% over the year, with defined contribution plans accounting for nearly

65% of these expenses. The contribution rate edged up slightly to 27.6%, thereby impacting personnel expenses as a proportion of sales (up 0.8% to 21.0%). It is nevertheless important to note that the social security contributions paid in France represent 40.2% of total personnel expenses paid across the Group as a whole (for 16% of the Group's workforce).

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. It comprises a fixed portion, and can include short- and long-term variable portions, as well as certain employee benefits. A higher level of responsibility will increase the weighting of the variable portion in the total package.

The fixed portion is determined based on external market practices 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 manager's level of responsibility. Variable compensation for senior managers and executives is based on collective financial performance criteria aligned with the scope of responsibility, as well as measurable functional and/or individual objectives. Any employees not mentioned above, in particular other high-potential managers and specialists, may also be eligible for variable compensation, based on quantitative criteria.

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.

Valeo has also implemented long-term incentive plans to encourage both senior management 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 (for 2017, average of operating margin⁽¹⁾, ROCE⁽¹⁾ and, in certain cases, ROA⁽¹⁾ over three years), except in the case of exceptional free share grants to key players and fast trackers when no performance criteria 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. When making such grants, the Group endeavors to ensure increasing diversity among beneficiaries by nationality and gender.

Valeo's policy promotes the recognition of collective performance. Incentive plans are in place in several countries, in accordance with local practices and agreements. In France, for instance, the new three-year collective bargaining agreement signed in 2017 had a significantly higher ceiling than those of previous years.

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 allotting free shares to promote the development of employee share ownership over time. Under the policy free shares have been regularly allotted to all eligible employees of the Group, thereby strengthening employee commitment to 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. The offer was extended in 2017 under similar conditions. Through such offers, 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 80,000 Group employees were eligible for the offering carried out in 20 of the major countries where Valeo operates in 2017. At the end of the subscription period, which began on June 6 and ended on June 19, 2017, 509,990 new shares were subscribed at a price of 51.62 euros each. Employees received a discount of 20% compared to the reference share price. Employees purchasing their shares within the scope of the Group Employee Savings Plan (*Plan d'Epargne de Groupe* - PEG) also benefited from an employer contribution. Outside France, employees were granted free shares subject to certain conditions.

On the recommendation of the Group's Management, at its meeting of March 22, 2017, Valeo's Board of Directors decided to grant eligible employees in France and the 16 countries not participating in the share subscription offer five free shares each. The shares will definitively vest on June 30, 2020 provided that the beneficiaries are Valeo employees at that date. This operation covered 15,342 people.

At December 31, 2017, more than 40% of employees were Valeo shareholders thanks to the share ownership policy implemented since 2010 and the recent Shares4U offerings.

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. Its aim is for 45% of employees to be shareholders by 2020.

(1) See Financial Glossary, page 36.

Training

Challenges

The Group has set itself the following strategic objectives:

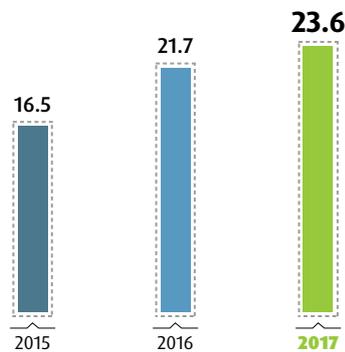
- strengthen the professionalism and commitment of employees;
- support the Group’s Research and Development efforts and expand industrial capacity;
- reinforce the 5 Axes culture throughout the Group;
- raise awareness among teams about security, Well-Being at Work and ergonomics;
- raise awareness 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 2017, each Valeo employee received an average of 23.6 hours of training. The ratio increased by a significant 7.1 points between 2015 and 2017.

In 2017, 98.1%⁽¹⁾ of employees attended at least one training course.

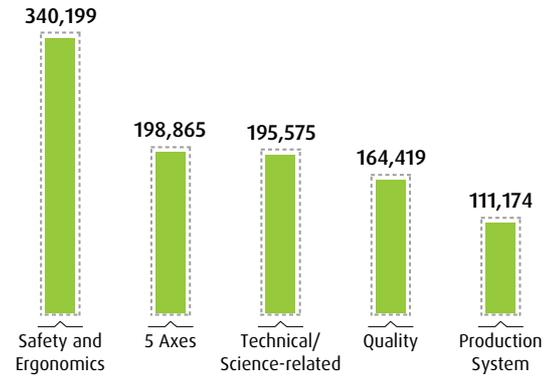
► **AVERAGE HOURS OF TRAINING PER EMPLOYEE⁽¹⁾**



(1) 23.6 hours of training excluding FTE automotive employees.

It is essential for all new employees joining the Group to have the opportunity to discover the 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 mobility.

► **BREAKDOWN BY HOURS OF TRAINING OF THE FIVE MOST POPULAR TRAINING COURSES IN 2017**



- 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).
- The volume of training hours devoted to safety was up more than 6.9% to 340,199 compared with 2016.
- 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. The 5 Axes course was offered to over 28,681 employees in 2017, representing 198,865 hours of training. These courses are dispensed by certified regional trainers.
- New employees also receive training in ethics and compliance, through e-learning modules available in 13 different languages.
- 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 (such as case studies) enable the acquisition of skills based on the needs of each employee. Training programs developed in cooperation with the European Center for Continuing Education (CEDEP) serve to prepare future senior management in the Group’s main growth areas (Asia, North America and Eastern Europe). These training programs represented 13,795 hours in 2017.

(1) This ratio corresponds to all employees trained during the year (including those no longer in the Group)/total headcount at end-December.

Outlook

The Group again experienced strong growth in 2017, both organically and through external growth (acquisition of FTE automotive, takeover of Ichikoh and creation of Valeo-Kapec). Valeo must meet the challenge of integrating new employees by swiftly and efficiently rolling out training that underpins its corporate culture, in particular the 5 Axes training. Sharing the corporate culture is a good means of integration, because it not only develops skills but also encourages Group employees to mix.

In view of its external growth transactions in 2017, Valeo has set itself the following two objectives:

- at least 98% of employees taking a training course;
- at least 23.6 hours of training per employee on average.

Development and transmission 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.

Strengthening technical expertise is also 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 implemented 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

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.
- The Group has also 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 applicants. The goal is to empower each employee in his or her own career development.

A succession and development plan is drawn up each year to identify the next stages in the career path of all managers and professionals. It is implemented by each Group entity via a committee responsible for making decisions on internal candidates for vacant positions.

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.

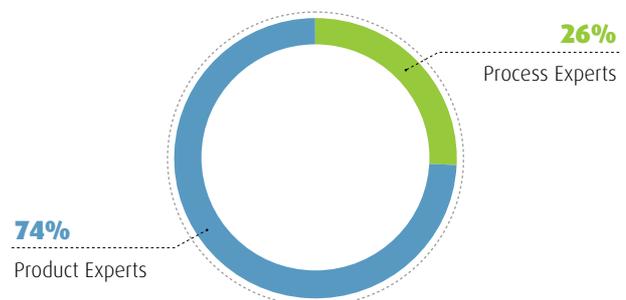
To ensure consistency between identified career paths and vacant positions, a meeting designed to review talent and competences, known as the "People Review", is arranged by entities and networks at different levels of the organization. This meeting helps encourage transfers between entities, countries 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 of less than one year or expatriation to ensure the transfer of competences to new locations, the strengthening of certain essential skills to support the growth of Valeo's activities internationally, and the individual development of the employees concerned.

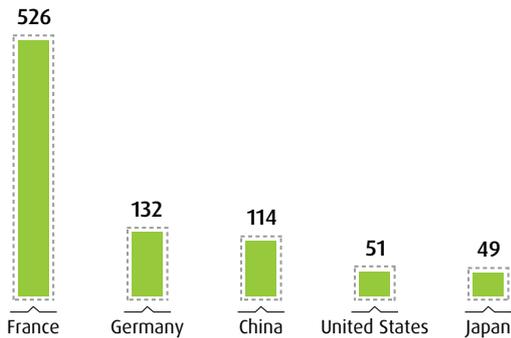
This dynamic policy and these tools have allowed Valeo to create a pool of internal talent to fill vacant positions. As a result, a total of 2,924 managers and professionals benefited from career development opportunities in 2017 (up from 2,312 in 2016). The average length of service of Valeo managers and professionals in each position is 2.6 years.

Experts play a vital role in the transmission of knowledge and competences. They take part in the Valeo Technical Institutes to deliver training programs and prepare educational materials used in classroom or online training modules. Each year, the Group identifies and appoints Experts to provide support for prospective new products and the development of industrial processes. In 2017, Valeo had 1,151 Experts in 21 countries worldwide, breaking down as 852 product experts and 299 process experts. Between 2015 and 2017, the number of Experts increased by 23%.

► BREAKDOWN OF EXPERTS BY EXPERTISE IN 2017



► TOP 5 COUNTRIES WITH THE MOST EXPERTS IN 2017



France has the highest number of Experts at Valeo, with around 46% of total Experts; five countries (France, Germany, China, United States and Japan) together account for 75% of Experts. Moreover, strong growth was recorded in the number of Experts between 2016 and 2017 in China (up 25%), Germany (up 25%) and India (up 10%).

4.4.3 Promoting and respecting fundamental rights

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 in which Valeo has more than 150 employees. A nine-member committee meets quarterly at a European site.

The European Works Council represented 42.5% of the Group's registered headcount in 2017, or 42,469 employees.

The R&D Experts network is described in section 4.2 of this chapter, "A network of Experts and key training to foster innovation", pages 183 to 184.

Outlook

To support the Group's growth, the Human Resources teams in charge of talent development pay particularly close attention to supporting managers in the management of competences in their teams, thereby ensuring that the skills development plan is initiated in line with the teams' needs.

Valeo continues to develop its network of Experts, especially in countries where Research and Development team numbers continue to rise. The Group also encourages the promotion of the role of Experts within its organization, fostering the creation of new educational content and new technical training courses developed with the assistance of the Valeo Technical Institutes.

To develop local expertise, Valeo aims to ensure that at least 60% of its Experts are non-French by 2020, compared with 54% in 2017.

International level

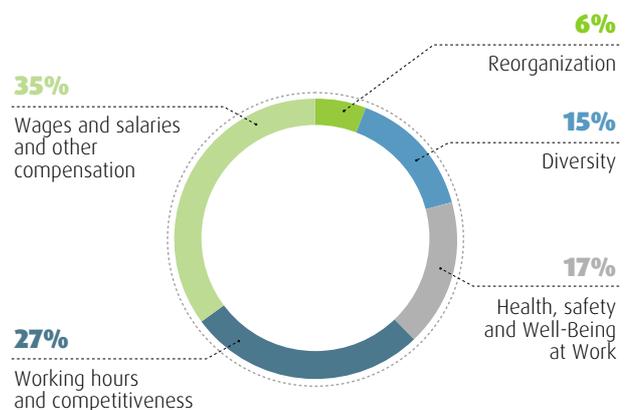
Each country sets up specific bodies in line with local laws and regulations.

In 2017, 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. Valeo must continue promoting labor relations that provide a platform for exchanging points of view, fostering mutual understanding and finding well-balanced solutions that are in the interests of all stakeholders.

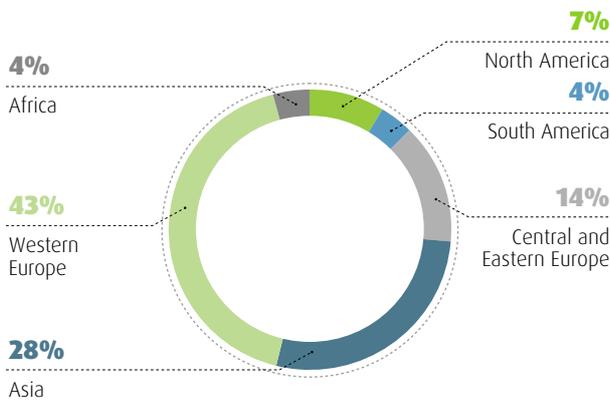
A total of 396 collective bargaining agreements were in force locally at Valeo's various sites worldwide in 2017. The topics covered by these agreements are as follows:

► BREAKDOWN OF AGREEMENTS IN FORCE BY CATEGORY IN 2017



The main topics covered are wages and other compensation (35%), working hours and site competitiveness (27%), and health, safety and Well-Being at Work (17%).

► **BREAKDOWN OF AGREEMENTS SIGNED BY GEOGRAPHIC AREA IN 2017**



The vast majority (85%) of agreements were signed in Europe and Asia. Europe, given its historical tradition of labor relations, was home to nearly one out of every two agreements in 2017. The high proportion of agreements signed in Asia demonstrates the Group's determination to promote this type of dialog with labor organizations.

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 trade unions. 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-on-one employee meetings standard practice in order to ramp up competences and adapt them to the 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.

In 2017, in accordance with the CSR agreement, the Group presented a CSR Report covering the Group's entire scope to the European Works Council. It analyzes the Group's key indicators, particularly in terms of talent retention, accidents, absenteeism, training and career prospects.

Outlook

Valeo will continue promoting labor relations in 2018, maintaining a high number of agreements, notably on the following topics: "Working hours and competitiveness" and "Salary and other components of compensation".

The Group is also committed to having the CSR Report prepared in accordance with the provisions of the CSR agreement presented and discussed with local unions on all sites by 2020.

Promoting and respecting human rights

Challenges

Valeo's corporate culture is deeply rooted in the core values upheld by international organizations such as the United Nations and the International Labour Organization.

Valeo's corporate social responsibility policy therefore forms 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 CSR agreement, which reflect the Group's culture of professional, individual and collective integrity.

Approach and achievements during the year

Core values upheld by international organizations

Valeo has participated in the UN Global Compact since 2004.

The Group also confirms its compliance with the International Labour Organization (ILO) conventions on fundamental principles and rights at work:

- elimination of discrimination in employment and occupation (Conventions 100 and 111);
- prohibition of child labor (Conventions 138 and 182);
- elimination of forced and compulsory labor (Conventions 29 and 105);
- freedom of association and collective bargaining (Conventions 87 and 98);
- protection of workers' representatives and union members (Convention 135);
- equal rights and opportunities for workers with family responsibilities (Convention 156).

The Group also adheres to the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, adopted on June 27, 2000 and revised on May 25, 2011.



Valeo's commitment to promoting and respecting human rights

These commitments were enshrined in a Code of Ethics drafted in 2005 and revised in 2015, and distributed by Valeo worldwide. The Code of Ethics is binding on all Group employees; it sets out the rules applicable in all of the Group's legal entities and in every country without exception.

The Code of Ethics combines the Valeo Values, the 5 Axes and the Valeo Compliance Program. It reaffirms the Group's commitment to sustainable development, the Global Compact and international labor conventions, including:

- the fight against child labor. The Company does not hire children aged under 16, and respects the ILO conventions on work by children aged between 15 and 18;
- the prohibition of forced labor. Valeo recognizes and protects the intrinsic value of each individual, and scrupulously complies with regulations on wages and salaries, minimum age requirements, the equal rights of men and women, and employee privacy;
- the recognition of Valeo employees' 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.

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 receives 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 2017, the Valeo Group conducted an in-depth review of the contents of six Human Resources procedures and policies on respecting and promoting human rights:

- Well-Being at Work (see section 4.4.1 of this chapter, "Well-Being at Work", pages 224 to 225);
- The promotion of diversity (see section 4.4.4 of this chapter, "Promoting diversity", pages 235 to 238);
- 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.

Mechanism guaranteeing fundamental rights in the event of real or perceived infringement

Each year, Valeo's internal auditors verify compliance with these procedures as part of specific audit programs relating to respect for human rights.

Under the impetus of the Sapin law and the law on the duty of care, the scope of the ethical whistleblower line has been extended to include the prevention of breaches of human rights and threats to workplace health and safety (see section 4.5.2 of this chapter, "Ethics and compliance", pages 240 to 243).

Inappropriate behavior or breaches of the provisions of the Code of Ethics or Human Resources 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 by 2020 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.

4.4.4 Promoting 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.

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 sub-committees: Gender, Disability, Social and Cultural, and Generational. These committees, whose membership was completely renewed in 2016, comprise employees from different countries and with different functions, and are led by four managers with diverse backgrounds. Building on this organization, the Group has been committed since 2012 to:

- making diversity and the principle of non-discrimination a priority;
- encouraging local action and policies to promote diversity in all its forms;
- informing employees about the Group's commitment and communicate on the actions undertaken.

Gender diversity

Challenges

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 gender equality in terms of career development, training and compensation in comparable situations.

To date, six of the Board of Directors' 14 members are women: Caroline Maury Devine, Sophie Dutordoir, Noëlle Lenoir, Ulrike Steinhorst, Mari-Noëlle Jégo-Laveissière and Véronique Weill. With women making up 42% of its Board of Directors, Valeo has voluntarily chosen to go beyond statutory requirements set by the law of January 27, 2011 on the balanced representation of women and men on boards of directors and supervisory boards, and professional equality.

The Valeo Operations Committee had 15 members, two of whom were women: Catherine Delhay (Chief Ethics and Compliance Officer) and Fabienne de Brébisson (Vice-President, Communications).

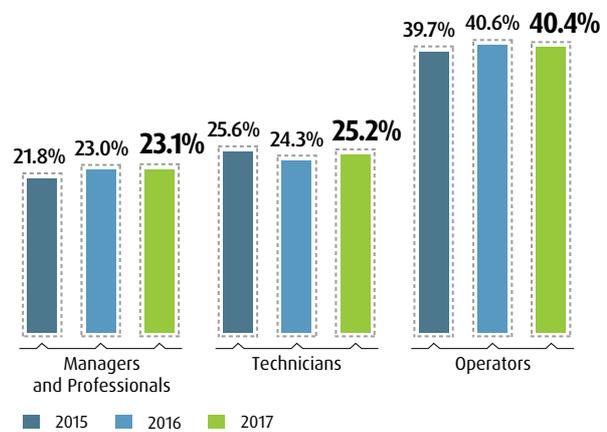
Approach and achievements during the year

Based on a continuous improvement approach, the Group aims to emphasize the competences and development of women and men both internally and during the hiring process. Valeo is committed to respecting, in comparable situations, gender equality in terms of career development, training, compensation, etc. It should be noted, however, that women are less represented than men in the automotive industry.

In 2017, the following measures were implemented:

- to mark International Women's Day on March 8, 2017, 85% of Valeo sites held employee awareness campaigns on professional equality (compared with 73% in 2016). 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;
- to encourage girls in high school to consider careers in engineering, Valeo continued its partnership with *Elles Bougent* by participating in the actions undertaken by the association: 73 Valeo sponsors are currently working with *Elles Bougent*.

► BREAKDOWN OF WOMEN BY SOCIO-PROFESSIONAL CATEGORY – REGISTERED HEADCOUNT

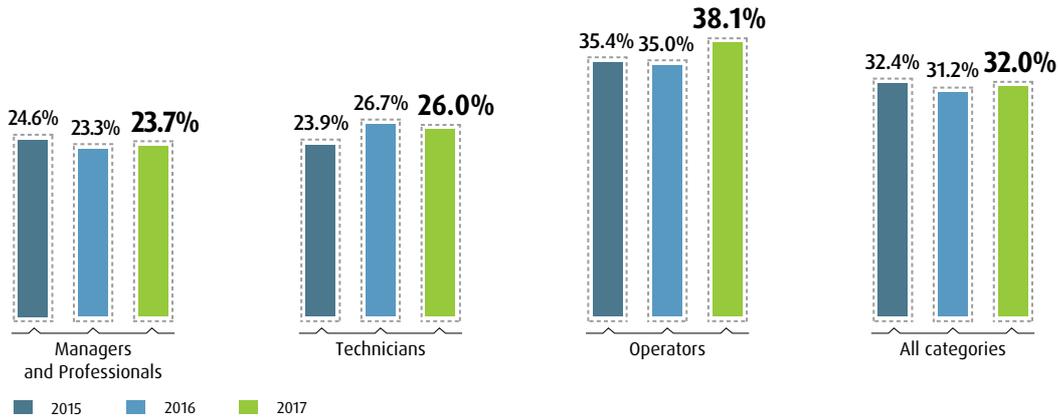


In 2017, women made up 32.9% of Valeo's workforce:

- the proportion of women among managers and professionals was stable at approximately 23% between 2016 and 2017;
- the proportion of women among top management⁽¹⁾ increased from 9.7% in 2016 to 12% in 2017;
- the proportion of women in Research and Development functions was stable at 14.1% between 2016 and 2017.

(1) Top management corresponds to employees in the two highest positions in the managers and professionals category on the six-level Valeo scale.

► **PERCENTAGE OF WOMEN AMONG NEW HIRES**



Women made up 32% of new hires.

Outlook

Valeo aims to increase the proportion of women in the total number of employees hired, bringing the rate to at least 33% in 2020.

Disability diversity

Challenges

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

Approach and achievements during the year

Ninety-six sites (compared with 78 in 2016) held at least one local event to mark the International Day of Persons with Disabilities on December 3, 2017. Events took the form of school visits for people with disabilities, conference-debates, the publication of articles and school visits.

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)**



Between 2015 and 2017, the number of employees with disabilities at Valeo increased by 58%. In 2017, more than one in two employees with disabilities were working in France, and nearly one in five were working in Germany.

Top five countries with the most employees with disabilities

In 2017, France and Germany together accounted for 76% of employees with disabilities at Valeo. The rest of the world accounts for 24% of employees with disabilities.

Valeo has two goals:

- increase the number of employees with disabilities by 2020, and exceed the number of 1,759 employees reached in 2017;
- obtain a more even geographic spread of employees with disabilities so that 30% are located in the rest of the world (outside France and Germany).

Cultural and social diversity

Challenges

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 area.

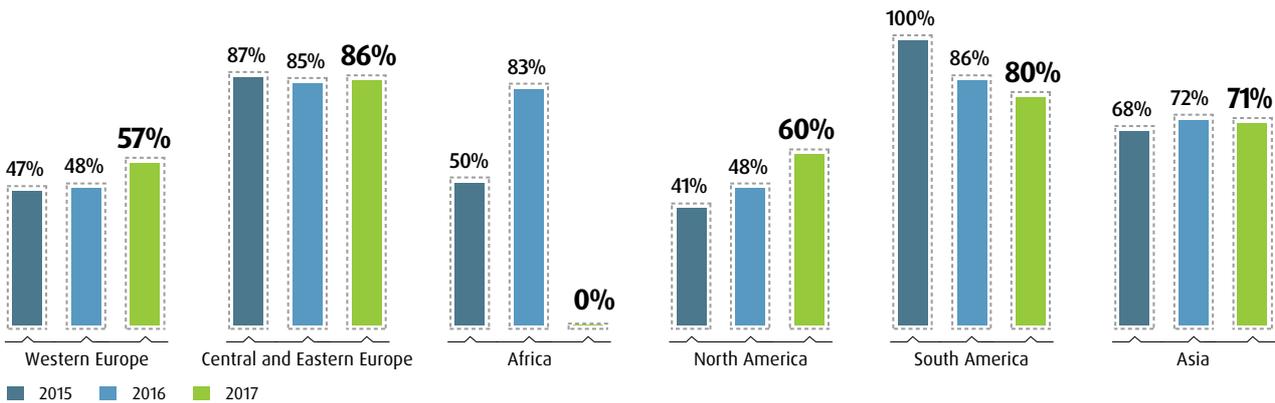
Approach and achievements during the year

One hundred and four sites held at least one local event to mark World Day for Cultural Diversity for Dialogue and Development on May 21, 2017. Such events took the form of charity collections, conference-debates and the publication of articles.

In 2017, Valeo had 420 expatriates in its ranks, compared with 384 in 2016. The countries with the largest number of expatriates are the United States (74), France (64), China (54), Japan (51) and Mexico (29). The top ten countries account for 83% of the Group's expatriates.

The proportion of expatriates in the total number of managers and professionals has fallen by 0.35 points over the last three years (1.43% in 2017 vs. 1.74% in 2014). French expatriates accounted for 58% of total Valeo expatriates in 2017, compared with 64% in 2014. This means that the proportion of non-French expatriates increased by six points over the same period, in line with Valeo's desire to promote individual development paths for managers and professionals in Europe. Expatriates working in Research and Development account for 25% of the Group's expatriates; those working in Finance make up 18%.

► **BREAKDOWN OF SITES RUN BY LOCAL DIRECTORS (2017)**



Outlook

To strengthen local site management, Valeo has set itself the following targets for 2020:

- increase the proportion of sites run by a local director, bringing it above 70%;
- continue to reduce the proportion of expatriates among total managers and professionals to less than 1.3%;
- reduce the share of French expatriates in the total proportion of the Group's workforce to less than 55%.

Generational diversity

Challenges

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 (people born between the mid-1990s and the late 2000s) arrive on the labor market. Between the youngest and the oldest generation, the challenge is to transfer know-how, which must be safeguarded to support the Group's growth ambitions and ensure its sustainability.

The Group currently includes employees of 133 different nationalities. Chinese, French, Mexican, Polish, German, Japanese, Spanish, Indian, American and Thai are the ten most widely represented nationalities within the Group.

In 2017, 70% of Valeo sites were run by a local director. The figure is even higher in South America (80%) and Western Europe (57%).

With the exception of Africa, most sites are run by local directors.

Approach and achievements during the year

In 2017, Valeo implemented a number of measures in favor of generational diversity:

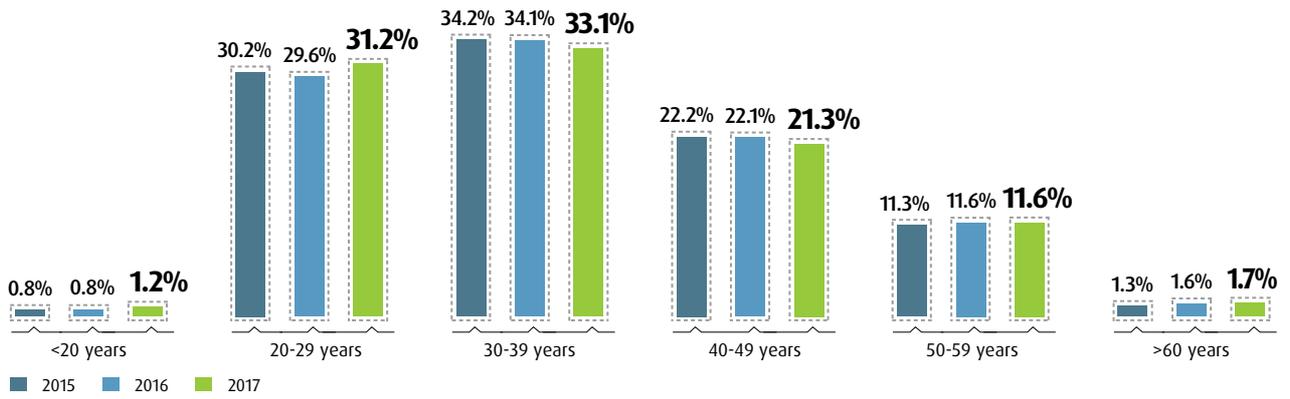
- 96 sites held at least one local event to mark generational diversity day in September. Such events took the form of school visits, photo contests, conference-debates and the publication of articles;
- Valeo also maintained its close relationships with higher education establishments, notably by nurturing 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: 1,959 interns, 1,195 apprentices and trainees, and 135 *Volontariat International en Entreprise* (VIE) program applicants.

In 2017, Valeo had a total of 13,356 employees aged over 50, and 32,466 aged under 30, representing 13.7% and 32.5% of the registered headcount respectively. Valeo hired 14,953 employees aged under 30.

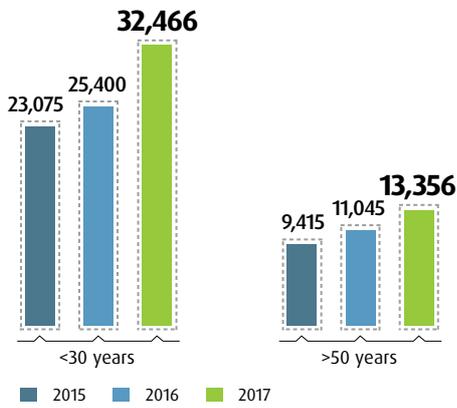
The increase resulted from a hiring policy that favors both to younger and older generations.



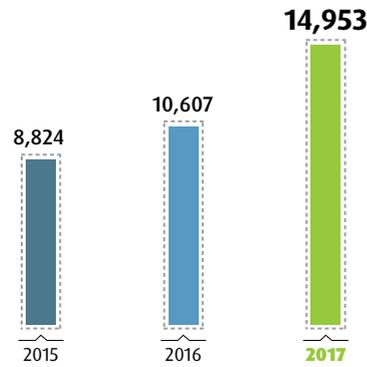
► **BREAKDOWN OF REGISTERED HEADCOUNT BY AGE GROUP**



► **BREAKDOWN OF JUNIOR AND SENIOR EMPLOYEES – REGISTERED HEADCOUNT**



► **BREAKDOWN OF JUNIOR EMPLOYEES (UNDER 30)⁽¹⁾**



(1) Including only permanent and fixed-term contracts.

Outlook

In the firm belief that the transmission of knowledge is key to enabling new generations to be effectively integrated, Valeo’s objective is for the share of employees aged over 50 in the total registered headcount (13.4%) to be at least equal to the current level in 2020.

4.5 Commitment to corporate citizenship

Valeo is a committed social actor, given the importance it attaches to its operational excellence and, product quality, vehicle and road user safety, ethics and compliance rules, 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 seeks to understand and respond to them, notably by integrating these key issues in its 2016 materiality matrix and its update in 2017.

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 and long-lasting products and services.

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 targets set within a continuous improvement process aimed at achieving zero defects.

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) problem-solving culture ensures that every incident is factually documented by resident quality engineers by systematically comparing good parts and defective parts and by verifying the relevance of the standards (QRQC step 1). Speed of reaction, clarity of communication and validation of each problem-solving step are verified in real time in the shared Valeo Incident Management (VIM) system. A warning system gives management visibility and provides teams with the necessary support. Each problem is associated with at least one lesson learned to guarantee that standards are continuously improved. What is learned

locally is shared across the Group to accelerate progress (QRQC step 2). Lastly, emphasis is placed on QRQC step 3, which aims to transform every manager into a certified QRQC trainer able to coach his or her teams;

- state-of-the-art methodologies and standards systematically integrated within a continuous improvement process in the following areas:
 - product/process development (generic FMECA – failure mode, effects and criticality analysis; RAISE – robustness, accountability, innovation, standardization and evaluation),
 - driving projects (review process by the Technical Committee),
 - supplier integration (StEDE – Standards Existence, Deployment and Enforcement; CCLs – Commodity Control Lists and SCPs – Standard Control Plans),
 - quality control in production (Standard Process Control Plan), and
 - monitoring guaranteed performance (advance detection of guarantee notifications). In 2017, Valeo implemented a specific methodology – Wings, Warranty INcident Getting Solved – enabling it to detect any incident in the customer network as soon as possible and to provide an immediate and appropriate response. The collection and enrichment of these data also enable the Group to develop effective action plans to extend product life.

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 (Suppliers Development & Prevention) program and the RSQ (Recover Supplier Quality) program. More than 200 suppliers were involved in these activities in 2017. 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 oversees the robust development of products and processes through design approval (design reviews, approval plans), and the rollout of standard inspection plans based on generic FMECAs of products and processes, which are continually supplemented with customer feedback approved by Technical Committee Experts.

4.5.2 Ethics and compliance

Challenges

Due to its global presence and its growing number of employees, Valeo’s Ethics and Compliance Office 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, such as export control.

Approach

The program entails integrating and applying a clear set of internal rules that:

- concretely and operationally reflect Valeo’s determination to comply with regulations;
- describe prohibited practices and lay down conditions and prerequisites governing certain business relationships and cooperative arrangements;

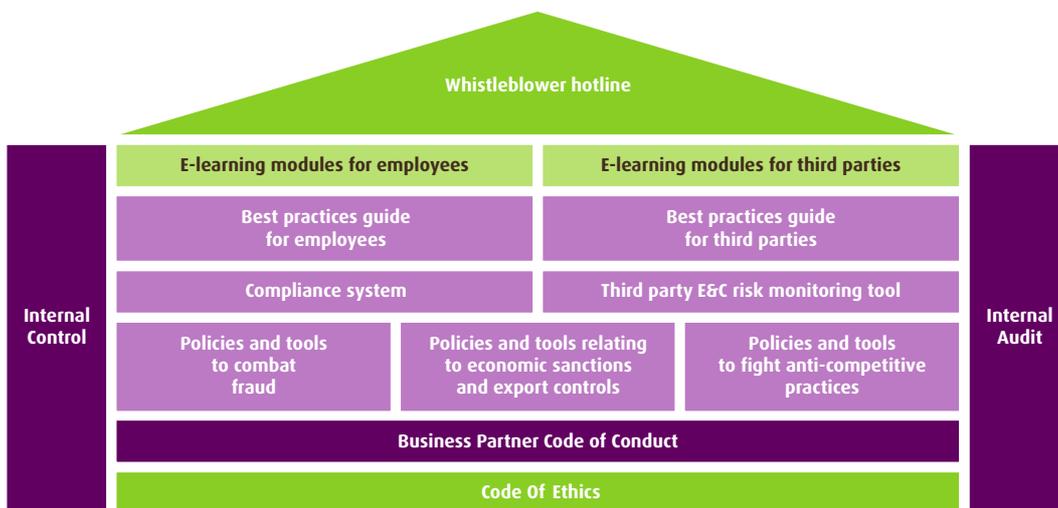
- establish procedures for implementing and monitoring the effectiveness of the Compliance Program in preventing and detecting risks, and implementing corrective action plans as appropriate.

The program set up by the Ethics and Compliance Office addresses the whole of the Valeo workforce, with particular emphasis on managers and professionals in their interaction with business and technical partners. It also extends to certain third parties liable to expose Valeo when providing services to the Group.

The program is based on very strict business ethics and compliance requirements.

It is complemented by a set of instructions and decision-making tools designed to prevent corruption and anti-competitive behavior and practices. It is regularly updated in a continuous process of awareness raising, training and prevention.

► OVERVIEW OF VALEO’S COMPLIANCE PROGRAM



A program to combat corruption and anti-competitive practices

Since it was introduced, 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 operates;
- 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;
- 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.

Business Group, Function and Country management teams have also appointed Compliance Champions, experienced managers known and respected by their peers and their teams, to represent them and work closely with the Chief Ethics and Compliance Officer in rolling out the program.

The 31 Compliance Champions keep their teams informed about the program, provide guidance on ethics and compliance issues, and act as ambassadors for the program. Their number and way of working were reviewed in 2017 (see section 4.5.2 of this chapter, "Achievements in 2017").

Prevent and alert: the Valeo whistleblower hotline

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 hotline is open to all employees in all countries, in all of the Valeo Group's languages. It offers anonymity at the whistleblower's request (subject to the applicable laws), and is free of charge. It is run by a specialist third-party company, guaranteeing confidentiality and anonymity compliant with regulations.

Alert processing is coordinated by the Group's Chief Ethics and Compliance Officer in liaison with the Internal Audit and Control Department's Fraud Unit, comprising two Fraud Investigation Officers, and an Alerts Committee set up at the same time as the whistleblower hotline, in accordance with a standard procedure. The committee decides how to proceed and what sanctions to apply.

No retaliation of any kind whatsoever will be tolerated against a whistleblower deemed to have acted in good faith.

In 2017, the scope of the whistleblower hotline and its procedures were extended to take into account the requirements of the Sapin law and the law on the duty of care.

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 Office 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.

In 2017, Valeo also set up an ethics and compliance risk detection tool for third-party and intermediary suppliers, backed up by specific databases to identify past or ongoing incidents, disputes or cases involving its suppliers in these areas (see "Third-party ethics and compliance risk tracking tool" in the summary table).

Achievements in 2017

Valeo pressed ahead with its rigorous ethics and compliance training policy in 2017, training 99.59% of the target population (all of the Group's managers and professionals, as well as all other Group employees exposed to similar issues and working for the Group when the annual campaign got underway on March 1, 2017), i.e., 22,695 people. Compliance with training obligations in 2017 was subject to strict monitoring by the Group's Human Resources Department and the Ethics and Compliance Office, with mandatory catch-up sessions. Managers and professionals who joined the Valeo Group between March 2017 and the end of the year also received specific training in ethics and compliance. In 2017, this specific program covered 6,470 new hires, 5,907 of whom were trained. These newcomers will also be included into the mandatory annual training program in 2018.

In the fight against corruption, achievements in 2017 fell into three categories:

- rollout of new ethics and compliance tools for operational and daily use. In 2017, Valeo introduced the Valeo Compliance Management System, an IT tool for managing employee requests relating to ethics and compliance. It enables 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, tablet or smartphone. The tool centralizes and tracks requests, and can be used to send our communications or surveys relating on compliance to all or part of the workforce. It makes it easier to monitor all cases and/or requests currently being reviewed by the Ethics and Compliance Office;
- renewal of support for management staff through both the reorganization of the Compliance Champions, whose number has been reduced (from 70 to 31 people) and whose function

has been redesigned, and a specific awareness program for the Group's 300 main managers (or leaders). Given that reinforced application of the ethics and compliance tools requires the involvement of management teams in the Business Groups and Valeo Service, National Directorates and networks, they were asked to appoint a spokesperson, known as their Compliance Champion, tasked with strengthening the application of ethics and compliance tools within their respective areas. Drawing on their in-depth knowledge of the specificities of their network, country or National Directorate, Compliance Champions serve to facilitate the application of the Group's demanding requirements in this respect within their membership structure. In addition, the Group's main managers can now refer to a document setting out their roles and responsibilities (Valeo Roles and Responsibilities), issued in 2017. This document describes individual roles and responsibilities by level (Business Group and country management teams, managers and employees) and by key functions (Human Resources, Finance, etc.);

- development of tools necessary to bring the Valeo Group into compliance with European and French laws governing the fight against corruption⁽¹⁾. In this respect, Valeo has conducted a campaign to assess its specific risks. It has also extended the scope of its whistleblower hotline. The new hotline will be opened in 2018, after the tools ensuring the confidentiality and anonymity of alerts and complaints was validated by the competent French authorities, including the French National Data Protection Commission (CNIL) early in 2018.

In the fight against psychological harassment, the alert and prevention system introduced in 2016 has been strengthened. The system, devoted to psychological harassment, is based on internal procedures for confidentiality and impartial treatment of complaints submitted to the Group. It is accompanied by training in the prevention of harassment and discrimination, which continued throughout 2017.

VALEO'S ANTI-CORRUPTION PLAN

Pursuant to the French law of December 9, 2016 relating to the fight against corruption⁽²⁾, Valeo has fine-tuned some of the tools put in place by the Ethics and Compliance Office in recent years to respond specifically to the conditions of this law:

- Valeo's anti-corruption policy has been reviewed and upheld;
- the internal whistleblowing system, allowing the collection of reports and complaints previously confined to certain types of alerts, now covers the entire scope provided for by the law⁽²⁾;
- a specific corruption risk map was drawn up at the end of 2017;
- a number of additional measures to reduce these risks were implemented following this work;
- procedures for evaluating the situation of customers, suppliers and intermediaries have been defined; their rollout began in 2017;

- Valeo's longstanding internal and external accounting control procedures, which are regularly updated to comply with the latest professional and international standards and rules, have been reinforced;
- annual training courses for managers and staff most exposed to the risks of corruption and influence peddling, which have existed since the creation of Valeo's Ethics and Compliance program, are continuing. They are mandatory for all Group managers and professionals. In 2017, almost all managers and professionals were trained (see above);
- the existing anti-corruption program control and evaluation system was regularly reviewed by the Audit and Risks Committee of Valeo's Board of Directors in 2017.

In 2017, the Ethics and Compliance Office gave a presentation on the compliance of Valeo's anti-corruption program with the law to the Audit and Risks Committee of Valeo's Board of Directors.

(1) Law no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization, known as the Sapin II law.

(2) Article 17 of law no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization, known as the Sapin II law.

Outlook

Now that the scope of the whistleblower hotline has been extended to new issues and beneficiaries as a result of the Sapin law and the law on the duty of care (prevention of violations of human rights, workplace health and safety and serious threats to the environment) (see section 4.1.4 of this chapter, "Valeo's duty of care plan", pages 176 to 177), 2018 will be largely devoted to the promotion of the new system comprising a whistleblowing procedure, an alert management and processing procedure and a summary booklet.

An export control and economic sanctions program allowing Valeo to legally export its high-tech products in compliance with the many applicable regulations will also be introduced.

2018 will also see the rollout of Valeo's personal data protection program following work to make it compliant with the EU's General Data Protection Regulation.

4.5.3 Application of sustainable development principles in purchasing processes

KEY FIGURES IN 2017

- 1,069 suppliers account for 95% of the amount of direct purchases (manufacturing purchases);
- 608 suppliers are French;
- 50 suppliers account for 25% of the amount of indirect purchases (maintenance, subcontracting, travel, supplies, etc.).

Challenges

Sustainable development in the purchasing policy of tier-one suppliers⁽¹⁾: a prerequisite for automakers, met by Valeo

To anticipate growing demand from automakers, Valeo:

- systematically responds to requests from all automakers through self-assessment questionnaires;
- organizes meetings with the sustainable development and purchasing departments of different automakers.

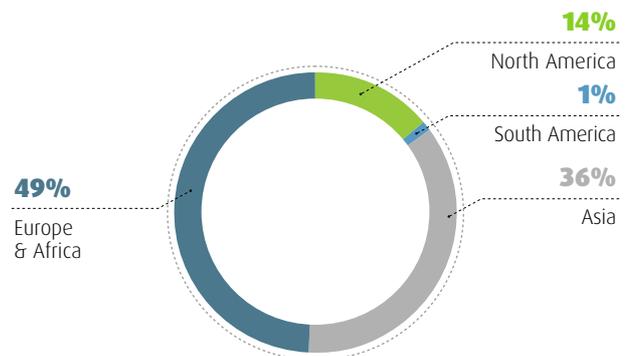
Therefore, since 2010, Valeo has opened up special dialog on this issue with certain customers, based on:

- verification of sustainable development practices within its own chain of suppliers;
- presentation and validation of Valeo's sustainable development methodology at "Tech Days";
- sustainable development audits at Valeo sites by automaker teams (since January 2016).

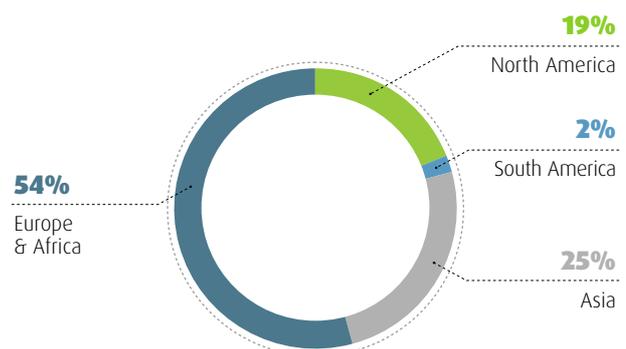
Purchasing location aligned with consumption area

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 IN 2017



► BREAKDOWN OF DIRECT PURCHASES BY GEOGRAPHIC AREA OF CONSUMPTION IN 2017



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

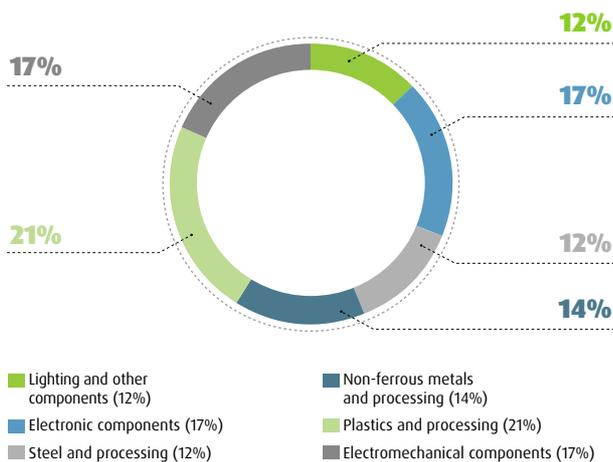
Due to its long-established presence in the region, Europe is Valeo's primary geographic area in terms of consumption (54%) and supply (49%) of purchases. As a direct result of the Group's growth strategy in emerging countries, Asia ranks second, in terms of both consumption (25%) and number of suppliers (36%).

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 CO₂ emissions;
- support local employment by developing competences;
- meet the expectations of local stakeholders (customers, local and national governments) that increasingly encourage local integration.

Furthermore, the policy to reduce risks, in particular of currency fluctuations, has led Valeo to favor local suppliers that comply with its supplier selection criteria.

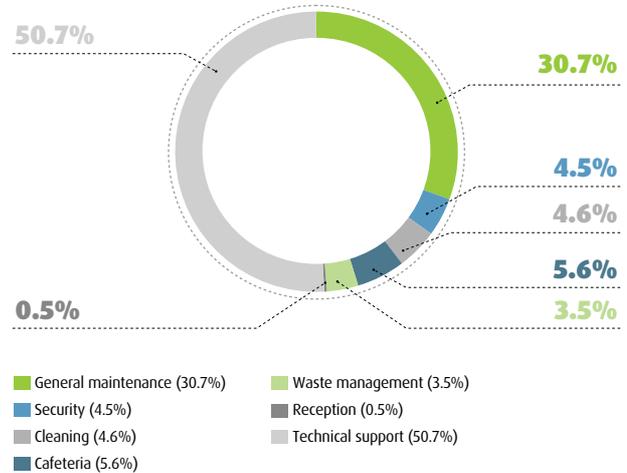
► BREAKDOWN OF PURCHASES BY COMMODITY IN 2017



The Group's purchases can be divided into six main 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 IN 2017



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 subcontractors, requiring them to share the provisions of the Valeo Code of Ethics with subcontractors, and in particular the articles concerning fundamental human rights.

Subcontracting represented over 400 million euros in purchases in 2017. Technical support services are significant and account for more than 50% of this expenditure due to the IT services provided by outside companies (hardware, networks, services, computer applications). General maintenance costs represent more than 30% of expenditure due to the industrial nature of Valeo's activities.

Approach

Structure of the purchasing function at Valeo, and supplier relations

As a tier-one⁽¹⁾ automotive supplier, Valeo is at the heart of the automotive industry supply chain. While it is an order-giver to tier-two and lower-tier suppliers, the Group is also a supplier of technologies and systems to automakers.

In dealing with its suppliers, the Group places priority on:

- quality;
- industrial location;
- competitiveness.

This is achieved in accordance with standards and laws in force while also meeting Valeo's sustainable development, ethics and compliance requirements.

(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.

Management of the supplier base

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.).

Regional purchasing departments in each Group region (Europe, Middle East, Africa, China, India, Japan, ASEAN⁽¹⁾, North America and South America) interact continuously with the commodity/segment priority 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).

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 being included in Valeo's supplier base.

Before any supply agreement is awarded, suppliers must undergo the following qualification 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 information given by the supplier. Following the site visit, the team decides whether or not the supplier can be included on the supplier base, possibly following the implementation of an improvement plan jointly agreed with the supplier;

- after the meeting of the selection committee and the award of the contract, 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 final component qualification. If necessary, Valeo's laboratories perform interim design reviews, run tests and take any special measures required. In any event, Valeo always performs an on-site audit.

In order to be included in the supplier base, 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 receive sanctions, ranging from temporary suspension from new Valeo projects to definitive exclusion from the supplier base. No sanctions of this type were imposed in 2017.

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 base 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 and be required to implement an action plan. If the probation period is not successful, the supplier may be excluded from the supplier base.

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.

(1) ASEAN: Association of Southeast Asian Nations.

Achievements

Improvement 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 67% of the Group's production purchases. The mobilization of Valeo's teams among its suppliers on sustainable development issues resulted in a substantial increase in the response rate to 33% in 2017.

In 2017, Valeo reinforced this assessment of practices by scheduling in January each year 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 grasp the diversity of sustainable development practices, and to provide assistance and corrective actions in the event of failings or inadequacy in respect of the Group's sustainable development standards.

This methodology has been endorsed by Valeo's customers and acknowledged by non-financial analysts. The stabilization of audit processes in 2016-2017 allowed for targeting specific sectors in those years (see box below).

In an effort to reward the commitment and achievements of its suppliers in the field of sustainable development, the Group has handed out awards integrating sustainable development evaluation criteria for each region (North America, Europe – Turkey – Middle East, India, China, Asia-Pacific and Japan).

Anticipatory measures to ensure legal compliance in France

To anticipate changes in the French legal framework⁽¹⁾, and on the basis of feedback from its suppliers on certain evaluation criteria, the Valeo Code of Conduct for Suppliers specifies the Group's

requirements in terms of human rights (minimum working age, prohibition of forced labor, respect for freedom of association, etc.), workplace health and safety and respect for the environment. In addition to the commitment made by Valeo's suppliers to comply with the Valeo 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. Some of these risk apprehension criteria were reviewed in 2017.

Results of assessments in 2017

This assessment highlighted the fact that in addition to the Group's requirements, more than 80% of the respondent suppliers have their own CSR policy based on a charter, a code of conduct, best practices and a set of guidelines. Nearly half of them have also made their policies public. With a view to validating their commitments, over 80% of the Valeo suppliers that responded to the survey have initiated voluntary certification and labeling programs for environmental policies covering at least 50% of their sites.

For 70% of the survey respondents, commitment to sustainable development and CSR also involves communicating their own sustainable development and CSR standards and requirements to their pool of suppliers. More than two-thirds of the suppliers surveyed assess their own suppliers' compliance with these requirements through evaluations on the same sustainable development issues, as part of supplier selection processes, or through self-assessment or audits.

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.

(1) Law no. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.

ASSESSMENT OF ELECTRONIC COMPONENT SUPPLIERS' SUSTAINABLE DEVELOPMENT PRACTICES

In view of the three-pronged revolution that the Group is currently experiencing (electrification, automation and digitalization of automotive mobility), the purchase of electronic components will continue growing in the coming years. Valeo has accordingly decided to place special focus on the sustainable development practices of its electronic component suppliers by auditing them.

For 2016 and 2017, Valeo selected suppliers representing the diversity of this specific value chain (semiconductor industry, electronic parts manufacturers, embedded systems, etc.) and significant amounts of purchases, while also seeking to ensure a balanced geographic panel of sites outside the country where the Group is headquartered. Over these two years, suppliers accounting for nearly 30% of the purchases of electronic components and systems were audited. Suppliers of IT equipment (computers, printers, etc.) were not included in this initial audit campaign as Valeo wanted to focus on the lower-tier suppliers in this segment.

The sites audited presented satisfactory results overall. Nevertheless, despite the diversity of the suppliers audited, the following improvement actions have been introduced:

- the introduction of enhanced training in sustainable development in its operational aspects to middle management structures;

- greater perfectibility in the attention given to safety on production sites;
- systematic requirement that codes of conduct be signed by their own lower-tier suppliers.

The special focus on electronic component suppliers carried out at the same time resulted in the following observations:

- the start of evaluations, affecting the lower tiers more than Valeo's direct suppliers, but liable to be requested and verified by the Group's direct suppliers. Valeo will carry out checks in 2018 on the actions carried out by its suppliers;
- greater understanding and appropriation of these issues by Valeo's purchasing teams and the management staff of the Group's suppliers.

The subsequent stages of this process will continue to mobilize both the Sustainable Development Department and the Purchasing Department in the coming years. To follow up, Valeo will ensure that its direct suppliers conduct a credible assessment of their own lower-tier suppliers.

North American diversity programs applied to suppliers

Minority 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 2017, Valeo's business with suppliers meeting diversity criteria (WBE and/or MBE) was down 27% compared with 2016 due to the number of MOB (Minority Owned Business) suppliers acquired by various non-MOB suppliers.

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 2017, 75% 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 Department and Ethics and Compliance Office 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 industry working group on Corporate Social Responsibility in France

Since 2012, Valeo has participated in the CSR working group set up by professional organizations of French automakers and automotive suppliers. The participants include France's two major automakers and tier-one⁽¹⁾ automotive suppliers. The principle objective is to take stock of the CSR practices currently implemented by each member company and to harmonize them in order to make them easier to apply throughout the industry. A major part of the work focuses on responsible purchasing policies – the procedures and methods employed by the members to monitor and support suppliers – with a view to standardizing practices and ultimately developing a set of industry guidelines.

Signing the Charter of Intercompany Relations

Following the initiative of the French Ministry of Economy and Finance aimed at improving relations between large order-givers and their suppliers (micro-enterprises and SMEs), Valeo signed the Charter of Intercompany Relations on January 10, 2012, now known as the Responsible Supplier Relationships Charter.

The aim is to build balanced long-term relationships between large corporations and their suppliers, with the parties acknowledging and respecting each other's rights and obligations.

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.

In September 2017, over 1,850 companies had signed the charter.

Ongoing sustainable development commitment through the Automotive Future Fund

Since the Tier 2⁽¹⁾ 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.

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.

The specific features of these products position Valeo as a key player in mobility access in markets with a high proportion of second-hand vehicles, which are often emerging regions (parts of Southeast Asia, Africa, etc.). More generally, the aftermarket creates economic opportunities for different automotive-related industries in parts of the world such as these.

In the same way, remanufactured products offer access to replacement parts at moderate cost, by allowing users of a vehicle with a limited budget to obtain quality parts that comply with the same standards as a new product (see below). The existence of such products has a substantial impact on the safety of vehicle users, since they offer an economically viable alternative to repaired, rebuilt or reworked parts, often in traditional or semi-industrial settings, which are often not subject to any form of harmonized or standardized quality control. The remanufacturing market is currently dominated by European players.

Valeo Service is described at greater length in Chapter 1, section 1.4.5 "Valeo Service, products and services for the aftermarket", pages 60 to 61.

(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.

VALEO, A PARTICIPANT IN THE REMANUFACTURING MARKET

Through its remanufacturing activity, Valeo puts 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⁽¹⁾.

Valeo offers two ranges of parts – one new and one remanufactured. Remanufactured systems mainly include 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.

4.5.5 Public and regulatory policies

Challenges

As a major innovator in the automotive industry operating in many countries, Valeo is an important group for the life of certain regions.

Approach and achievements during the year

Relationships with public bodies

Valeo develops institutional relationships with relevant administrations (at international, national and local levels), 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 193).

In 2017, in compliance with the French legal framework⁽²⁾, Valeo filed an entry in the register of interest groups, which has since been posted online by the French High Authority for Transparency in Public Life (*Haute Autorité pour la Transparence dans la Vie Publique* – HATVP) and is publicly available.

Organization of the Valeo Group in public affairs and main items of expenditure

Institutional relationships are coordinated under the responsibility of three people at Valeo’s registered office, and relayed locally, as required, by National Directorates in the country or region concerned.

The Group’s main items of expenditure are:

- membership of the main bodies managing the interests of original equipment manufacturers and aftermarket suppliers of the main global automotive markets, which represent Valeo’s main financial contribution to interest groups and its only activities that qualify as lobbying;
- personnel expenses of the Public Affairs Department (fewer than three FTEs per year).

As in previous years, the Group did not use public affairs consultancy services in 2017. Moreover, 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.

(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 equivalent compared to the original part. It is restored from an existing part (core), using standardized industrial processes in line with specific technical specifications. A remanufactured part is given the same warranty as a new part, and it clearly identifies the part as a remanufactured part and the remanufacturer”.

(2) Law no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization.

MEMBERSHIP OF PROFESSIONAL BODIES

As an independent, global tier-one⁽¹⁾ automotive equipment supplier, Valeo is a member of the main organizations that represent the interests of original equipment 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*).

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 2017.

► MAIN CORPORATE CITIZENSHIP INITIATIVES AT VALEO SITES

Commitment	Partners	Examples of initiatives
Action with local communities	<ul style="list-style-type: none"> ■ Local populations ■ Local government ■ Local schools (primary/secondary) ■ Higher education and research organizations 	<ul style="list-style-type: none"> ■ Support for local economic fabric and development ■ Dialog with local stakeholders
Aid for local populations	<ul style="list-style-type: none"> ■ Local populations 	<ul style="list-style-type: none"> ■ Solidarity initiatives through donations to local populations

Approach and achievements during the year

2017, 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 center's "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 2017, the exchange program brought Toshiaki Tanaka, a professor from Hokkaido University and a renowned physical therapist and engineer in the field of versatile devices for the elderly and people with disabilities, to France. His year-long research project focused on new robotization and individual mobility technologies for the elderly and people with reduced mobility. The results of his work were shared in workshops and exchanges with Valeo's Research and Development teams and other invited researchers, allowing us to bring multidisciplinary insights to this area of study. Valeo drew in-depth lessons on the influence of robotic technologies in the field of mobility solutions for populations with disabilities.

The Group's special relationship with Japan is also reflected in the Franco-Japanese business club that Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo, has co-chaired since October 2013, and whose 2017 meeting was held in Tokyo.

(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.

Action by sites with local communities

Valeo sites, contributing to the local economic fabric and development

Valeo’s sites contribute to the economic and social fabric of the regions where the Group operates. Its sites have multiple impacts. They are consumers, employers, spending centers, local economic agents, and actors in the development of human capital, and participate in the creation and attraction of new businesses through transfers of competences.

Valeo has a policy of encouraging its sites to take responsibility and to support local initiatives around the world. Each site organizes local plant initiatives which reflect locally identified needs. With the assistance of the site Human Resources managers, the site managers decide on actions that can be carried out to help the local population and employees. The Group suggests possible areas for study by sending out internal questionnaires and examples of best practice.

At the end of each year, Valeo takes stock of the actions undertaken at its sites. The most effective and useful initiatives are showcased via internal and external communication channels to encourage other sites to support the same sort of actions. For example, articles

from the *ValeOnline Newscenter* emailed to Group employees discuss some of the outstanding site initiatives. Valeo also highlights local plant engagement in publications, 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.

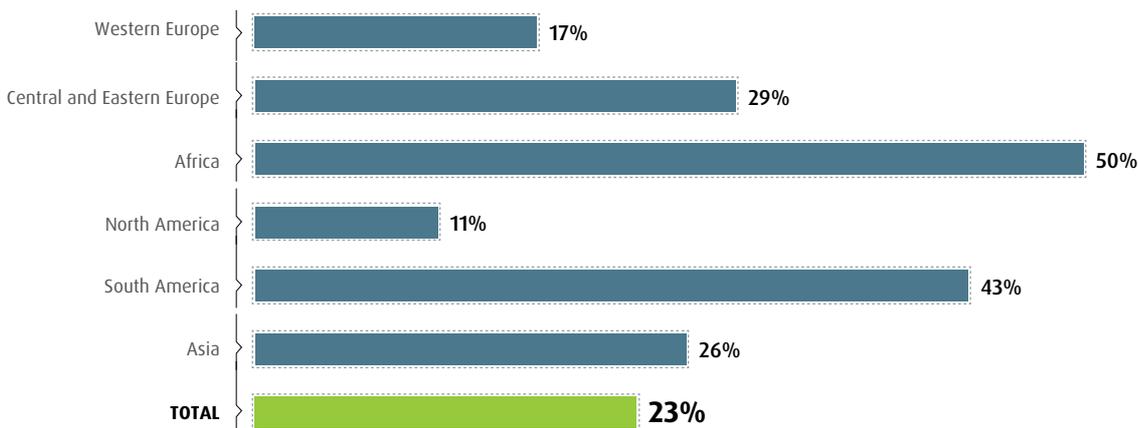
Valeo sites involved in dialog with local stakeholders

In 2017, more than 40% of employees at Valeo Group sites worldwide volunteered on operations to help local communities. Their contribution chiefly involved time spent on educational activities or as expert speakers at local seminars, schools and universities, as well as at technical training sessions. This kind of initiative forms a part of the local community involvement programs at many Valeo sites.

Open days at Valeo sites

To boost their local operations and their openness to members of local communities, a number of sites held open days to showcase their activities, unique features and products to members of local communities.

► PROPORTION OF SITES THAT HELD AN OPEN DAY IN 2017



Relationships with local educational and training bodies

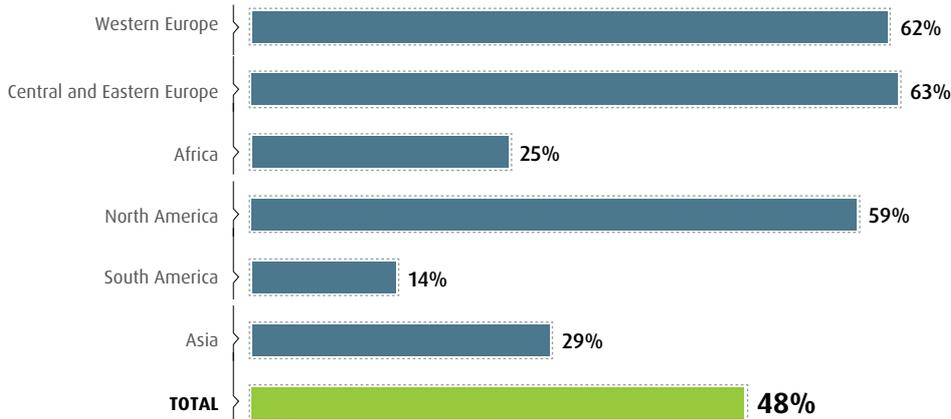
A global group with a strong R&D dimension and structured networks (see section 4.2.1 of this chapter, “Research and Development organization to support the Group’s innovations and assist its customers worldwide”, pages 183 to 184), Valeo also encourages the Group’s sites to join specific local initiatives in terms of relationships with local educational and training bodies (engineering schools, universities, technical institutes, etc.). As such, 82% of sites worldwide initiated partnerships and exchanges with institutions of this type in 2017. Across all of the Group’s host regions, more than 70% of sites are involved in numerous initiatives of this type, which allow them to put down roots in their local area. The diversity of relationships and partnerships with these teaching institutions reflects the wide range of relationships sites have with their local environments, depending on the specific local teaching and training environment.

The aim of this approach is to promote experience sharing and collaborative relationships beyond the simple opportunity to develop industry-oriented projects.

Similarly, at the primary school level, the Group first called on sites to build closer relationships with elementary and secondary schools in 2016, as a means of addressing Valeo’s lack of visibility as a local economic actor and potential current or future employer. Outcomes in respect of this objective have now been established, and have been communicated for the first time. They reflect sites’ awareness of the importance of visibility for an industrial player at all levels of the education system. Collaborations of this nature can take various forms, predominantly site visits and introductions to industrial professions. For example, Valeo sites in Poland organized a “little engineers’ day” in 2017, in partnership with the Museum of Municipal Engineering in Krakow.



► SHARE OF SITES PARTNERING WITH LOCAL ELEMENTARY/SECONDARY SCHOOLS IN 2017



Valeo employees, working with the local community

VALEO CHINA, AN ADVOCATE FOR CHILDREN'S ACCESS TO BOOKS

In 2015, Valeo in China launched a program entitled "The Valeo Library", under which employees of Valeo sites in China are encouraged to donate books allowing libraries to be opened in schools in disadvantaged areas in China. In November 2017, Valeo opened its 30th library. In the space of two years, the program has provided access to a library and books for more than 5,000 children, with more than 20,000 books donated.

To mark the opening of the latest library, employees of the Valeo Shenzhen site donated more than 800 books to the children of the primary school in central Pinglang City, Guizhou Province.

With a view to establishing a lasting 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 disabilities, such as breast cancer and visual impairment (including on-site testing), and fundraising events including charity races and other initiatives. For example, Valeo employees from 11 Valeo sites in France took part in the Odyssey charity race in Paris in 2017;
- initiatives to help address public health issues. For example, blood donation campaigns were organized in many of the Group's host countries worldwide in 2017;

- charity drives targeting the poorest populations are organized, primarily in the form of 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 proactive commitment by the sites and their employees. They demonstrate the importance of links with local communities.

In 2017, more than one-third of sites made financial donations for local support and charity initiatives. Site employees also initiate their own charity campaigns, as well as in-kind donation campaigns (objects, school supplies, clothing, etc.).

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 for 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 122 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 2016 and 2017 figures published in this document correspond to the new period, while figures from previous years 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 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, 128 sites were likely to obtain ISO 14001, ISO 50001 and OHSAS 18001 certification in 2017.

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 terms (total quantity) as well as in relation to sales. 2017 sales are calculated on the basis of a year beginning on October 1, 2016 and ending on September 30, 2017 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⁽¹⁾), except for environmental indicators relating to the consumption of raw materials, ISO 14001, ISO 50001 and OHSAS 18001 certification and indirect greenhouse gas emissions relating to logistics, inputs and the use of products sold by Valeo. The other aforementioned data are collected from the relevant internal department and consolidated by the Health, Safety and Environment (HSE) Department.

Financial data (sales) and those relating to raw materials for the Scope 3 calculation are sent directly by the Group's Finance Department.

Controls and external verification

Consistency checks on data for each site in the scope are performed by the Business Groups' and Valeo Service's HSE managers, the RIE Department and an external service provider. These controls include reviews of year-on-year changes, comparisons between sites in the same Business Group, and an analysis of major events during the year. Furthermore, VRI applies automatic upstream controls designed to prevent data entry errors and allow sites to provide reporting information with regard to material differences versus previous years.

Certain environmental data are also subject to external verification by the Statutory Auditors.

Ernst & Young, an independent audit firm, performed an engagement to verify the environmental data, which resulted in a report including a statement of completeness and an opinion as to the accuracy of the information contained therein.

(1) See section 4.3.1 of this chapter, "Centralized environmental reporting", pages 203 to 205.

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 France's "Grenelle II" law of April 24, 2012.

Scope and consolidation

Scope

The Group has elected to include its worldwide scope of consolidation (184 plants, 20 research centers, 35 development centers and 15 distribution platforms, located in 33 countries), except for the Fuzhou Niles Electronic Co. joint venture. As such, all countries and Business Groups are concerned, including Valeo Service.

In 2017, 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 present 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

Reporting on labor-related indicators only includes the data of fully consolidated companies, which are included in full.

Source of data

Labor-related indicators are collected by the Business Groups' and Valeo Service's Human Resources Departments, and are consolidated by the Group's Human Resources Department using BIME consolidation software.

Financial data are sent directly by the Group Finance Department.

Controls and external verification

Consistency checks on data for each site in the scope are performed by the site and the Business Group Human Resources Department.

All labor-related indicators have been audited by Ernst & Young and are also subject to external verification by the Statutory Auditors.

Precise definitions of indicators included in the tool and user guides have been prepared in French and English, to improve the reliability of reporting and reduce unreliable sources. They are regularly updated and distributed to all contributors.

Reporting methodology for social indicators

The social indicators were prepared in accordance with the commitments and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code, as well as the Global Reporting Initiative (GRI).

Scope and consolidation

The Group includes in its worldwide scope of consolidation the 184 plants, 20 research centers, 35 development centers and 15 distribution platforms located in 33 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 63% of the total value of the Group's production purchasing;
- data concerning fair practices and compliance were collected by the Ethics and Compliance Office. 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 181 to 182, 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 the Valeo Service activity, to end consumers through the after market distribution network. The Group only rarely engages in advertising or promotional campaigns for the general public.

Controls and external verification

All social indicators in the report have been audited by Ernst & Young in the form of a statement of completeness and a limited assurance report, and are also subject to external verification by the Statutory Auditors.

4.6.2 Cross-reference with national and international guidelines

GRI code	Description of the indicator	Art. 225		Pages
		Grenelle II	Chapters/Sections	
STRATEGY AND ANALYSIS				
G4-1	● Statement on sustainable development and the Group's strategy by the Chief Executive Officer		4 – Interview with Jacques Aschenbroich	168
G4-2	● Key impacts, risks and opportunities	II 2. d)	4.1 – Valeo and sustainable development: strategy, policy and organization 4.1.3 – Non-financial risks	170 172
ORGANIZATIONAL PROFILE				
G4-3	● Name of the organization	-	7.1.1 – Company name and headquarters	434
G4-4	● Primary brands, products and services	-	1.4 – Operational organization	42
G4-5	● Headquarters	-	7.1.1 – Company name and headquarters	434
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	436
G4-7	● Ownership and legal form	-	7.1.2 – Legal structure and governing law 6.6.1 – Changes in share capital	434 428
G4-8	● Markets served (geographic breakdown, sectors served and types of customers and beneficiaries)	-	Integrated Report – Business review and results 1.4 – Operational organization	6 42
G4-9	● Scale of the reporting organization (number of employees, locations)	I a) 1	Integrated Report – Business review and results 1.4 – Operational organization 4.4 – Total headcount 4.3.1 – Mapping of the main environmental issues facing sites	6 42 220 198
G4-10	● Breakdown of employees by employment type, employment contract, region and gender	I a) 1	4.4 – Valeo and its employees	220
G4-11	● Percentage of total employees covered by collective bargaining agreements	I c) 1	4.4.3 – Organization of labor relations	232
G4-12	● Description of the organization's supply chain	III c) 2	4.1.5 – Valeo, a responsible partner 4.5.3 – Application of sustainable development principles in purchasing processes	179 243
G4-13	● Significant changes during the reporting period	-	1.1 – History and development of the Group 5.1.4 – Investments over the past three years 6.4 – Share ownership	38 282 417
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	200 189 211 239
G4-15	● External charters, principles and initiatives to which the Group subscribes	II a) 1	4 – Interview with Jacques Aschenbroich 4.4.3 – Promoting and respecting human rights	168 233
G4-16	● Membership of associations and/or advocacy organizations	II a) 1	4.1.5 – Valeo, a key driver of a sustainable automotive industry 4.5.5 – Public and regulatory policies	179 249
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
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	253
G4-18	● Process for defining report content	-	4.1.1 – Sustainable development challenges	170
G4-19	● List of material aspects	-	4.1.1 – Materiality matrix plotting the sustainable development challenges	170

GRI code	Description of the indicator	Art. 225		Pages
		Grenelle II	Chapters/Sections	
G4-20	● Boundary of each material aspect within the organization	-	4.2.1 – Group Research and Development policy 4.3.1 – Environmental policy 4.4 – Valeo and its employees 4.5 – Commitment to corporate citizenship	181 198 220 239
G4-21	● Boundary of each material aspect outside the organization	-	4.2.1 – Group Research and Development policy 4.3.1 – Environmental policy 4.4 – Valeo and its employees 4.5 – Commitment to corporate citizenship	181 198 220 239
G4-22	● Restatements of information provided in previous reports	-		
G4-23	● Changes in the scope and aspect boundaries	-	No substantial changes were observed in 2016	-
STAKEHOLDER ENGAGEMENT				
G4-24	● List of stakeholders	III b) 1	4.1.5 – A sustainable development policy based on strong relationships with stakeholders	178
G4-25	● Basis for the identification and selection of stakeholders	III b) 1	4.1.5 – A multi-stakeholder approach	178
G4-26	● Stakeholder engagement	III b) 1	4.1.5 – Types of dialog with stakeholders	178
G4-27	● Topics raised through stakeholder engagement and how the organization has responded	III b) 1	4.1.5 – Types of dialog with stakeholders	178
REPORT PROFILE				
G4-28	● Reporting period	-	4.6.1 – Sustainable development reporting methodology	253
G4-29	● Date of most recent previous report	-	3/27/2018	
G4-30	● Reporting cycle	-	4.6.1 – Sustainable development reporting methodology	253
G4-31	● Contact person	-	6.2 – Investor relations	415
G4-32	● “In accordance” option chosen and GRI G4 index	-	4.1.6 – Methodology 4.6.2 – Cross-reference with national and international guidelines	180 256
G4-33	● Independent verifier’s report	-	4.9 – Independent verifier’s report on consolidated social, environmental and societal information presented in the management report	268
GOVERNANCE AND COMMITMENTS				
G4-34	● Governance structure	II a) 1	4.1.2 – Sustainable development governance and structure 3 – Corporate governance	171
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	1.4 – Operational organization	42
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	171
G4-37	● Stakeholder consultation by the Board of Directors	III b) 1	7.1.10 – Shareholders’ Meetings	435
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

GRI code	Description of the indicator	Art. 225		Pages
		Grenelle II	Chapters/Sections	
G4-40	<input checked="" type="radio"/> 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	96 120
G4-41	<input checked="" type="radio"/> 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	135
G4-42	<input checked="" type="radio"/> 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	<input checked="" type="radio"/> Measures taken to develop and improve the collective knowledge of the Board of Directors on economic, environmental and social impacts	-	4.1.2 – A committee of the Board of Directors in charge of corporate social responsibility	171
G4-44	<input checked="" type="radio"/> Evaluation of the Board of Directors on economic, environmental and social topics	-	4.1.2 – A committee of the Board of Directors in charge of corporate social responsibility	171
G4-45	<input checked="" type="radio"/> 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	120
G4-46	<input checked="" type="radio"/> 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	120
G4-47	<input checked="" type="radio"/> 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	120
G4-48	<input checked="" type="radio"/> Committee or highest-level position that formally reviews and approves the sustainable development report	II a) 1	5.6.5 – The Sustainable Development Report is an integral part of the Management Report, reviewed and approved by the Board of Directors	405
G4-49	<input checked="" type="radio"/> Process for communicating critical concerns to the Board of Directors	III b) 1	7.1.10 – Shareholders' Meetings	435
G4-50	<input type="radio"/> Nature and total number of critical concerns communicated to the Board of Directors and the mechanism used to address and resolve them	-	-	-
G4-51	<input checked="" type="radio"/> 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, Board members and other Group executive managers	142
G4-52	<input checked="" type="radio"/> Process of determining compensation and participation in compensation committees	-	3.3 – Compensation of corporate officers, Board members and other Group executive managers 3.2.2 – Preparation and organization of the Board of Directors' work	142 120
G4-53	<input checked="" type="radio"/> Method used to seek and take into account the views of stakeholders on compensation	III b) 1	7.1.10 – Shareholders' Meetings	435
G4-54	<input type="radio"/> Ratio of the annual total compensation of the highest-paid individual in the organization to the median total annual compensation	I a) 3	-	-
G4-55	<input type="radio"/> Ratio of the percentage increase of the annual total compensation of the highest-paid individual in the organization to the median percentage increase in annual total compensation	I a) 3	-	-

GRI code	Description of the indicator	Art. 225 Grenelle II	Chapters/Sections	Pages
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 ₂ emissions reduction and to autonomous and intuitive driving	186
G4-EN7	● Reduction in energy requirements of products and services	II c) 3	4.2.2 – Summary of the main innovations and their impacts	186
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	189
G4-EN2	● Percentage of materials used that are recycled input materials (packaging only)	II c) 2	4.2.3 – Resources, materials and eco-design	189
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 – Use of recycled input materials	191 192 192
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	216
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	192
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	193 194
ENVIRONMENTAL ECO-EFFICIENCY				
Material aspect: energy and greenhouse gas emissions				
G4-DMA	● Management approach	II c) 3.1 II c) 3.2	Valeo's environmental management organization 4.3.1 – ISO 50001 certification 4.3.2 – Reducing energy consumption 4.3.2 – Reducing greenhouse gas emissions	200 203 207 209
G4-EN3	● Direct energy consumption by primary energy source	II c) 3.1	4.3.2 – Analysis of the geographic breakdown of energy consumption	208
G4-EN4	● Indirect energy consumption by primary energy source	II c) 3.1	4.3.2 – Total indirect energy consumption	207
G4-EN5	● Energy intensity	II c) 3.1	4.3.2 – Energy intensity (<i>in MWh/€m</i>)	208
G4-EN6	● Reduction of energy consumption	II c) 3.2	4.3.2 – Reduction of energy intensity	208
G4-EN15	● Direct greenhouse gas emissions (<i>scope 1</i>)	II d) 1	4.3.2 – Scope 1 greenhouse gas emissions	209
G4-EN16	● Energy indirect greenhouse gas emissions (<i>scope 2</i>)	II d) 1	4.3.2 – Scope 2 greenhouse gas emissions	209
G4-EN17	● Other indirect greenhouse gas emissions (<i>scope 3</i>)	II d) 1	4.3.2 – Scope 3 greenhouse gas emissions	210
G4-EN18	● Greenhouse gas emissions intensity	II d) 1	4.3.2 – Greenhouse gas emissions per million euros of sales	209
G4-EN19	● Reduction of greenhouse gas emissions	II d) 1	4.3.2 – The Group's industrial carbon footprint	211



GRI code	Description of the indicator	Art. 225		Pages
		Grenelle II	Chapters/Sections	
Material aspect: waste and discharges				
G4-DMA	● Management approach	II b) 1	4.3.3 – Discharges and waste 4.3.3 – Prevention of atmospheric emissions – Approach 4.3.3 – Prevention of discharges into the soil – Approach 4.3.3 – Waste – Approach	211 212 213 213
G4-EN20	● Emissions of ozone-depleting substances (ODS)	II b) 1	4.3.3 – CFC and HCFC emissions	212
G4-EN21	● Emissions of nitrogen oxides (NO _x) and sulfur oxides (SO _x) and other significant atmospheric emissions	II b) 1	4.3.3 – Atmospheric VOC emissions 4.3.3 – Atmospheric NO _x emissions	212 212
G4-EN22	● Total water discharge by quality and destination	II b) 1	4.3.5 – Total water discharge by sites	217
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	214
G4-EN24	● Total number and volume of significant spills	II b) 1	4.3.3 – Prevention of discharges into the soil – Approach	213
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	214
Material aspect: transportation and logistics				
G4-DMA	● Management approach	II c) 3 II d) 1	4.3.4 – Transportation and Logistics – Approach and performance 4.3.4 – Packaging – Approach	215 216
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	215 210
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	216
Material aspect: water				
G4-DMA	● Management approach	II c) 1	4.3.5 – Water	217
G4-EN8	● Total water withdrawal by source	II c) 1	4.3.5 – Total water consumption, by use, by geographic area and by source	218
G4-EN9	● Water sources significantly affected by withdrawal of water	II c) 1	4.3.5 – Water restrictions	218
G4-EN10	● Percentage and total volume of water recycled and reused	II c) 1	4.3.5 – Water reuse	219
Material aspect: biodiversity				
G4-DMA	● Management approach	II e) 1	4.3.6 – Biodiversity	219
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	219
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	219
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	

GRI code	Description of the indicator	Art. 225 Grenelle II	Chapters/Sections	Pages
EMPLOYEES				
Material aspect: safety and working conditions				
G4-DMA	● Management approach	I d) 1	4.4.1 – Workplace health and safety	222
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	4.4.3 – Organization of labor relations	232
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	4.4.1 – Frequency rate of accidents with and without lost time for the Group and for France 4.4.1 – Absenteeism rate for the Group and by geographic area 4.4.1 – Breakdown of absences by reason (including occupational illnesses) and by geographic area	223 224 224
G4-LA8	● Health and safety topics covered in formal agreements with trade unions	I d) 2	4.4.3 – Breakdown of agreements signed by category	232
Material aspect: attracting and retaining talent				
G4-DMA	● Management approach	-	4.4.2 – Attracting and retaining talent	225
-	● Response rate to the Employee Feedback Survey	-	4.4.2 – Attracting and retaining talent	225
G4-LA1	● Total number and rates of new employee hires and employee turnover by age group, gender and region	I a) 12 I a) 13 I a) 14 I a) 21 I a) 22	4.4.2 – Attracting talent 4.4.2 – Retaining talent	225 227
G4-LA9	● Average hours of training per year, per employee, by gender and by employee category	I e) 2	4.4.2 – Training 4.4.2 – Breakdown of employees trained	230 230
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	4.4.2 – Development and transfer of competences	231
G4-LA11	● Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	I e) 1	4.4.2 – Development of competences	231
Material aspect: Promoting of diversity				
G4-DMA	● Management approach	I f) 1 I f) 2 I f) 3	4.4.4 – Promoting diversity 4.4.4 – Gender diversity 4.4.4 – Disability diversity 4.4.4 – Generational diversity 4.4.4 – Cultural and social diversity	235 235 236 237 236
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	4.4.4 – Percentage of women on the Board and the Operations Committee 4.4.4 – Breakdown of women by socio-professional category 4.4.4 – Proportion of employees with disabilities in the world and in France 4.4 – Breakdown of registered headcount by gender	235 235 236 222
COMMITMENT TO CORPORATE CITIZENSHIP				
Material aspect: total quality and product safety				
G4-DMA	● Management approach	III d) 2	4.5.1 – Total quality and product safety	239
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	239

GRI code	Description of the indicator	Art. 225		Pages
		Grenelle II	Chapters/Sections	
Material aspect: purchasing and sustainable development				
G4-DMA	● Management approach	III c) 1 III c) 2	4.5.3 – Application of sustainable development principles in purchasing processes	243
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	246
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	247
G4-S09	● Percentage of new suppliers that were screened using criteria for impacts on society	III c) 2	4.5.3 – Assessment of the sustainable development practices of suppliers and share of key suppliers evaluated	246
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	245
G4-EC9	● Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	III c) 2	4.5.3 – Breakdown of purchases by area of origin and consumption area	243
Material aspect: ethics and compliance				
G4-DMA	● Management approach	III d) 1	4.5.2 – Ethics and compliance	240
G4-56	● Codes of conduct and ethics	III d) 1	4.5.2 – Ethics and compliance	240
G4-57	● Advisory mechanisms (ethical and lawful behavior)	III d) 1	4.5.2 – Practical, accessible education	241
G4-58	● Alert mechanisms (unethical and unlawful behavior)	III d) 1	4.5.2 – Prevent and alert: the Valeo whistleblower hotline	241
G4-S04	● Communication and training on anti-corruption policies and procedures	III d) 1	4.5.2 – A program to combat corruption and anti-competitive practices	241
Material aspect: availability of replacement products				
G4-DMA	● Management approach	II a) 1 II b) 2	4.5.4 – Valeo, a participant in the remanufacturing market	249
Material aspect: public and regulatory policies				
G4-DMA	● Management approach	III a) 1	4.5.5 – Public and regulatory policies	249
G4-S06	● Total value of political contributions by country and recipient/beneficiary	-	4.5.5 – Public and regulatory policies	249
Material aspect: local integration				
G4-DMA	● Management approach	III a) 1 III a) 2	4.5.6 – Local management	237
G4-S01	● Percentage of operations with implemented local community engagement, impact assessments and development programs	III a) 2	4.5.6 – Commitment of sites and employees in favor of local community operations 4.5.5 – Proportion of sites that held an open day	251 251
G4-EC6	● Proportion of senior management hired from the local community at significant operation sites	III a) 1	4.4.4 – Proportion of sites whose manager was from the local country by geographic area	237

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 AFR

4.7.1 Summary of the Research and Development organization

The indicators shown below are not exhaustive.

	Unit	2015	2016	2017
Key Research and Development indicators				
Gross Research and Development expenditure <i>(as a % of original equipment sales)</i>		10.3%	11.1%	11.8%
Net Research and Development expenditure <i>(as a % of original equipment sales)</i>		5.5%	5.8%	6.1%
Research and Development headcount		11,620	13,700	17,900
Number of customer projects managed		2,500	2,700	2,800
Number of collaborative projects funded		>50	>50	>50
Number of patents filed		1,406	1,840	2,053
Proportion of innovative products ⁽¹⁾ in the order intake		37%	50%	50%
Resources and eco-design indicators				
Consumption of heavy metals	<i>Mt</i>	11.75	8.3	7.7
Consumption of heavy metals/Sales	<i>kg/€m</i>	0.84	0.55	0.46
Consumption of chlorinated solvents	<i>Mt</i>	205.7	191.4	0
Consumption of chlorinated solvents/Sales	<i>kg/€m</i>	14.60	12.64	0
Consumption of CMR substances ⁽²⁾	<i>Mt</i>	361.6	365.1	121.2
Consumption of CMR substances ⁽²⁾ /Sales	<i>kg/€m</i>	25.7	24.1	7.2
Consumption of recycled plastics	<i>kMt</i>	9.5	11.9	10.9

(1) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive and Valeo-Kaptec.

(2) See Sustainable Development Glossary, page 267.

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 189 to 192, 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 264 to 265).

4.7.2 Summary of environmental indicators

The indicators are presented in the order that they appear in section 4.3.

	Unit	2015	2016	2017
Scope⁽¹⁾				
Total sales across all sites in reporting scope ⁽²⁾	€m	14,056	15,138	16,750
Number of sites in reporting scope	-	117	120	132
General policy on environmental issues				
Number of sites able to obtain ISO 14001 and OHSAS 18001 certification ⁽³⁾	-	122	130	128
ISO 14001-certified sites	%	98	94	95
ISO 50001-certified sites	%	8	12	13
OHSAS 18001-certified sites	%	94	91	95
Functional expenditure allocated to environment	€k	21,957	17,221	19,028
Capital expenditure allocated to environment, excluding cleanup costs	€k	2,995	3,338	5,731
Cleanup costs, sites in operation	€k	3,191	560	1,086
Total provisions allocated to environmental risks	€m	13.5	13.7	15.5
Number of fines and compensation awards	-	2	1	1
Amount of fines and compensation awards	€k	6	118	6
Number of environmental complaints	-	19	7	8
Reduce energy consumption and greenhouse gas emissions				
Total energy consumption	GWh	2,005	2,077	2,250
Proportion of electricity	%	74.9	75.9	75.3
Proportion of natural gas	%	23.2	22.6	22.6
Proportion of fuel oil	%	1.1	1.0	1.5
Proportion of other energy sources	%	0.8	0.5	0.6
Total energy consumption/Sales	MWh/€m	143	137	134
Direct energy consumption/Sales	MWh/€m	35	32	32
Indirect energy consumption/Sales	MWh/€m	108	105	102
Energy efficiency: expected gain	MWh	41,894	76,117	53,893
Direct greenhouse gas (GHG) emissions ⁽³⁾	kMt CO ₂	141.8	145.8	166.9
Indirect GHG emissions	kMt CO ₂	649.4 ⁽⁴⁾	710.9 ⁽⁴⁾	763.9
Other relevant indirect GHG emissions	kMt CO ₂	5,990	7,296	8,261
Discharges and waste				
Atmospheric NO _x emissions	Mt	121	122	136
Atmospheric NO _x emissions/Sales	kg/€m	8.6	8.1	8.1
Atmospheric VOC emissions ⁽³⁾	Mt	1,590	1,644	1,596

SUSTAINABLE DEVELOPMENT

Summary of Valeo's Research and Development and CSR performance

	Unit	2015	2016	2017
Atmospheric VOC emissions/Sales	kg/€m	117	109	95
Atmospheric TCE emissions	Mt	22.5	21.1	0
Atmospheric TCE emissions/Sales	kg/€m	1.6	1.4	0
Atmospheric lead emissions	kg	16	13	40
Atmospheric lead emissions/Sales	g/€m	1.14	0.86	2.38
Emissions of ozone-depleting substances	kg CFC-11eq	608	489	513
Volume of industrial effluents treated	k cu.m	724	820	794
Heavy metal content in these effluents	kg	24	28	20
Number of significant spills	-	0	0	0
Total waste generated	kMt	231.0	257.2	277.6
Of which hazardous waste	%	9	9	9
Of which non-hazardous waste	%	91	91	91
Total waste generated/Sales	Mt/€m	16.4	17.0	16.6
Waste recovery rate	%	90	89	89
Total waste exported	Mt	1,596	1,986	1,613
Ratio of total waste exported/Total waste generated	%	0.7	0.8	0.6
Transportation and logistics				
Packaging materials consumption	kMt	78.8	84.7	92.5
Proportion of plastic packaging	%	8.8	8.8	9.9
Proportion of cardboard packaging	%	63.4	61.8	59.4
Proportion of wood packaging	%	26.0	27.7	29.1
Proportion of other types of packaging	%	1.8	1.7	1.6
Packaging materials consumption/Sales	Mt/€m	5.6	5.6	5.5
Water				
Total water consumption	k cu.m	2,784	2,783	2,926
Total water consumption/Sales	cu.m/€m	198	184	175

(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 2017", page 204).

(2) Sales calculated for the period from October 1, 2016 to September 30, 2017, as stated in the methodological note on pages 253 to 255.

(3) See Sustainable Development Glossary, page 267.

(4) 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

	2015	2016	2017
NUMBER OF EMPLOYEES			
■ Managers and professionals	20,410	23,960	29,365
■ Technicians	10,141	12,518	17,852
■ Operators	43,956	46,183	52,686
Registered headcount	74,507	82,661	99,903
■ Interim staff	8,293	9,139	11,697
■ Total headcount	82,800	91,800	111,600
■ Permanent staff	59,884	67,383	80,788
■ Non-permanent staff	22,916	24,417	30,812
NEW HIRES			
Number of new hires on permanent contracts	9,175	14,150	19,022
Number of new hires on fixed-term contracts	10,937	10,810	16,273
DEPARTURES			
Turnover of managers and professionals	6.7%	7.0%	7.3%
Resignations	5,440	7,217	7,723
Dismissals and contract terminations	3,849	3,064	3,610
Retirement, early retirement and death	552	493	565
Layoffs	917	492	418
HEALTH AND SAFETY			
Number of lost-time occupational accidents per million hours worked, Group (FR1)	2.4	2.3	2.0
Number of occupational accidents, with or without lost time, per million hours worked, Group (FR2)	11.50	11.31	10.6
Number of days lost owing to an occupational accident per thousand hours worked, Group (SR1)	0.07	0.07	0.06
Number of category 1 accidents	3	3	5
Rate of absenteeism	2.12%	2.17%	2.11%
TRAINING			
Percentage of training hours devoted to safety	26%	17%	15%
Number of training hours provided	1,484,824	1,859,854	2,270,563
Average hours of training per employee	16.5	21.7	23.6
Percentage of employees trained	97.4%	99.5%	98.1%
DIVERSITY			
Breakdown of women by socio-professional category (%)			
■ Managers and professionals	21.8%	23%	23.0%
■ Technicians	25.6%	24.3%	24.9%
■ Operators	39.7%	40.6%	40.3%
Percentage of women among new hires	32.4%	31.2%	32.0%
Number of employees with disabilities	1,114	1,443	1,759
Number of interns	1,490	1,834	1,959
Number of apprentices	130	151	1,195
Number of international corporate volunteers	130	151	135

4.8 Sustainable Development Glossary

ADEME	French Environment and Energy Management Agency (<i>Agence de l'environnement et de la maîtrise de l'énergie</i>): public body undertaking operations with the aim of protecting the environment and managing energy. www.ademe.fr
CDP	Carbon Disclosure Project: an independent, non-profit organization working to drive greenhouse gas emissions reductions for companies and cities by collecting environmental data and analyzing their carbon emissions policy. www.cdproject.net
CMR substance	Substances classified as carcinogenic, mutagenic, or toxic for reproduction.
ELV Directive	European Directive no. 2000/53 of September 18, 2000 to reduce end-of-life vehicle waste through prevention, collection, treatment and recycling measures.
FTSE4Good	Extra-financial (ESG) rating agency. http://www.ftse.com/products/indices/ftse4good
GHG	Greenhouse gas: gases which absorb infrared rays emitted by the Earth's surface, contributing to the greenhouse effect.
GRI	Global Reporting Initiative: a non-profit organization that develops globally applicable guidelines on corporate sustainability policy and reporting. www.globalreporting.org
ISO 14001	International standard on environmental management systems.
ISO 50001	International standard on energy management systems.
MSCI	Internationally recognized financial and non-financial research and rating agency specializing in environmental, social and corporate governance research and ratings. www.msci.com
Natura 2000	All European natural sites, whether land- or water-based, identified for the rarity or fragility of their wildlife or plant species and their habitat. http://www.developpement-durable.gouv.fr/-Natura-2000,2414-.html
Oekom-Research	Sustainable investment rating agency. www.oekom-research.com
OHSAS 18001	International standard on workplace health and safety information.
Open Innovation	Open Innovation is a concept that involves promoting innovation by deriving the maximum possible benefit from the ecosystem surrounding the company, primarily through collaboration between various players (governmental organizations, private companies, academic and research companies, innovative start-ups, etc.).
QRQC	Quick Response Quality Control: four-step problem resolution method: Detection, Communication, Analysis and Verification.
REACH regulation	European regulation no. 1907/2006 of December 18, 2006 (Registration, Evaluation, Authorisation and Restriction of Chemicals).
RobecoSAM	RobecoSAM (Sustainable Asset Management): an asset manager specialized in sustainable investment and analyzing companies' non-financial (environmental, social, governance, etc.) performance. The quality of the analyses provided led the company to partner with Standard & Poor's to set up and manage the Dow Jones Sustainability Indices, which track the sustainability performance of 2,500 of the largest companies in the Dow Jones Global Total Stock Market Index. www.sustainability-index.com
SAE International	Society of Automotive Engineers International: a US-based association. Similarly to the VDA (see below), this organization has defined six levels of driving automation, from 0 (no automation, the driver must control everything) to 5 (full automation, no driver input required). Levels 3 and 4 correspond respectively to "conditional automation" and "high automation".
Seveso	The Seveso European Directive requires European Union member states to identify industrial sites which present risks of major accidents. Companies can be Seveso-classified based on the quantities and types of hazardous products on site.
Sustainalytics	Internationally renowned provider of ESG and corporate governance research and ratings. www.sustainalytics.com
VDA	Verband der Automobilindustrie is a German automotive industry association. Similarly to SAE International (see above), this organization has defined six levels of driving automation, from 0 (no automation, the driver must control everything) to 5 (full automation, no driver input required). Levels 3 and 4 correspond respectively to "highly automated" driving and "fully automated" driving.
VOC	Volatile organic compound: VOCs are composed of carbon, oxygen and hydrogen and are readily found as atmospheric gases.
ZNIEFF	French natural zone of interest for ecology, flora and fauna (<i>Zone naturelle d'intérêt écologique, faunistique et floristique</i>): an inventory program aiming at collecting exhaustive and up-to-date information on natural environments, whether land- or water-based, whose interest lies either in the balance or richness of the ecosystem, or in the presence of rare or endangered plant or animal species.

4.9 Independent verifier's report on consolidated social, environmental and societal information presented in the management report

Year ended December 31, 2017

This is a free translation into English of the Statutory Auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as an independent body accredited by COFRAC under number 3-1050, and as a member of one of the auditors of Valeo, we hereby present our report on the consolidated social, environmental and societal for the year ended December 31, 2017, presented in the management report and hereinafter referred to as the "CSR information" pursuant to the provisions of 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 Article R.225-105-1 of the French Commercial Code, 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 Article L.822-11 of the French Commercial Code. 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 (Attestation of presence of CSR Information);
- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria.

However, it is not our responsibility to express an opinion as to compliance with other applicable legal provisions, in particular those provided for in Article L.225-102-4 of the French Commercial Code (duty of care plan) and law no. 2016-1691 of December 9, 2016, known as Sapin II (fight against corruption).

Our verification work mobilized the skills of six people between October 2017 and February 2018 for an estimated duration of nine weeks.

We performed the work described below in accordance with professional standards applicable in France and the decree of May 13, 2013 determining the manner in which the independent third party performs its engagement and, for the reasoned opinion and the reasonable assurance report, with ISAE 3000.

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 Article R.225-105-1 of the French Commercial Code.

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.

We verified that the CSR Information covered the consolidated scope, namely the company and its subsidiaries within the meaning of Article L.233-1 of the French Commercial Code and the companies it controls within the meaning of Article L.233-3 of the same Code.

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:

- at the level of the consolidated entity, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organization, 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 performed, 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 9% and 16% of the quantitative environmental information, that were considered as representative characteristics of the environmental and social domains.

For the other consolidated CSR information, we assessed their consistency in relation to our knowledge of the company.

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

Conclusion

Based on this work, we have not identified any significant misstatement that causes us to believe that the CSR Information, taken together, has not been fairly presented, in compliance with the Criteria.

Paris-La Défense, February 22, 2018

French original signed by
Independent verifier

ERNST & YOUNG et Associés

Éric Mugnier
Partner, Sustainable Development

Bruno Perrin
Partner