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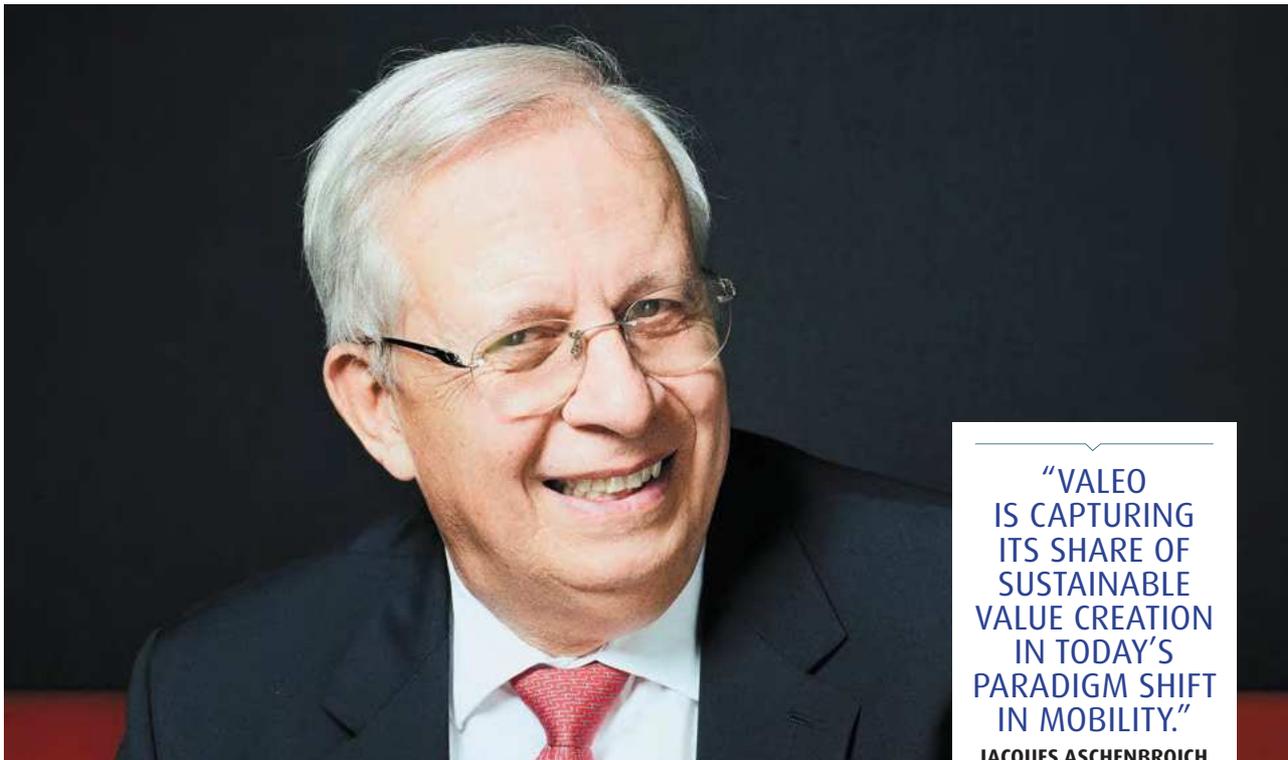


## SUSTAINABLE DEVELOPMENT

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

### Interview with Jacques Aschenbroich



**“VALEO IS CAPTURING ITS SHARE OF SUSTAINABLE VALUE CREATION IN TODAY’S PARADIGM SHIFT IN MOBILITY.”**  
**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 CO<sub>2</sub> emissions and promote the development of an intuitive, connected and more autonomous driving experience.

On-road mobility is in the midst of a threefold revolution spanning electrification, autonomous and connected vehicles and the emergence of digital mobility solutions. Providing a range of sustainable mobility solutions that keep up with the quickening pace of the three aspects of this revolution is Valeo’s way of capturing its share of sustainable value creation in today’s paradigm shift in mobility.

Valeo’s strategic decision to contribute to the transition toward sustainable mobility has been validated by our customers. In 2018, innovative products accounted for 53% of order intake (60% including Valeo Siemens eAutomotive). And products that directly or indirectly contribute to reducing CO<sub>2</sub> emissions accounted for more than 50% of Valeo’s original equipment sales in 2018.

Other than this goal of contributing to the fight against climate change through our products and solutions, Valeo bases its commitment to sustainable development and corporate social responsibility on the ten principles of the United Nations Global Compact, which we signed in 2015. Our support for this initiative remains whole, and we have now also formalized our contribution to the United Nations Sustainable Development Goals.

Our permanent commitment to results and transparency, a driving force of our sustainable development approach, has made Valeo one of the best automotive suppliers in terms of non-financial performance. The Group continues to rank among the leading players, according to the assessment developed by RobecoSAM, and is listed in the DJSI Europe and World indices. In the management of low-carbon transition risks, Valeo also featured in CDP’s 2018 A List of best performers. Of the 6,937 companies assessed this year, only 127 made it to that level.

Valeo also emerged as the leading member of the automotive industry in the 2019 edition of the Corporate Knights annual global ranking of the 100 most sustainable corporations, which is published every January at the Davos Forum in Switzerland.

In 2018, 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 regulatory financial and non-financial information aimed at investors, shareholders and analysts.

## 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 its implementation. 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 departments, including Research and Development, Risk Insurance, Health, Safety and Environment, Ethics and Compliance, Human Resources and Purchasing, also contribute directly 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.

## What were the highlights of 2018?

**J.A.** In line with our achievements in previous years, we intensified our efforts and investments in Research and Development to develop new products and new solutions. In 2018, investments of this nature accounted for 13% of our original equipment sales.

Today, in vehicle electrification, Valeo has a comprehensive offer of low-, medium- and high-voltage solutions, backed by the joint venture with Siemens at the high-voltage end. A strategic choice informed by the gradual diversification of the types of mobility emerging in the automotive sector, this offering will enable us to deliver solutions for all types of electric mobility going forward.

In terms of our environmental commitment, Valeo pursued its strategy and objectives in terms of reducing natural resource consumption and restricting CO<sub>2</sub> emissions. Since 2008, Valeo has significantly reduced consumption (as a proportion of sales) of water (by 43%), energy (by 30%) and packaging (by 24%). Direct and indirect CO<sub>2</sub> emissions (as a proportion of sales) have been cut by 1% compared with 2009. This result should be seen in the light of the tremendous expansion of our industrial footprint, particularly in high-growth countries, from 120 production sites in 2009 to 186 today.

For our employees, health and safety at work remain a priority. To ramp up 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.

To attract and recruit talent, the Group has set up recruitment structures in our key operating countries. Today, over two-thirds of them have teams dedicated exclusively to hiring and to promoting

Valeo. Our recruitment of new skills matches the focuses of our research on autonomous vehicles, powertrain electrification and digital mobility.

To make social dialog an integral part of the Group's sustainable development policy, Valeo has pressed ahead with an extensive dedicated training program for all sites. Following an extensive training program in 2016 and 2017, 2018 was a year of encouragement and support for the sites in the establishment of a sustainable development action plan at their level. It was developed in a concerted approach combining site management teams and the aspirations of employees.

As regards the Group's commitment to corporate citizenship, the Plants' Initiatives program, which has been in place in each of our sites since 2008, covers a wide range of social initiatives targeting both our employees and the neighboring local communities. In 2018, each site organized at least one such initiative, with priority going to activities for schools, technology institutes and universities. Initiatives in this area are monitored closely by the Group, and are improving and flourishing.

In 2018, Valeo continued its in-depth assessment of its suppliers' work in the field of sustainable development, extending the scope of its specific audits to 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 the increasing proportion of electronics in Valeo's products.

Lastly, as a result of nearly two years of work by all contributors to sustainable development at Valeo, the non-financial risk approach is now an integral part of the Group's sustainable development strategy. Our approach increases transparency in terms of risk, which guides our vision of sustainable development.

## What are the challenges for the coming years?

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

We continue to contribute to the future of mobility and to remain at the forefront of solutions facilitating the large-scale electrification of vehicles at affordable prices. Likewise, in keeping with the Group's continuous improvement approach, our sites around the world will continue their efforts on environmental and social issues.

To help get our ecosystem onboard in terms of sustainable development, Valeo is a key partner in stakeholder dialog in the French automotive industry, the first sector to have begun such a vast undertaking, as well as in national automotive sectors, where we are often a major player.

In general terms, 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. Fresh developments in our sector will push us to continue our efforts in this area in the coming years.

March 29, 2019

### 4.1 Valeo and sustainable development: strategy, policy and organization

Following change in the French and European legal framework<sup>(1)</sup>, and to increase the transparency and clarity of the non-financial information published annually, Valeo has opted to maintain an overview of its sustainable development policy in its 2018 Registration Document.

It will accordingly present the key components of strategy and governance, and its key results in the field of sustainable development.

This year's document also provides Valeo's non-financial information statement, which contains:

- a business model (see Integrated Report, section "Valeo's Value creation model"), pages 34 to 35);
- the main risks, for which Valeo describes a description of how they are identified (see section 4.1.1 of this chapter, "From sustainable development challenges to non-financial risks", pages 180 to 182);

- the due diligence policies and procedures applied are presented in each of the sections dealing with the challenges of Valeo's sustainable development policy;
- the policy outcomes and performance indicators are presented in each section dealing with the challenges of Valeo's sustainable development policy.

In accordance with French regulatory requirements<sup>(1)</sup>, Valeo also presents its circular economy achievements (see boxed text "Valeo's commitment to the circular economy", page 185).

Lastly, in accordance with French legal requirements, Valeo reports on the progress of its duty of care plan (see section 4.1.3 of this chapter, "Sustainable development objectives in the Group's business", pages 183 to 187).

#### 4.1.1 From sustainable development challenges to non-financial risks

Drawing on its materiality analysis, which identified its main sustainable development challenges, Valeo completed the mapping of its non-financial risks in 2018.

##### Sustainable development challenges

To identify 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;

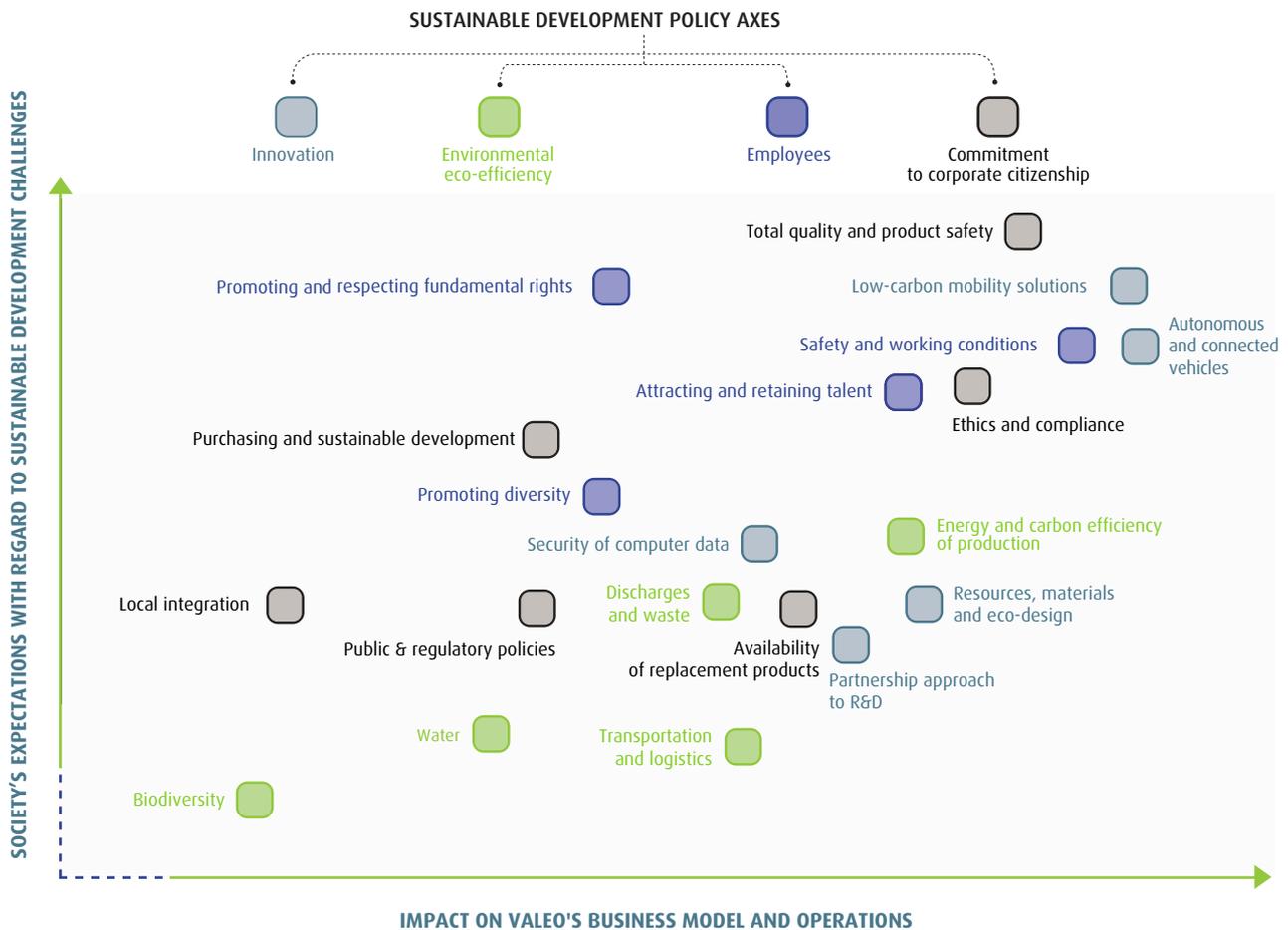
- a documentary review (non-financial questionnaires, survey results, etc.);
- specific requests from the Group's stakeholders in respect of sustainable development (automakers, civil society, specialist press, non-financial analysts, etc.) and interviews with them.

The identification of relevant or material challenges led to the creation 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 the 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.

The materiality matrix was first formalized in 2016. Following its first year, three challenges were updated in 2017 ("Promoting and respecting fundamental rights", "Attracting and retaining talent" and "Promoting diversity"). The challenges in the matrix remained unchanged in 2018.

<sup>(1)</sup> Government order No. 2017-1180 of July 19, 2017 on the disclosure of non-financial information by certain large corporations and groups of corporations.

► MATERIALITY MATRIX PLOTTING THE SUSTAINABLE DEVELOPMENT CHALLENGES



**Non-financial risks**

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. The Group was keen to blend methodologies developed internally to evaluate its operations and those of its suppliers into new duty-of-care and measurement tools developed by actors in the non-financial sphere, such as those resulting from sector-based initiatives for the evaluation of the supply chains of suppliers (for conflict minerals for instance).

Valeo's analysis of non-financial risks in 2018 resulted from the joint work of the Risk Management and Sustainable Development and External Relations departments. The work obeyed the methodological approach and included the following key steps:

- **Step 1:** by comparing the Group's risk map (the details of which are presented in Chapter 2, section 2.1 "Risk factors", pages 82 to 94) with the materiality matrix, Valeo sought to identify and analyze the potential risks associated with the challenges in the matrix. The analysis took into account changes in the French legal framework and the risks associated with corruption<sup>(1)</sup>, serious violations of human rights and fundamental

freedoms, personal health and safety and the environment<sup>(2)</sup> (see section 4.1.3 of this chapter, "Sustainable development objectives in the Group's business", paragraph "Valeo's duty of care plan", pages 183 to 187).

It was considered that the risk analysis had already been performed for challenges in the matrix covered by the Group's risk mapping, which correspond to risk factors. Risk factors corresponding to non-financial challenges are identified with a **CSR** symbol.

The challenges not covered by the risk mapping were analyzed in detail, based largely on in-depth interviews with the various contributors to their management, as well as on sector comparisons. The results gave rise to the formalization of non-financial risks, their evaluation in accordance with the Group's risk assessment scale (i.e., that used for the risk factors presented in Chapter 2) and the establishment of specific mapping of non-financial risks.

- **Step 2:** the mapping of the non-financial risks and its associated analysis were presented to the Risk Committee in early 2019, which approved the findings;
- **Step 3:** the risk factors resulting from this non-financial risk mapping are published in this 2018 Registration Document.

(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.

## Valeo and sustainable development: strategy, policy and organization

Annual follow-up of this mapping is planned by the Risk Committee, with updates as needed.

For 2018, Valeo has identified the following seven main risks (classified in accordance with Valeo's four sustainable development axes):

- for **"innovation"**:
  - risk of environmental non-compliance and loss of opportunities in technologies contributing to CO<sub>2</sub> emissions reduction (see section 4.2.2 of this chapter, "Non-financial technological risks", pages 196 to 201);
- for **"environmental eco-efficiency"**:
  - risk of accidental pollution of water and soil (see section 4.3.2 of this chapter, "Non-financial environmental risks", pages 206 to 209);
- for **"employees"**:
  - health and safety risk (see section 4.4.2 of this chapter, "Non-financial employee-related risks", pages 221 and 223),
  - risk related to attracting talent (see section 4.4.2 of this chapter, "Non-financial employee-related risks", pages 224 and 225),
  - risk related to developing and retaining talent (see section 4.4.2 of this chapter, "Non-financial employee-related risks", pages 225 and 229);
- for **"commitment to corporate citizenship"**:
  - risk of individual corruption (see section 4.5.2 of this chapter, "Non-financial social risks", pages 240 and 242),
  - risk related to suppliers' sustainable development practices (see section 4.5.2 of this chapter, "Non-financial social risks", pages 242 and 245).

Out of the non-financial risks identified, Valeo considers that the "risk of environmental non-compliance and loss of opportunities in technologies contributing to the reduction of CO<sub>2</sub> emissions" best reflects the Group's exposure to the effects of climate change in its product portfolio. The characterization of the risks weighing on its industrial activity as regards the effects of climate change bear chiefly on the unavailability of production facilities following weather events or major natural disasters (see Chapter 2, section 2.1.1 "Operational risks", page 88).

The means of controlling these risks are described in the following sections:

- innovation strategy and product development for an electrification strategy (section 4.2.1 of this chapter, "Group Research and Development policy", page 192);
- risk management tools to respond to the unavailability of production facilities;
- Valeo's actions to reduce its energy consumption and greenhouse gas emissions (section 4.3.3 of this chapter, "Valeo's environmental commitments", paragraph "Reducing energy consumption and greenhouse gas emissions", pages 213 to 216).

These risks were analyzed and dealt with in a low-carbon scenario approach, in connection with the new legal provisions relating to the disclosure of financial risks related to the effects of climate change<sup>(1)</sup>.

The risks listed above and described in this chapter are the material items declared following risk mapping. In view of the Group's industrial and automotive activity, Valeo does not address the following issues, which it considers immaterial:

- the fight against food waste;
- the fight against food insecurity;
- respect for animal welfare;
- responsible, fair and sustainable food<sup>(2)</sup>.

Measures taken by Valeo to combat tax evasion are described in section 4.1.4 of this chapter, "A commitment to sustainable development based on strong relationships with stakeholders", paragraph "Valeo's tax policy", page 191.

In addition, to ensure the continuity and transparency of information, certain social, environmental and employee data have been retained in this chapter. They are broken down by theme. This information is not part of the framework of the non-financial information statement<sup>(3)</sup>, but is presented, for each sustainable development priority, in the sections entitled "Valeo's commitments" (section 4.2.3 "Valeo's technological commitments", section 4.3.3 "Valeo's environmental commitments", section 4.4.3 "Valeo's employee-related commitments", section 4.5.3 "Valeo's social commitments").

### 4.1.2 Sustainable development governance and structure

#### Valeo's sustainable development organization

The 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

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

(2) Article L. 225-102-1 of the French Commercial Code.

(3) This information is not part of the non-financial information statement and should not be taken as such, even though some items are mentioned in decree No. 2017-1265 of August 9, 2017 issued for the application of Government order No. 2017-1180 of July 19, 2017 on the disclosure of non-financial information by certain large corporations and groups of corporations and are described in Article R. 225-105 of the French Commercial Code.

## Valeo and sustainable development: strategy, policy and organization

Development Departments and the Operational Departments (Purchasing, Quality and Industrial) all contribute to Valeo's sustainable development policy.

The Risk Management and Sustainable Development and External Relations departments will now jointly monitor the mapping of non-financial risks.

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

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 about the resources available to the Group in pursuing its strategy in this area.

The Governance, Appointments & Corporate Social Responsibility Committee issued a progress report on relations with the unions in 2018. It focused largely on Valeo's employee relations strategy. The Committee also examined the Group's CSR and safety policy, as well as the non-discrimination and diversity policy.

It held discussions with the Group Vice-President, Sustainable Development and External Relations and the Group Senior Vice-President, Human Resources in 2018.

These discussions were an opportunity to:

- validate the main lines of action regarding:
  - product life cycle 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,
  - prevention initiatives in the fight against fraud and corruption, and the establishment and roll out of the whistleblowing line,
  - integration and solidarity initiatives with the communities of the cities and regions where Valeo operates,
  - Valeo's sustainable development practices and performance assessments by non-financial analysis agencies;
- assess the short- and medium-term priority actions on all of the issues reviewed.

The key figures relating to corporate social responsibility and sustainable development objectives and outcomes are summarized in the performance chart provided in section 4.1.3 "Sustainable development objectives in the Group's business", paragraph "Performance chart showing the key objectives and performance indicators of the Group's sustainable development policy", page 184.

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## 4.1.3 Sustainable development objectives in the Group's business

### Objectives and measurement of the Group's overall sustainable development performance

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.

These objectives are backed by tools for measuring performance in terms of 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.

## Valeo and sustainable development: strategy, policy and organization

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

AXES	CHALLENGES	KEY INDICATORS	2015 RESULTS	2016 RESULTS	2017 RESULTS	2018 RESULTS	TARGETS (2020)	REGISTRATION DOCUMENT SECTION
 <b>INNOVATION</b>	Low-carbon mobility solutions/ Autonomous and connected vehicle	<ul style="list-style-type: none"> <li>Share of innovative products in order intake<sup>(1)</sup> (% of order intake)</li> </ul>	37%	50%	50%	53%	>40%	5.1.1 Page 268
		<ul style="list-style-type: none"> <li>Share of products contributing to the reduction of CO<sub>2</sub> emissions (as a % of sales)</li> </ul>	N/A	50%	50%	50%	N/A	4.2.2 Page 185
 <b>ENVIRONMENTAL ECO-EFFICIENCY</b>	Energy and carbon efficiency of production	<ul style="list-style-type: none"> <li>Energy consumption as a proportion of sales (MWh/€m)</li> </ul>	143	137 (-4% <sup>(2)</sup> )	134 (-6% <sup>(2)</sup> )	140 (-2% <sup>(2)</sup> )	132 (-8% <sup>(2)</sup> )	4.3.3 Page 213
		<ul style="list-style-type: none"> <li>Direct (scope 1) and indirect (scope 2) emissions as a proportion of sales (tCO<sub>2</sub>/€m)</li> </ul>	56.3	56.6 (+0.5% <sup>(2)</sup> )	55.6 (-1% <sup>(2)</sup> )	59.2 (+5% <sup>(2)</sup> )	51.8 (-8% <sup>(2)</sup> )	4.3.3 Page 214
		<ul style="list-style-type: none"> <li>ISO 50001 energy management certification (% of sites)</li> </ul>	8%	12%	13%	17%	20%	4.3.1 Page 205
	Discharges and waste	<ul style="list-style-type: none"> <li>Production of hazardous and non-hazardous waste as a proportion of sales (t/€m)</li> </ul>	16.4	17.0 (+4% <sup>(2)</sup> )	16.6 (+1% <sup>(2)</sup> )	16.2 (-1% <sup>(2)</sup> )	15.6 (-5% <sup>(2)</sup> )	4.3.2 Page 208
	Water	<ul style="list-style-type: none"> <li>Water consumption as a proportion of sales (cu.m/€m)</li> </ul>	198	184 (-7% <sup>(2)</sup> )	175 (-12% <sup>(2)</sup> )	210 (+6% <sup>(2)</sup> )	186 (-6% <sup>(2)</sup> )	4.3.3 Page 210
 <b>EMPLOYEES</b>	Safety and working conditions	<ul style="list-style-type: none"> <li>FR1: frequency rate of occupational accidents with lost time (accidents with lost time/ million hours worked)</li> </ul>	2.4	2.3	2.0	2.1	< 2	4.4.2 Page 222
	Attracting and retaining talent	<ul style="list-style-type: none"> <li>Voluntary turnover of Managers and Professionals (% of M&amp;P workforce)</li> </ul>	6.7%	7.0%	7.3%	8.5%	≤7%	4.4.2 Page 229
	Promoting and respecting fundamental rights	<ul style="list-style-type: none"> <li>Share of employees who acknowledged receipt of the Code of Ethics and who were trained on its content (% of the total workforce)</li> </ul>	N/A	95.0%	95.0%	99.0%	100%	4.4.3 Page 242
	Promoting diversity	<ul style="list-style-type: none"> <li>Share of women in new hires during the year (% of hires during the year)</li> </ul>	32.4%	31.2%	32.0%	33.0%	>35% <sup>(3)</sup>	4.4.3 Page 231
 <b>COMMITMENT TO CORPORATE CITIZENSHIP</b>	Purchasing and sustainable development	<ul style="list-style-type: none"> <li>Share of production purchases for which the suppliers' sustainable development practices were assessed during the year (% of total purchases)</li> </ul>	60%	63%	67%	77%	80%	4.5.2 Page 244
	Local integration	<ul style="list-style-type: none"> <li>Organization of initiatives and events by the Valeo sites with educational and vocational training institutions (% of sites)</li> </ul>	N/A	N/A	48%	61%	80%	4.5.2 Page 247

(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) In 2018, Valeo achieved its 2020 objective of >=33%. The Group has accordingly decided to raise its "Promoting diversity" target with a more ambitious goal for 2020.

## Valeo and sustainable development: strategy, policy and organization

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 CO<sub>2</sub> 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, where reducing CO<sub>2</sub> emissions is not a decisive factor.

### ➤ Valeo’s commitment to the circular economy<sup>(1)</sup>

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

- prevention and management of waste:
  - recycling of waste resulting from the production process (see section 4.3.2 of this chapter, “Non-financial environmental risks”, pages 206 to 209),
  - reuse of packaging materials (see section 4.3.3 of this chapter, “Valeo’s environmental commitments”, paragraph “Packaging”, page 218),
  - recovery of products, such as the Valeo starter-alternator renovation program (see section 4.2.2 of this chapter, “Non-financial technological risks”, paragraph “Examples of recyclability of two Valeo products”, page 198),
- sustainable use of resources, with policies and action plans covering:
  - water consumption and water supply (see section 4.3.3 of this chapter, “Valeo’s environmental commitments”, paragraph “Water management”, pages 209 to 211),
  - consumption of raw materials and more efficient use thereof (see section 4.2.2 of this chapter, “Non-financial technological risks”, pages 196 to 201),
  - energy consumption and increased energy efficiency, and use of renewable energies (see section 4.3.3 of this chapter, “Valeo’s environmental commitments”, paragraph “Reducing energy consumption and greenhouse gas emissions”, pages 213 to 216).

### Valeo’s duty of care plan

In accordance with the provisions of the law on the duty of care of ordering companies<sup>(2)</sup>, Valeo drew up a duty of care plan in 2017, covering the subsidiaries, subcontractors and suppliers with which the Group has business relations.

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

In compliance with the French legal framework, Valeo’s 2018 reporting sets out the measures in its duty of care plan<sup>(3)</sup>:

- the Group’s risk mapping and non-financial risk analysis conducted in 2018 (see above), which include the provisions of the duty of care law (human rights and fundamental freedoms, personal health and safety and environmental breaches);
- the procedure for evaluating the situation of subsidiaries, subcontractors and suppliers;
- measures to mitigate risks or prevent serious breaches;
- whistleblowing and reporting mechanisms concerning the existence or occurrence of risks;
- mechanisms for monitoring the measures implemented and assessing their effectiveness.

The follow-up report on the measures implemented and the assessment of their effectiveness are presented below, with references to the corresponding sections of Chapter 4 giving access to a more detailed presentation.

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

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

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

### 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<sup>(1)</sup> on the disclosure 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.

On the basis of this analysis, Valeo provides a condensed review of its approach relating to:

- fundamental rights and freedoms (see section 4.4.3 of this chapter, "Valeo's employee-related commitments", paragraph "Promoting and respecting fundamental rights", pages 234 to 235);
- health and safety (see section 4.4.2 of this chapter, "Non-financial employee-related risks", paragraph "Health and safety", pages 221 to 223);
- serious environmental breaches (see section 4.3.2 of this chapter, "Non-financial environmental risks", pages 206 to 209),

### 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 the Group had already identified and brought under control. This work confirmed earlier findings obtained from existing tools or assessment criteria used by the Group's subsidiaries:

- regarding fundamental freedoms, the fight against harassment and discrimination, child labor and forced labor: these issues are part of the protocols for the various sites' internal audit campaigns (see section 4.4.3 of this chapter, "Valeo's employee-related commitments", paragraph "Promoting and respecting fundamental rights", pages 234 and 235);
- 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 4.4.2 of this chapter, "Non-financial employee-related risks", paragraph "Health and safety", pages 221 to 223);
- regarding serious environmental breaches, particularly 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 4.3.2 of this chapter, "Non-financial environmental risks", pages 206 to 209, and section 4.3.3 of this chapter, "Valeo's environmental commitments", paragraph "Atmospheric emissions and discharges", pages 211 to 212).

The situation of the Group's activities is assessed regularly by measuring the extent to which the various roadmaps have been rolled out, in particular the 5 Axes roadmaps and regular internal audits. The result of the monitoring indicators is published annually in the Registration Document, and the indicators are subject to an annual audit (see section 4.9 of this chapter, "Independent verifier's report on the non-financial information statement presented in the management report", page 263).

For its suppliers, the Group has applied criteria bearing on risks relating to fundamental rights, workplace health and safety and environmental breaches since the creation of its sustainable development performance assessment tools in 2012. These tools provide a regular assessment of suppliers' practices, initiatives and policies regarding duty-of-care challenges, covering a growing proportion of Valeo's supplier panel (in 2018, it covered suppliers representing 77% of the amount of direct production purchases). Trends in supplier practices are presented in this chapter of the Registration Document (see section 4.5.2 "Non-financial social risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 242 to 245).

### Initiatives to mitigate risks and prevent serious breaches

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 breaches:

- for fundamental rights, prevention tools have been rolled out. They include training in the Code of Ethics and risk mitigation measures, notably through the existence of a whistleblowing line (see section 4.5.2 of this chapter, "Non-financial social risks", paragraph "Corruption risks", pages 240 to 242);
- for workplace health and safety, new prevention tools are launched every year, along the lines of the Safety First campaign (see section 4.4.2 of this chapter, "Non-financial employee-related risks", paragraph "Health and safety", page 222). In addition, methodologies defining appropriate actions are in place on all Group sites in the event of serious breaches. They include rapid risk management solutions such as QRQC Safety, an in-house analysis approach designed to identify and limit the causes of health and safety risk (see section 4.4.2 of this chapter, "Non-financial employee-related risks", page 222);
- for environmental risks, the Group has prevention and mitigation tools, notably through the environmental management system (see section 4.3.2 of this chapter, "Non-financial environmental risks", paragraph "Measures taken to reduce the risk", pages 207 to 209).

(1) 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.

Similarly, support has been provided to help the Group's suppliers control risks relating to fundamental rights, workplace health and safety and the environment (and more generally sustainable development), with their cooperation. This work was based on the exposure of their segment to certain risks and/or their respective sustainable development performance, measured through specific evaluations and audits.

In accordance with the policies in place within the Group, non-compliance with a standard set by Valeo triggers an on-site audit to confirm the situation before the implementation of appropriate action plans (see section 4.5.2 of this chapter, "Non-financial social risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 242 to 245).

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

Since November 2013, Valeo has had an anonymous whistleblowing line, free of charge and open to all employees. It is run by a specialist third-party company, and guarantees whistleblowers' confidentiality and anonymity in accordance with regulations. At the end of 2017, its scope was extended to take into account France's Sapin II<sup>(1)</sup> anti-corruption law and the duty of care law.

In an effort to streamline the whistleblowing channels available to employees (which were previously managed by category), extend their access to the employees of Valeo's suppliers and comply with legal provisions, 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.

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, which comprises two Fraud Investigation Officers. All alerts are handled by an Alerts Committee, chaired by the Chief Ethics and Compliance Officer, established when the whistleblowing line was created. The Alerts Committee examines the case and decides on the follow-up to be given and the sanctions to be applied. Its overriding concern is to keep confidential the name of the whistleblower and the people concerned, together with the key points of the investigation.

No retaliation of any kind whatsoever will be tolerated against a whistleblower acting in good faith.

The whistleblowing line was presented to Valeo's European Works Council in March 2018, as well as to all other works councils concerned, in accordance with industrial relations law.

### Mechanisms used to monitor implemented measures and assessing their effectiveness

The mechanisms used to monitor implemented measures and assessing their effectiveness are reviewed as regards the Group's own activities and those of its suppliers.

For Valeo's own activities, the Group has implemented monitoring actions:

- for fundamental rights, internal tools for monitoring the roll out of prevention action plans and regular monitoring tools (rolled out with the V5000 internal tools) are used across all Group sites;
- for health and safety, deployment tools, regular monitoring of alerts and alert mechanisms (VRI) have been rolled out across all Group sites;
- for environmental issues, similar tools have been rolled out and are monitored as part of the regular evaluation of Valeo sites via the so-called V5000 evaluation tool.

Likewise, for Group suppliers, Valeo's expectations in terms of sustainable development and the monitoring of their action plans are monitored annually through a system blending self-assessments of suppliers' practices and targeted audits, depending on the country, specific aspects and needs involved (see section 4.5.2 of this chapter, "Non-financial social risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers" pages 242 to 245).

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

### 4.1.4 A commitment to sustainable development based on strong relationships with stakeholders

#### A multi-stakeholder approach

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

(1) SRI: socially responsible investment.

## Dialog with industry stakeholders

Within the Automotive Industry Platform (*Plateforme de la filière automobile* - PFA), Valeo 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 being examined in the field of automotive mobility (carbon impact of and pollution from the automotive industry, new forms of mobility, role of the automotive industry in the regions, its social impact, relationship between contractors and suppliers, etc.).

Since then, this dialog has been maintained and enriched in various stages, including the introduction of new themes such as reducing planned obsolescence, on which Valeo represented automotive suppliers (excluding tire manufacturers). Another development was the opening of new discussion forums, such as participation in the 2017 and 2018 editions of the Movin'On event (formerly Challenge Bibendum), organized by Michelin in Montreal and at the annual European research conference organized by the European Commission (TRA 2018) in Vienna. Lastly, at the 2018 Paris Motor Show, the PFA once again brought together stakeholders in this dialog around low-carbon mobility.

## Valeo, a global player in the French and European 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 those further down in the chain, 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 French, 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. It continues to play an active part;
- 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 4.2.1 of this chapter, "Group Research and Development policy", pages 192 to 195);
- 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 for its suppliers

Since 2013, Valeo has regularly surveyed its suppliers to gain a better understanding of their sustainable development approach, based on economic (plant optimization), environmental (certification) and labor-related (labor law) criteria.

This assessment contributes to identifying and supporting suppliers in their overall approach to sustainable development and in their business relationship with the Group (see section 4.5.2 of this chapter, "Non-financial social risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 242 to 245).

## 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** (SDG 4), reflected in particular in the Group's focus on training Valeo teams at all levels of the organization. A total of 98.5% of Valeo employees attended at least one training course in 2018 (see section 4.3.2 of this chapter, "Non-financial environmental risks", pages 206 to 207). The importance given by Valeo to ongoing training and access for all its employees to quality technical training supports the United Nations' goal of significantly increasing the number of adults with the relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship (SDG 4.4);

## Valeo and sustainable development: strategy, policy and organization

- **gender equality** (SDG 5), building on an extensive program to promote gender diversity dating back to 2011. In 2018, women represented 32% 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 4.4.3 of this chapter, "Valeo's employee-related commitments", paragraph "Respecting and promoting diversity", pages 231 to 233). This aim of achieving gender diversity and the related programs go to support the UN's goal of ensuring "women's full and effective participation and equal opportunities for leadership at all levels of decision-making in [...] economic life" (SDG 5.5);
- **decent work and economic growth** (SDG no. 8), by respecting international conventions in favor of decent work (see section 4.4.3 of this chapter, "Valeo's employee-related commitments", paragraph "Promoting and respecting fundamental rights", pages 234 to 235). Valeo's actions and achievements support the United Nations goal of taking "immediate and effective measures to eradicate forced labor" (SDG 8.7);
- **industry, innovation and infrastructure** (SDG 9), through the production of parts and systems for the automotive industry, and through Research and Development. In 2018, Valeo filed more than 2,100 patents and invested more than 13% of its original equipment sales in Research and Development (see section 4.2.1 of this chapter, "Research and Development at Valeo", pages 192 to 195). This is in line with the United Nations' goal of enhancing "scientific research and upgrading technological capabilities of industrial sectors in all countries" (SDG 9.5);
- **cities and sustainable communities** (SDG 11), through Valeo's attention to Research and Development and product development to "provide access to safe, affordable, accessible and sustainable transport systems for all" (SDG 11.2) and "more inclusive and sustainable" urban mobility (SDG 11.3) (see Integrated Report, section "Rising to society's major mobility challenges", pages 10 to 15);
- **climate action** (SDG 13), where initiatives have been closely monitored for many years, particularly in terms of reducing plants' carbon footprints and water consumption. Since 2009, Valeo has reduced its direct and indirect CO<sub>2</sub> emissions (section 4.3.3 of this chapter, "Valeo's environmental commitments" of this chapter, paragraph "Reducing our carbon impact", pages 214 to 216), as part of its contribution to strengthening "resilience and adaptive capacity to climate-related hazards and natural disasters in all countries" (SDG 13.1);
- **life on land** (SDG 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. They are an integral part of the site's environmental certification (ISO 14001). In 2018, 92% of sites were ISO 14001-certified (see section 4.3.1 of this chapter, "Valeo's environmental policy", paragraph "ISO 14001, ISO 50001 and OHSAS 18001 certification audits", page 205). This is in line with the United Nations' goal of "achieving sustainable management and efficient use of natural resources" (SDG 12.2) and "substantially reducing waste generation through prevention, reduction, recycling, and reuse" (SDG 12.5).

### Recognition of Valeo's commitment to sustainable development

Valeo saw its non-financial performance acknowledged by various rating agencies in 2018, 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 Leader <sup>(1)</sup>
MSCI ESG Rating	AA Ranked no. 2 among automotive suppliers
OEKOM	B-, prime Industry leader <sup>(1)</sup> (ranked no. 1 among automotive suppliers)
RobecoSAM (DJSI)	76/100 Ranked no. 3 among automotive suppliers
Sustainalytics	86/100 Leader <sup>(2)</sup> (ranked no. 2 among automotive suppliers)

(1) Status conferred by the rating agency over the year.

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

In 2018, CDP<sup>(1)</sup> assessed the transparency of Valeo's communication and performance in terms of carbon impact, giving it the top score of A Leadership for the first time. Valeo joined a group of 127 companies with the highest score, out of over 6,900 companies

assessed. This result reflects the Group's aim of having a comprehensive approach to controlling the carbon impact of its products and its industrial operations.

(1) See Sustainable Development Glossary, page 262 for a description of each agency.

Valeo and sustainable development: strategy, policy and organization

RobecoSAM<sup>(1)</sup> assessed Valeo’s sustainable development initiatives (governance, risks, R&D, environment, labor issues, corporate citizenship, etc.), placing the Group at the forefront of the automotive suppliers sector for the third consecutive year, with a score of 76 out of 100 in 2018. Valeo is also part of the DJSI (Dow Jones Sustainability Index) Europe and World indices. Its continued presence in these indices and its results in recent years confirm the Group’s cross-cutting approach to sustainable development and the existence of clear policies and goals in the main issues covered by this analysis (governance, environmental performance, social performance, etc.).

Sustainalytics<sup>(1)</sup> awarded Valeo a score of 86 out of 100 for sustainability in 2018, making it the leader among automotive suppliers and tire manufacturers. This further backs up Valeo’s action in terms of sustainable development, and in particular its focus on the governance of the various challenges in this

area (environmental, employee and social issues, including the impact of Valeo’s products).

Valeo also featured in several non-financial indices in 2018, in particular:

- Dow Jones Sustainability Index (DJSI) Europe;
- Dow Jones Sustainability Index (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.

➤ **Valeo’s tax policy**

Valeo’s tax policy is aligned with the Group’s strategy to create value for its shareholders, customers, employees and local communities while complying with the legal and regulatory framework throughout the world and maintaining its reputation wherever the Group conducts and is growing its business.

The tax policy adopted by Valeo and its subsidiaries reflects the rules provided for in the Group’s Code of Ethics and its responsible approach to taxation. It is built around the following three principles:

■ **Giving priority to operations**

Valeo’s tax policy is based on accepting all the tax consequences that arise as a result of the Group’s operations. Accordingly, Valeo does not use tax optimization strategies if such strategies do not meet its operating requirements. Efficient tax planning and structuring is implemented provided it is in accordance with the law, supports a genuine business activity and is not artificial. Consequently, the Group has not set up any entity within a particular territory for the sole purpose of benefiting from favorable tax arrangements.

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

■ **Applying tax regulations fairly**

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

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

Developing strong professional relationships with the tax authorities and carrying out our operations in full transparency are key drivers for ensuring the fair application of tax regulations.

■ **Ensuring tax costs are correctly calculated**

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

- ensures that the tax liability recorded in its financial statements has been correctly estimated. To this end, a reporting process has been put in place to provide Valeo with the information required to assess the tax situation and costs of its subsidiaries,
- provides regular, specific training to ensure that the Group’s tax policy is correctly implemented by those concerned and that the principles set out in this document are adhered to,
- has established a transaction documentation system that also helps to contain tax costs. It serves to provide information on the various transactions with tax implications. The options put forward by external consultants are documented in order for them to be validated,
- if it is legally possible to do so and does not result in the Group’s tax liability being unfairly increased, the Group seeks to reach a compromise with the tax authorities when it comes to dispute resolution as this minimizes the uncertain consequences of litigation.

(1) Status conferred by the rating agency over the year.

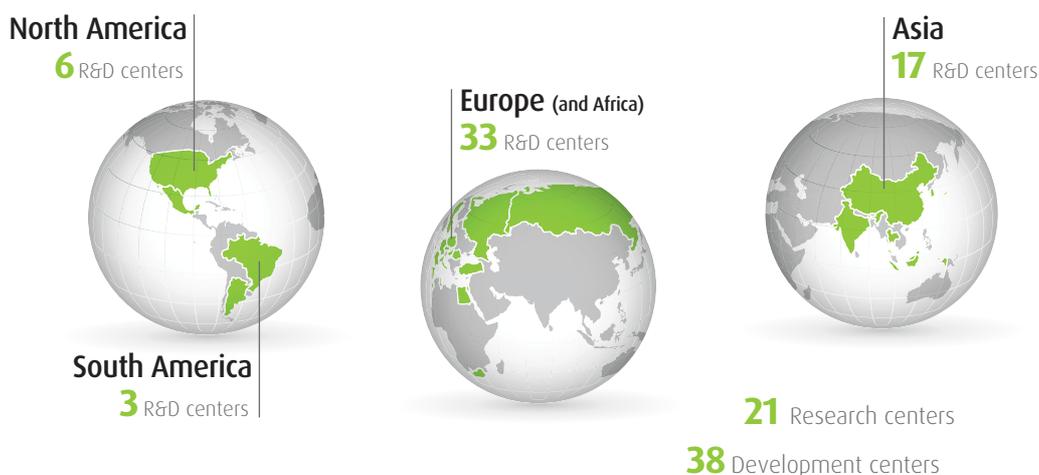
### 4.2 Research and Development at Valeo: from megatrends to innovation

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

##### A global footprint

###### ► RESEARCH AND DEVELOPMENT WORLDWIDE IN 2018



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 21 research centers are dedicated to fundamental research, advanced engineering and the development of new product standards;
- the 38 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, particularly in 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 2018, Valeo’s Research and Development teams managed 3,000 projects – a direct result of the steep 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 2018, the Group’s gross Research and Development expenditure totaled 2,073 million euros, representing nearly 13% of its original equipment sales.

Globally, the number of people working in Research and Development increased by more than 9%, from 17,900 in 2017 to 19,800 in 2018. The Group’s longstanding presence in France, where a significant portion of its research centers are located, meant that there were 4,244 employees dedicated to Research and Development in France in 2018.

Its global reach also builds on its own network of experts, which has three levels: Expert, Senior Expert and Master Expert. It has a total of 1,151 Experts (products and production processes). This corresponds to an increase of 38% since 2014 (835 Experts), when the network was first created. 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 (see section 4.4.2 of this chapter, “Non-financial employee-related risks”, paragraph “Training”, page 226).

### Commitment to developing products serving the threefold revolution

Both the automotive world and mobility more broadly are undergoing a paradigm shift, which is formalized in the threefold revolution (see Integrated Report, section “Rising to society’s major mobility challenges”, pages 10 to 15).

Valeo’s aim through this all-encompassing strategy is to be a genuine catalyst that fosters the emergence of innovative technological solutions across its value chain, enabling it to develop technologies related to the threefold revolution:

- **electrification of the powertrain**, based in particular on 48 V low-voltage powertrain solutions, fully electric high-voltage powertrains and comprehensive electrical powertrain systems for all architectures;
- **autonomous, connected and intuitive driving**, based on vehicle automation priorities (low and high speed), increasing connectivity between vehicles and their environment (vehicles, infrastructure) and a simple and seamless interface between driver and vehicle;
- **new services around digital mobility**, resulting in the development of digital platforms to meet growing needs for mobility and the development, especially in urban areas, of new forms of mobility, both in the way transportation is used (on-demand mobility, mobility services, etc.), but also in the combination of types of transportation (public transportation, individual vehicles, bicycles, etc.).

More details on the contribution of Valeo’s products to the threefold revolution can be found in Chapter 1 (section 1.3.1 “Comfort & Driving Assistance Systems”, page 51 to 54; section 1.3.2 “Powertrain Systems”, page 55 to 57; section 1.3.3 “Thermal Systems”, page 58 to 62; section 1.3.4 “Visibility Systems”, page 63 to 66).

### A comprehensive approach to Research, Development and Innovation (R&D&I)

The research, development and innovation policy serves to make the Group’s strategic choices a reality. It draws on the various drivers presented below, which are necessary for the diversity of tools that contribute to an R&D&I policy matching Valeo’s technological ambitions.

#### Strategic industrial partnerships

Valeo has been involved in a research partnership on driving assistance and autonomous vehicles with Safran since 2013. It is ongoing, and the joint research programs focus on the interfaces between people, the machine and its environment and automation.

This industrial-scale research approach has also been reinforced in recent years by Valeo’s various acquisitions, including Peiker in 2016 in the field of telematics and connectivity, Spheros in 2016, a leader in thermal systems for buses, FTE automotive in 2017, a leader in the production of actuators and Valeo-Kapec in 2017, a world leader in torque converters for automatic and continuously variable transmissions. An investment in the capital of Navya, a French company specializing in autonomous shuttles, and the development of the Valeo-Gemalto cooperation in virtual key security, rounded out the approach in 2016.

In the field of vehicle electrification, the Valeo-Siemens joint venture in high-voltage powertrain systems recorded order intake of 10.5 billion euros between its creation in December 2016 and the end of 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<sup>(1)</sup> 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. To do so, the Group is applying an open innovation policy based chiefly on:

- an internal organization of innovation based on dedicated cross-cutting structures (Car Lab) blending expertise and new ways of imagining innovation (design thinking, etc.);
- ambitions for artificial intelligence, marked in 2017 by the creation of Valeo.ai, the first global center dedicated to artificial intelligence and deep learning in automotive applications. Its close ties with a large scientific and academic community, i.e., through its strategic partnerships with recognized players such 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;
- a proactive strategy with regard to start-ups, through various channels (simple cooperation, investments and acquisitions). This strategy is backed 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. In 2018, for instance, Valeo partnered with Ellcie Healthy to capitalize on its expertise in eyewear with integrated sensors.

(1) See Sustainable Development Glossary, page 262.

### Valeo, an actor in the governance of institutional collaborative research 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.

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. The diversity and quality of the partners involved are what drive the value of the expertise provided by ERTRAC, particularly through the regular publication of medium-term technology roadmaps on various topics relating to automotive mobility. In 2018, 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).

Valeo has made its own contribution to this work, and also contributed to preparing the largest European event on research in land transportation (Transport Research Arena – TRA), held in Vienna in 2018.

#### Artemis-IA

Valeo has joined Artemis-IA, an association dedicated to collaborative research into on-board and intelligent systems, bringing together industry players in these areas from a wide range of disciplines (aerospace, railways, space, defense, automotive, food, health and pharmaceuticals, microelectronics, etc.). Valeo was keen to take part in the governance of Artemis-IA as 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 are the common core of research represented by cyber-physical and embedded components and systems.

Artemis-IA is one of three associations (alongside EPoSS and AENEAS) taking part in the governance of the ECSEL JU (Electronic Components and Systems for European Leadership Joint Undertaking), bringing together the European Commission and Member States and industrial players along the entire electronics value chain.

#### 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 (IRT), and a founding member of the Institute for Energy Transition. Since 2014, the two institutions have launched several projects involving Valeo, in the fields of vehicle electrification (reducing CO<sub>2</sub> emissions) and automated driving.

Valeo helped formulate proposals covering research issues related to low-carbon, connected and progressively autonomous transportation.

#### Collaborative projects

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

Valeo is involved in the European 5G MOBIX project, which brings together 58 partners from 11 European countries, Turkey, China and South Korea to test the use of 5G in urban and highway corridors (some of them cross-border). Six urban areas have been selected for the trials (Versailles in France, Berlin and Stuttgart in Germany, Eindhoven in the Netherlands, Espoo in Finland, Jinan in China and Yeonggwang in South Korea), together with two cross-border areas, one between Spain and Portugal and the other between Greece and Turkey.

The project brings together players from the automotive, infrastructure and 5G communication solutions industries with the aim, by the end of the project, of identifying the necessary infrastructure depending on the use cases tested, defining 5G deployment scenarios depending on the use case, and providing recommendations for spectrum allocation depending on the use case in 5G communication situations. Valeo is contributing to this project as an expert in autonomous mobility solutions in complex urban conditions, and will take part in testing its systems in 5G situations in a variety of complex environments, particularly urban settings.

#### Multifaceted academic partnerships

Valeo takes part in multi-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.

## Research and Development at Valeo: from megatrends to innovation

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) and the United States. 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).

### Funding of doctoral theses

The Group is funding more than 50 doctoral theses in areas such as new materials and 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 partnered with universities and public research bodies to create 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 (France), 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, the chair aims 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 including 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 (i) develop a better understanding of the business and managerial challenges associated with changes in digital technology and the development of connected objects, and (ii) 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 regions 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 second 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 to ensure their security.

### An activity that creates intellectual property

Innovation is central to Research and Development activities; it results in major orders and a growing patent portfolio. In 2018, the Group had 42,500 patents, of which 2,144 were filed for new inventions during the year, a 4% increase on 2017. This makes it the biggest patent filer with the French Industrial Property Institute (*Institut national de la propriété industrielle - INPI*) in France and the leading French company in terms of patents filed with the European Patent Office.



### 4.2.2 Non-financial technological risks

#### Risk of non-compliance with environmental product regulations

##### Description of the risk

To meet changing and increasingly stringent laws globally on the reduction of polluting emissions from vehicles and the introduction of electromobility in Europe and other parts of the world (in Europe, emissions capped at 95 g of CO<sub>2</sub>/km in 2021, see note below), and market trends in favor of the penetration of hybrid and electric vehicles, Valeo has identified a non-financial risk of non-compliance by these products with environmental regulations.

This risk is relevant to the entire automotive sector and is defined as compliance with and anticipation of national and regional (European) regulations as regards:

- caps on CO<sub>2</sub> emissions and gaseous pollutants from vehicles<sup>(1)</sup>;
- compliance with the regulatory framework for eco- design<sup>(2)(3)</sup> and the use of hazardous and regulated substances in the product composition and manufacturing process<sup>(4)</sup>.

##### Risk management policy

Since 2009, the design, development and production of products contributing to the reduction of CO<sub>2</sub> emissions have been constants in the Group's strategy. This risk is accordingly monitored by the Research and Development and Strategy departments.

Valeo's policy has two focuses:

- innovation for the reduction of CO<sub>2</sub> emissions of products during their use phase, with contributions from the following three Valeo activities:
  - products contributing to the hybridization and electrification of powertrains, especially those dedicated to medium-power (48 V) hybridization,
  - high-power (over 60 V) electrification for electric vehicles and plug-in hybrids, offering a significant reduction in CO<sub>2</sub>

emissions and the option of driving in low-emissions mode, especially in urban areas,

- thermal solutions for both engine and cabin, now integrating all battery thermal management solutions for electric vehicles,
- exterior and interior lighting solutions (vehicle projectors, etc.) with reduced energy consumption and mass to help limit the vehicle's carbon impact. In wiper systems, Valeo also develops systems that consume less energy;
- roll out of a product eco-design strategy geared towards reducing their carbon impact well beyond the simple use phase, with the following priorities:
  - limiting the consumption of raw materials and chemicals,
  - using recyclable and recycled materials.

##### Measures taken to reduce the risk

###### Reducing CO<sub>2</sub> emissions

Products contributing to the hybridization and electrification of the powertrain include the key products presented in Chapter 1, section 1.3.2 "Powertrain Systems", pages 55 to 57. Similarly, the latest innovations in thermal systems and lighting and wiper systems are presented in Chapter 1, section 1.3.4 "Visibility Systems", pages 63 to 66.

To reinforce tools for measuring the impact of Valeo products in their use phase, Valeo has undertaken a pilot project to measure the carbon impact of its product families during this phase and during their life cycle (an average life of 20 years was assumed for the analysis). The study is intended to provide an internal tool for modeling the consolidated impact of the Group's products (see box below, "CO<sub>2</sub> emissions related to the use of Valeo products (scope 3)", page 197).

For each product, Valeo has also conducted approval and certification tests, based on automotive sector standards.

(1) Regulation (EC) No. 715/2007 of the European Parliament and of the Council of June 20, 2007 on type approval of motor vehicles with respect to emissions from light passenger and commercial vehicles (Euro 5 and Euro 6) and on access to vehicle repair and maintenance information.

(2) Directive 2009/125/EC of the European Parliament and of the Council of October 21, 2009 establishing a framework for the setting of eco-design requirements for energy-related products.

(3) Directive No. 2000/53/EC of September 18, 2000 on end-of-life vehicles.

(4) Regulation (EC) No. 1907/2006 of the European Parliament and of the Council of December 18, 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) No. 793/93 and Commission Regulation (EC) No. 1488/94 as well as Council Directive No. 76/769/EEC and Commission Directives 91/155/EEC, 93/67/EEC, 93/105/EC and 2000/21/EC.

## CO<sub>2</sub> emissions related to the use of Valeo products (scope 3)<sup>(1)</sup>

In accordance with the new recommendations on identifying and reporting the volumes of indirect CO<sub>2</sub> emissions related to Valeo's operations<sup>(2)</sup>, the Group undertook vast work in 2017 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 CO<sub>2</sub> impacts in Europe<sup>(3)</sup>.

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.

This work was continued and intensified in 2018. 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 the Group's revenue in 2018.

Valeo estimates the CO<sub>2</sub> impact of the selected products sold in 2018, in their phase of use over their entire life cycle, at 99,574 kt CO<sub>2</sub>eq. The year-on-year change in this estimate (-7%) is attributable to the change in market share for some of the Group's businesses and the impacts of acquisitions and disposals over the past year.

### Product eco-design

The eco-design approach has been rolled out at every level of the Group's Research and Development activities. It aims to:

- reduce CO<sub>2</sub> emissions;
- increase the recyclability of materials and systems;
- ensure that materials are safe.

Valeo's eco-design approach is based on internal standards, which guide the project teams in their life cycle analyses in the upstream research phase. They are consigned essentially in internal documents, in particular the EcoDesign Standard<sup>(4)</sup> and eco-design guidelines by Product Line. These documents enable

engineers to assess the major environmental impacts of products at all stages of their life cycle during project development:

- type, origin, number and quantity of raw materials;
- production and packaging;
- transportation and distribution;
- use and maintenance;
- disassembly, recycling, reuse, recovery and disposal.

They make it possible to factor in sustainable development constraints during the use of the product. This phase accounts for 90% of the total impact.

(1) The other two 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 4.3.3 of this chapter, "Valeo's environmental commitment", paragraph "Reducing our carbon impact", page 214 to 216).

(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) Directive 2009/125/EC of the European Parliament and of the Council of October 21, 2009 establishing a framework for the setting of eco-design requirements for energy-related products.

### Life Cycle Assessments at Valeo

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 Life Cycle 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 CO<sub>2</sub> impact analysis) as far upstream as possible in the product development phase.

A Life Cycle Assessment (LCA) has been carried out on LED fog lights. The aim was to assess their environmental impacts throughout their life cycle: production phase (LEDs and electronic controls), use phase (fuel consumption, CO<sub>2</sub> emissions) and end-of-life or recycling/reuse phase. The Group has gained considerable expertise in performing this analysis.

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

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.

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 number of components and the volume of materials that do not benefit the environment or the consumer.

It also responds to changes in the European End-of-Life Vehicle (ELV) Directive<sup>(1)</sup>, which since January 1, 2015 has required automakers to achieve a minimum rate of reuse and recycling of 85% by weight of the ELV, or 95% when disposing by incineration. As a result, automakers have established increasingly higher standards with their suppliers to gradually raise the recycling rate of their products. The R&D and Projects teams work closely 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 4.2.3 of this chapter, "Valeo's technological commitments", page 201).

### Examples of recyclability of two Valeo products

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

### Compliance of products with standards

Complementing the internal EcoDesign Checklist tool, the eco-design approach is backed by a requirement for product quality and reliability right from their design phase, which is broken down within the RAISE methodology. It stands for:

- Robustness;
- Accountability;
- Innovation;
- Standards;
- Expertise.

RAISE aims to ensure the robustness of Valeo's products and processes. Dedicated teams (one per Product Group) have been assigned to RAISE on a full-time basis, with the following explicit objectives:

- set standards that are easy to 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;

(1) See Sustainable Development Glossary, page 262.

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

## Research and Development at Valeo: from megatrends to innovation

- 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 Life Cycle 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.

More than 8,000 product and process standards are 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.

### Reduction and elimination of hazardous chemical substances

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

The European Union regulation commonly known as REACH<sup>(1)</sup> 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 the 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 2018, 191 SVHCs (Substances of Very High Concern) had been identified by the competent European authorities and 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 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, or 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 it 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.

It 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 2016, 2017 and 2018. 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 the ambitious target of eliminating from its products any substance requiring authorization in any of its markets. It will work with its suppliers to systematically find alternatives to using SVHCs, and has a substitution plan in place for products containing DEHP<sup>(2)</sup>, a phthalate widely used as a plasticizer.

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

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 (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.

(1) Regulation (EC) No. 1907/2006 of the European Parliament and of the Council of December 18, 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) No. 793/93 and Commission Regulation (EC) No. 1488/94 as well as Council Directive No. 76/769/EEC and Commission Directives 91/155/EEC, 93/67/EEC, 93/105/EC and 2000/21/EC.

(2) Diethylhexyl phthalate or di-2-ethylhexyl.

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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 latest REACH disclosure requirements (in line with the methodology advocated by ACEA and CLEPA<sup>(1)</sup>). The audits carried out by Valeo in 2017 showed that the Group was compliant with all mandatory requirements, well ahead of the legal deadline of May 31, 2018.

### Results and performance

#### Sales derived from products contributing to the reduction of CO<sub>2</sub> emissions

In 2018, as in 2017, products that directly or indirectly contribute to reducing CO<sub>2</sub> emissions accounted for more than 50% of Valeo's original equipment sales.

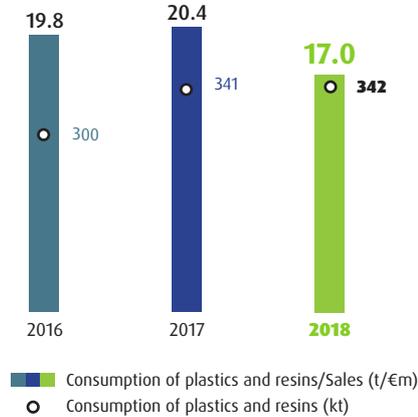
#### Consumption of raw materials



#### Materials consumption

Seeking to provide solutions both to reduce product mass and gain new potential for product development, Valeo is implementing solutions for a progressive substitution of the use of metal by lighter materials, such as plastics and resins, or even carbon fiber (for limited use in the automotive industry due to cost and large scale production constraints).

This approach is further supported by the phasing-in of recycled plastics.



In 2018, total consumption of metals as a proportion of sales was down nearly 3.5% compared with 2017. This stemmed from change in the mix in favor of products using less metal, despite growth in overall sales.

In addition, 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 1 point (in absolute terms) in 2018 compared with 2017. The pace of changes in raw materials consumption reflects the reality of growth in the Group's various business lines. The use of these materials has a significant impact on the weight of components and the vehicle.

#### Consumption of heavy metals

Heavy metal consumption is on a downward trend. The Group's consumption of heavy metals has fallen by 17% since 2015. In 2018, it amounted to 9.8 metric tons, an increase of 2 metric tons compared with 2017. The increase is the result of the consolidation

of recent acquisitions. Over the past year, work was conducted to identify sources of heavy metal consumption and to assess removal or substitution options. 2019 will be devoted to the progressive replacement of lead for the new families of products in question.

In the automotive industry, consumption of heavy metals stems solely from the presence of lead in welding materials used for certain specific activities. Determined to phase out the use of lead in the development of its products, Valeo is working to optimize 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) Joint ACEA-CLEPA position paper of June 28, 2016: REACH registration - 2018 Deadline.

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**Consumption of chemicals**

Valeo succeeded in ending the use of chlorinated solvents in 2017, following major work on its industrial process. It transpires that newly acquired sites used products of this category in 2018. In 2019, Valeo will focus its work on the relevant product families to once again eliminate the use of chlorinated solvents.

Consumption of carcinogenic, mutagenic and reprotoxic (CMR)<sup>(1)</sup> substances has been declining in recent years. It decreased by 71% as a proportion of sales from 25.7 kg/€m in 2015 to 7.4 kg/€m in 2018, and from 361 to 130 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 12,320 metric tons in 2018.

**4.2.3 Valeo’s technological commitments**

**A commitment to R&D for the aftermarket and renovation market**

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, across its entire multiproduct, multi-region and multichannel strategy, without compromising the environment.

The specific features of these products position Valeo as a key player in mobility access in markets characterized by a high proportion of second-hand vehicles, predominantly emerging

regions (parts of Southeast Asia, Africa, etc.). More generally, the aftermarket in these regions is creating economic opportunities for various automotive-related businesses.

The existence of replacement 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, 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<sup>(2)</sup>.

- Valeo offers two ranges of parts – one new and one remanufactured. Remanufactured systems mainly include alternators and starters as well as clutches and air conditioning compressors.
  - Valeo has set up an efficient system called e-CORPS to collect used parts. The system permits the immediate identification of product references (type of part, origin, size, production year, etc.). Once parts have been retrieved, Valeo disassembles, inspects and cleans them, and subjects them to electrical and electronic tests. Valeo then initiates a remanufacturing process, which most importantly involves eliminating any traces of hazardous substances to guarantee personal protection. With more than 40 testing points for rotating machines on test benches, Valeo meets the standards of the original equipment market, and tests all remanufactured products before packaging them for sale on the aftermarket.
  - This industrial expertise has enabled Valeo to offer a full range and selection of remanufactured parts, and thereby to champion environmental protection in the remanufacturing market.

(1) See Sustainable Development Glossary, page 262.

(2) The definition of remanufactured products is common to the entire industry (ACEA, APRA, CLEPA, FIRM, VDA): “A remanufactured part fulfils 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.”

## 4.3 Environmental management and performance of Valeo's sites

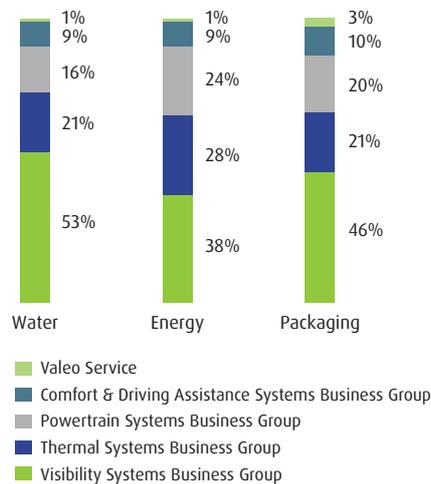
### 4.3.1 Valeo's environmental policy

For nearly 30 years, Valeo has demonstrated its commitment to limiting the impact of its activities on the environment. The Group sets out its 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:

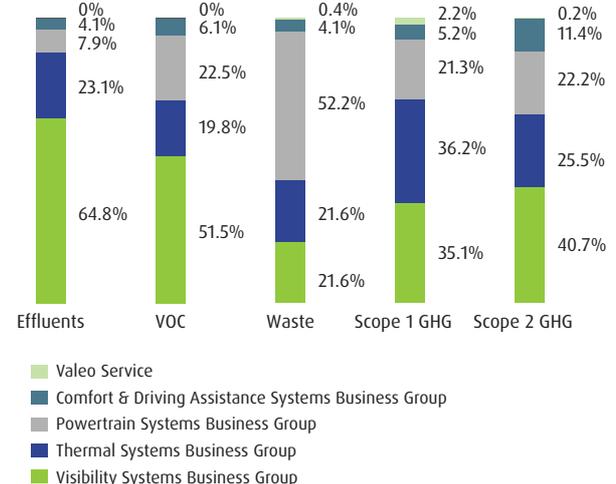
- ensure the compliance of its activities with applicable laws and international agreements;
- deploy the ISO 14001 environmental management system at all sites;
- improve the environmental performance of its processes;
- optimize the transportation of people and goods in order to reduce greenhouse gas emissions;
- limit the use of natural resources and promote the use of renewable resources and energy;
- eliminate the use of substances that are hazardous to the environment or health.

### The Group's main consumption items and emissions by type of activity

#### ► BREAKDOWN OF RESOURCE CONSUMPTION



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



The charts above show that the Visibility Systems Business Group, with the consolidation of the Ichikoh sites, now house the Group's most resource-intensive activities (water, energy, packaging) and those most liable to generate effluents and volatile organic compounds. They also show that the Powertrain Systems Business Group is the biggest producer of waste by weight. The HSE Department will strive to improve the environmental performance of recently consolidated sites.

### Industrial mapping of Valeo sites

In 2018, Valeo saw the number of its production sites increase from 132 to 140, mainly due to the consolidation by the Visibility Systems Business Group of the Ichikoh sites in Japan, Thailand, China and Indonesia, and that of Precico in Malaysia by the Comfort & Driving Assistance Systems Business Group. The mapping of the Group's industrial activities has been updated accordingly in the table below.

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.

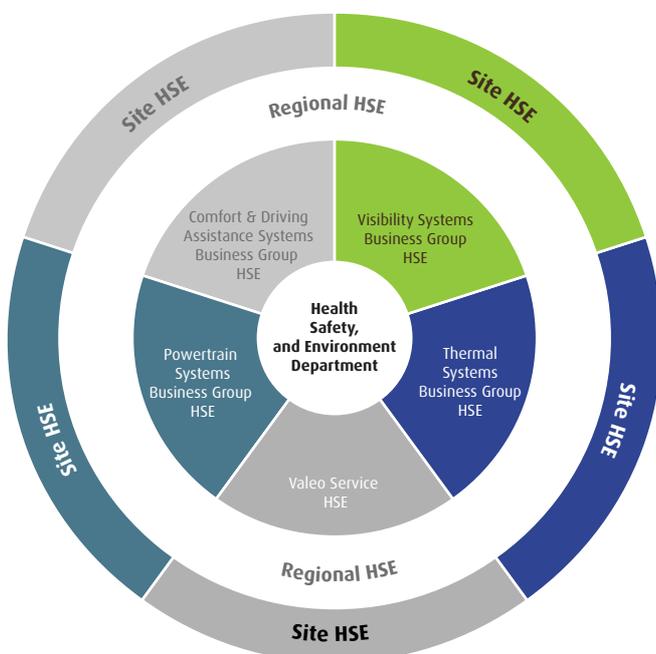
Environmental management and performance of Valeo’s sites

	Number of sites	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Valeo Service
Manufacturing	140	20	29	39	42	10
Assembly/installation	124	20	28	37	37	2
Processing	83	13	23	22	24	1
Injection molding	64	12	4	16	32	0
Heat treatment (ovens, furnaces)	84	13	23	21	27	0
Painting/varnishing	67	11	13	11	32	0
Welding	78	12	23	21	21	1
Use of vanishing oils (VOC-emitting*)	34	2	10	17	5	0
Degreasing (surface cleaning)	59	7	17	20	15	0
Surface treatment (altering the surface properties of a part)	38	3	7	8	20	0

\* See Sustainable Development Glossary, page 262.

### Organization of the Health, Safety and Environment (HSE) network

The **Health, Safety and Environment Department (HSE)**, which reports to the Industrial Department, develops policies for the health and safety of people, environmental aspects and the security and safety of buildings and facilities, drawing on standards and tools to carry out its function. The roll out of these tools and standards is based on an **organization broken down by Business Groups, by Regions, or by Country and by Sites**: in this way, the network guarantees the respect of the commitments of the Group’s environmental policy and the achievement of its goals.



The **HSE managers of the Business Groups** and Valeo Service aim to spread good practices between the sites of their respective Business Group and to promote the implementation of operational directives and investment requests in order to reduce the environmental footprint.

(1) See Sustainable Development Glossary, page 262.

In 2018, the network’s organization was strengthened by the appointment of **HSE managers** in several **Regions**. These Regional HSE managers supervise a maximum of 15 sites so as to better support the work of the Business Group HSE managers. Through their presence in the field, the Regional HSE managers regularly provide expertise, assistance and training in the Group’s tools, wherever possible in the local language.

Lastly, a **Site HSE manager** is tasked with implementing 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 on compliance with internal and external requirements. They are also internal auditors within the meaning of the ISO 14001<sup>(1)</sup>, ISO 50001<sup>(1)</sup> and OHSAS 18001<sup>(1)</sup> standards.

A **Country HSE coordinator** can be appointed from among the Site HSE managers to promote exchange at the national level. He or she shares best practices, coordinates cross-cutting work such as local regulatory monitoring, and facilitates the organization of cross-audits.

In total, nearly 300 people are directly involved in the day-to-day management of HSE issues within the Group.

Since 2017, the Health, Safety and Environment (HSE) Director has held monthly on-site network meetings 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.

With steering from the HSE network and the participation of the Purchasing and Insurance networks, all industrial projects (construction of new plants, extensions, etc.) are now reviewed every two months to determine the resources needed in view of environmental, safety and security concerns.

## Environmental management and performance of Valeo's sites

### Demanding risk-control standards

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 facilities.

Sites' compliance with the prevailing regulations is an essential requirement for the Group. As such, in each operational directive, HSE management reminds Valeo sites that it is mandatory to comply with local regulatory requirements.

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 establishes mandatory drills for on-site events such as fire, explosions and accidental pollution, leaving each site scope to identify other relevant scenarios such as earthquakes or floods. Each site is then required to 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.

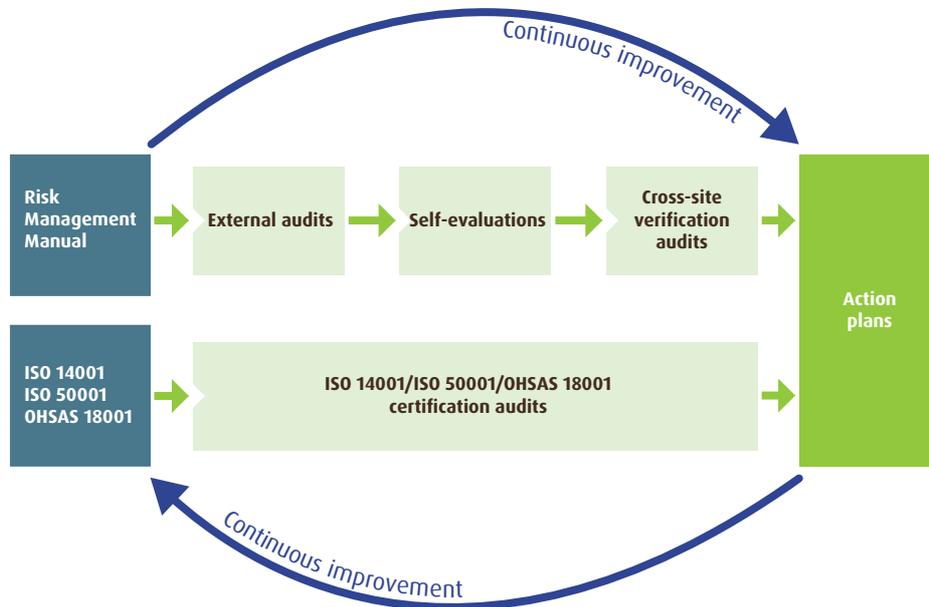
The Group uses various channels for internal communications and employee training on HSE issues, including:

- since July 2018, training courses offered in e-learning format providing a summary of the main requirements of each environmental directive. The modules include 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 operational team briefings;
- dedicated events such as "Sustainable Development Week", featuring local initiatives.

In 2018, the HSE network provided 72,500 hours of environmental training across all sites, compared with 65,102 hours in 2017.

### Evaluation and certification processes

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.

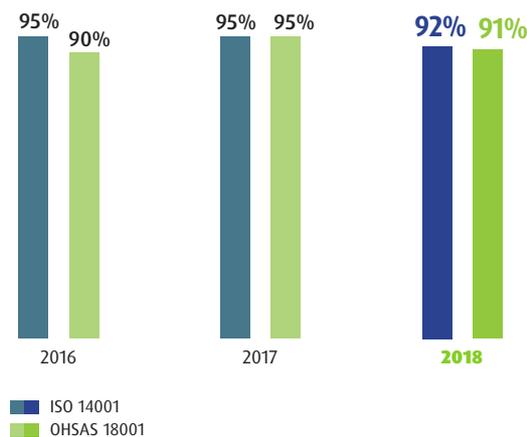


Environmental management and performance of Valeo's sites

**ISO 14001, ISO 50001 and OHSAS 18001 certification audits**

For the past 20 years, the Group has been committed to certifying its Health, Safety and Environment management systems in order to reduce its environmental impact and improve health and safety conditions for its employees. The current practice is to obtain certification for individual sites. It is nevertheless possible to obtain a single certification for several interdependent sites.

► **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 2018, the Group brought seven new sites into the Thermal Systems Business Group, five of which have not yet been certified.

► **PERCENTAGE OF PLANTS CERTIFIED ISO 50001**



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.

In 2018, 17% of Valeo's sites had ISO 50001 certification (up from 8% in 2015). Two sites have also embarked on the process with a view to obtaining certification in 2019.

**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. With the same frequency, the Group also determines themes to be systematically audited in each campaign in order to measure their implementation and reinforce their control.

Each site, audited every three years on average, is assigned a score based on objective criteria.

Environmental audits give rise to a detailed report on the basis of the findings and a three-level recommendation grading:

- **Priority level 1** is a major breach of directives liable to have a major impact on the environment or the activity (shutdown);
- **Priority level 2** is a breach liable to cause environmental pollution;
- **Priority level 3** is minor non-compliance with Group Guidelines or incorrect frequency in the running of prevention activities.

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. A half-yearly review is also conducted with the Business Group HSE managers. The indicators are updated each month and reported to the Business Group HSE managers during monthly meetings. A more detailed half-yearly review is also conducted with the Business Group HSE managers.

**Self-diagnostic tool**

Since 2008, the sites have been able to carry out a self-assessment of their compliance with the Group's directives thanks to the Roadmap Manager self-diagnostic tool. Since 2018, the Group has sought to verify the match between the results of external audits and those of self-assessments. Using sampling techniques, the auditors examine the accuracy of the site's self-assessment. The first results show that self-assessments are nearly 90% compliant.

**Environmental expenditure and investment**

**Total environmental protection expenditure and investment**

Operating expenses relating to the environment amounted to 21 million euros in 2018. They include the cost of waste treatment, analysis of effluents, operation of internal treatment plants and environmental studies. In addition to these expenses, 1.7 million euros was spent to clean up active sites.



## Environmental management and performance of Valeo's sites

In 2018, Valeo invested 5.8 million euros in environmental protection at its active sites. This 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

In 2018, one Group site received a significant administrative penalty. It was the San Luis Potosi site (Thermal Systems Business

Group, Mexico), which was fined 63,220 euros for not having correctly canceled an energy production permit requested in 2006.

### Amount of provisions and guarantees for environmental risks

Provisions set aside for site remediation or for the environment amounted to 15 million euros at December 31, 2018.

## 4.3.2 Non-financial environmental risks

### Risk associated with accidental pollution of water and/or soil

#### Description of the risk

Some of Valeo's activities use polluting substances that can generate hazardous waste, or discharge liquid effluents that may be polluted, such as firewater, oily water or water containing hydrocarbons.

The risk for the Group stems from failure to control the use of these substances, the polluted nature of the resulting discharges and effluents and the management of its hazardous waste. The various steps must therefore be perfectly controlled throughout the production and post-production cycle in order to avoid any pollution of the natural environment, in the water or in the soil. Moreover, each site must ensure, through regulatory monitoring, the constant compliance of the procedures and substances used with local environmental regulations.

The main causes to be averted are:

- the absence of waste management;
- aging equipment;
- the absence of treatment stations on site or externally;
- poorly managed waste treatment channels;
- the tightening of regulations in force.

The risk may also be aggravated by late detection of discharges into the environment due to a lack of:

- periodic checks of the discharge management process;
- intervention and control policy in respect of environmental accidents.

### Risk management policy

To prevent the risk of pollution across all sites, the Group has adopted several operational environmental directives setting rules for all sites, on the following issues:

- liquid effluents;
- intervention means and consequence limitations;
- the management of underground tanks;
- waste management;
- soil and groundwater management.

These directives are an integral part of the Risk Management Manual (see section 4.3.1 of this chapter, "Valeo's environmental policy", paragraph "Demanding risk-control standards", page 284) and are drafted and updated by the HSE Department. The correct application of these requirements is ensured by the network (see section 4.3.1 of this chapter, "Valeo's environmental policy", paragraph "Organization of the Health, Safety and Environment (HSE) network", page 203) and external audits (see section 4.3.1 of this chapter, "Valeo's environmental policy", paragraph "External audits worldwide" page 205). These directives are presented to the Governance, Appointments & Corporate Social Responsibility Committee along with all environmental policy tools.

Although Valeo's industrial wastewater does not contain large amounts of pollutants, the liquid effluents directive includes the following requirements:

- 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 should be connected to the public network;
- sites' rain-fed networks must receive only rainwater;
- the direct discharge of industrial effluents into groundwater is strictly prohibited;
- firewater must be separated and analyzed prior to proper disposal.

Environmental management and performance of Valeo's sites

As an indication, the total volume of industrial effluents discharged by the Group's sites was 915.9 thousand cu.m in 2018, compared with 794 thousand cu.m in 2017. The increase is attributable to the growing number of sites reporting these indicators. Valeo discharged 53 kg of heavy metals from internal water treatment plants.

The main challenges in respect of waste (hazardous or non-hazardous) are first to optimize the manufacturing process in order to limit its production, second to recycle everything that can be reused in the manufacturing process, and lastly to have access to treatment channels. Whatever the nature of the waste, landfilling or incineration of waste on a Valeo site is strictly prohibited.

Measures taken to reduce the risk

As part of their environmental management system, and in accordance with Group directives, the sites implement **prevention methods**:

- **prior to the purchase** or lease of land or buildings, an assessment of the risk of legacy soil and groundwater pollution is performed. On sites where groundwater is sensitive and vulnerable, groundwater quality is monitored regularly;
- 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 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 directive entitled "Intervention means and consequence limitation" 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.

**If, in the course of its operations**, the site is responsible for soil or groundwater pollution, it performs the studies, research, work and monitoring necessary to manage the pollution so that it does not pose a risk to the health of its employees, local residents or, more generally, the environment.

**For waste management**, each site is responsible for:

- **minimizing** the generation of waste by reducing the weight of packaging, substituting raw materials or changing its procedures or processes;
- **collecting** and storing waste in conditions that minimize risks to the health and safety of people and the environment:
  - waste storage areas are controlled and monitored,
  - waste containers are labeled with the type of waste and characteristics of the hazard (e.g., flammability),
  - a "waste production and disposal register" is kept to ensure systematic monitoring of waste;
- **prioritizing** the use of waste for recycling, or else for recovery;
- **ensuring** that elimination channels comply with local regulations and guarantee safe waste treatment.

Whatever the channel:

- waste must be **transported** in optimal safety conditions by selected service providers;
- each shipment must be accompanied by a waste tracking slip summarizing the characteristic of the waste shipped, the company in charge of the transportation and the company in charge of disposal and treatment;
- the site must ensure that the waste is **disposed** of safely and in accordance with local regulations. To this end, the site must be able to obtain the following documents when selecting a disposal company:
  - permit to operate a waste treatment/disposal facility,
  - authorization to treat/eliminate specific waste,
  - certificate (e.g., inspection report) issued by the administrative authorities stating that the company's operations comply with all applicable local regulations,
  - insurance certificate,
  - for hazardous waste, financial guarantees showing the company's ability to close the site following its operation in such a way that it no longer represents a risk for people and the environment.

For waste hazardous to humans or the environment, the site must obtain a description of disposal procedures from the disposal company. In case of doubt about waste treatment, the disposal company will be audited.

In the absence of a reliable channel in the country in question, Valeo exports its waste. The environmental indicators reporting tool is used to track the amount of waste sent to each of these channels.



## Environmental management and performance of Valeo's sites

### Initiatives in 2018

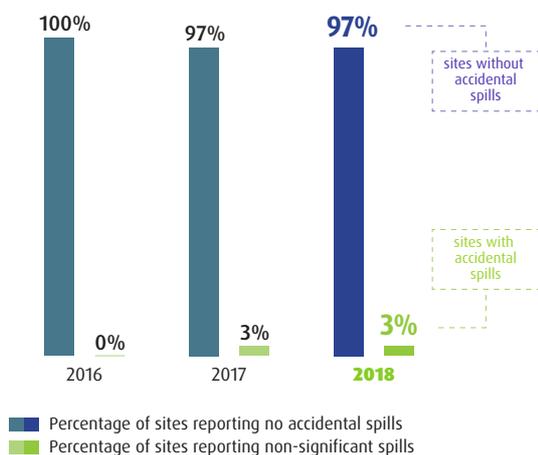
In 2018, the Martos site (Visibility Systems Business Group, Spain) commissioned a new treatment facility for water used on the plant, thereby improving the quality of the water discharged. This brought the number of sites equipped with such facilities to 28.

Other initiatives carried out in 2018 include:

- the search for leaks and replacement of old pipes with reinforced PVC pipes at the Reims site (Thermal Systems Business Group, France);
- the reuse of the packaging of parts and components delivered by suppliers, either directly for packaging intended for products, or by returning them to the suppliers for reuse. Twenty-two of the Group's sites continued or adopted this initiative in 2018;
- the Rio Bravo site (Comfort & Driving Assistance Systems Business Group, Mexico) modified its disposal process for recoverable waste, which is now used by a cement company as fuel (waste is burned and the energy used) for its cement plant;
- most of the sites ran awareness campaigns about the sorting of household waste, especially during the Sustainable Development week in June.

## Results and performance

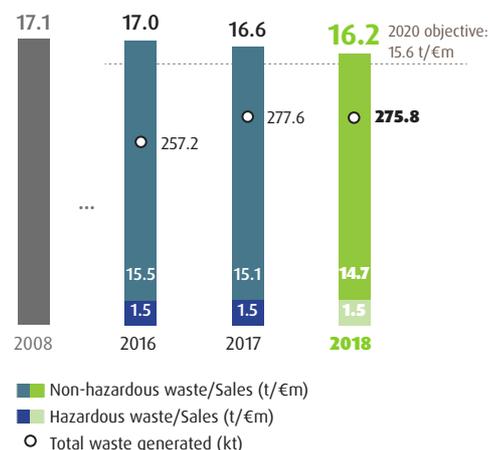
### ACCIDENTAL SPILLS OVER THE YEAR



The percentage of sites reporting non-significant spills was low in 2018. An event is considered significant when the quantity is greater than 1 cu.m. In total, eight minor spills were reported by four sites, consisting of spills of small quantities of hydrocarbons on concrete (less than 1 cu.m of hydrocarbons in total), with no environmental impact. Five of these spills were reported by the Itatiba site (Thermal Systems Business Group, Brazil). The sites were able to contain the spills thanks to on-site anti-pollution kits and existing alert procedures. No significant spills have been reported since 2015.

To improve the monitoring of events liable to have an environmental impact, the Group plans to roll out an internal tool in 2019, allowing sites to issue alerts in real time when a spill occurs. This tool will make it possible to measure the severity and to validate ways of responding to and limiting the consequences of the event.

### TOTAL WASTE GENERATED



In 2018, the total amount of waste as a proportion of sales fell by 2.4% compared with 2017. The generation of waste by the Group stabilized at 275.8 kt per year.

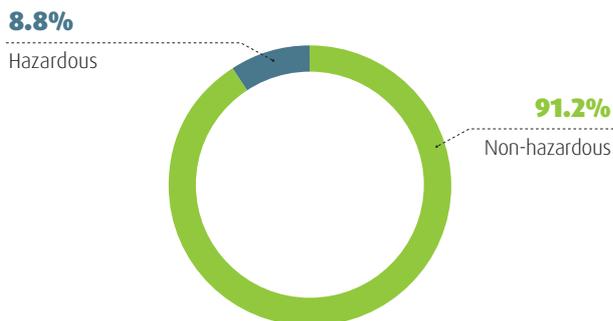
To reach its 2020 target of 15.6t/€m, Valeo has decided to intensify efforts to extract synergies between the Purchasing, Industrial and Research and Development Departments, with the following aims:

- continue reducing raw material consumption;
- shorten 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) together account for 22% of the Group's total waste.

The Powertrain Systems Business Group alone accounts for nearly 52% of the Group's total waste volume, due to its press cutting, tray machining and friction lining activities. These manufacturing processes generate considerable raw material waste.

Environmental management and performance of Valeo's sites

► RECOVERY OF WASTE PRODUCED IN 2018



The breakdown between non-hazardous waste and hazardous waste has been stable since 2014. Non-hazardous waste represents more than 90% of the waste generated by Valeo's activities. The Group promotes recycling and recovery opportunities. The share of recovered waste increased between from 89% in 2017 to 91% in 2018.

The main waste products generated by the Group's facilities, in descending order of weight, are:

- metal waste, almost all of which is sold for recycling;
- wood, which is recycled or used to generate heat;
- plastic, which is sold for recycling.

4.3.3 Valeo's environmental commitments

Water management

Challenges

Because of the importance of this resource, the Group aims to limit and control its water consumption, and to ensure the supply of good quality water for its staff. Valeo may be subject to shut-offs or restricted access to water at one of its sites, which may be related to:

- a municipal/regional restriction decision in the event of a drought;
- a shortage of water sources supplying the site or poor water quality (wells, groundwater);
- a restriction imposed by local authorities in the event of overconsumption;
- the lack of a water recovery system;
- the absence of a recycling loop or closed-loop water circuit.

However, the criticality of events of this type nature is low because the Group's policy requires that most sites rely on public mains water.

Approach

**Prior to the purchase** or lease of land or buildings, the Group requires that an environmental risk assessment be carried out in order to determine, among other things, the level of water stress of the future location. Valeo has set itself the goal of reducing its total water consumption as a proportion of sales by 6% between 2016 and 2020.

**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;

- the site maintains a plan of its water supply and distribution networks, which must identify the network's isolation systems, backflow preventers and meters, and distinguish between:
  - domestic use (if distinct from drinking water),
  - industrial use,
  - use for firefighting,
  - drinking water.

For drinking water, the site must, where possible, be supplied externally (public mains network preferably), and water networks must be protected from the risk of contamination by other networks.

The site also monitors its water consumption at least on a **quarterly basis**. This monitoring serves 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;
- confine the use of drinking water to domestic purposes and promote the use of non-drinking water wherever possible (e.g., toilets, watering, cleaning, extra water for closed water cooling circuits and fire extinguishing).

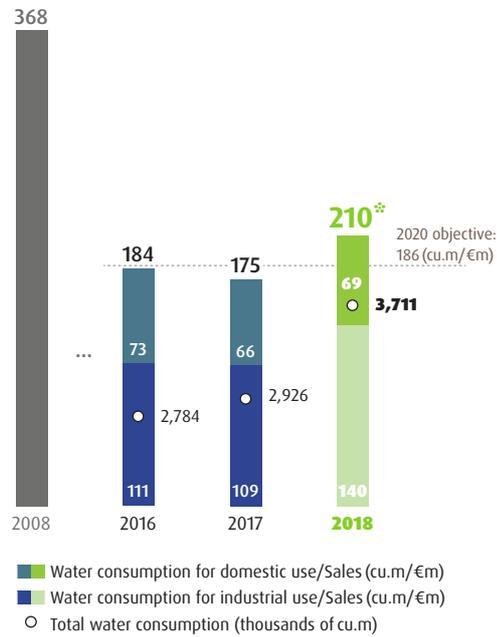
**To minimize their water consumption**, sites are urged to take action on the following key points:

- optimize washing operations;
- set up recycling systems such as recovering discharge water from cooling towers and using it to wash floors and equipment;
- take into account the optimization of water management and possible water savings when purchasing equipment;
- collect rainwater.

**Environmental management and performance of Valeo's sites**

**Performance**

**► WATER CONSUMPTION**



\* Without the consolidation of the Ichikoh sites, water consumption in relative terms would have been 175 cu.m/€m, as in 2017.

In 2018, the increase in water consumption in relative terms, in cu.m per million euros of sales, was attributable chiefly to the acquisition of the Ichikoh sites in Asia by the Visibility Systems Business Group, which alone account for 22% of the Group's water consumption. As such, total water consumption as a proportion of sales was up 6% compared with the 2015 baseline (198 cu.m/€m), in spite of the structural reduction achieved by the sites on a like-for-like basis (excluding the newly consolidated Ichikoh sites).

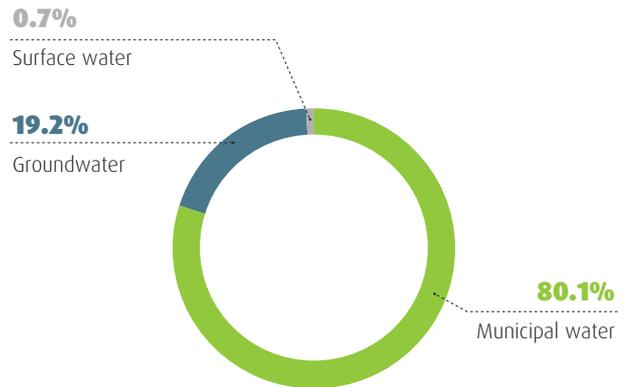
Since 2008, total water consumption has declined by 43% in relative terms.

**► GEOGRAPHIC BREAKDOWN OF TOTAL WATER CONSUMPTION IN 2018**



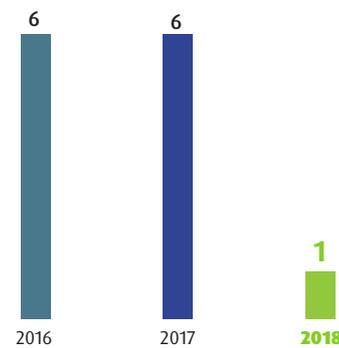
Sites in Europe and Asia account for slightly more than 86% of total water consumption. However, the geographical breakdown of consumption changed significantly compared with 2017. The consumption of Asian sites increased from 51.7% to 61.2%. By contrast, the consumption of European sites fell from 31.7% to 25.2%.

**► SOURCES OF WATER IN 2018**



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 (industrial water, domestic water) of water on its sites. The breakdown of the various sources of water has changed compared with 2017. The percentage of water supplied by city water networks represented 80%, compared with 90% in 2017. The new sites added to the reporting scope by the Visibility Systems Business Group tend to use more groundwater than Valeo's legacy sites.

**► NUMBER OF WATER OUTAGES AND RESTRICTIONS**



In 2018, only the São Paulo site (Visibility Systems Business Group, Brazil) was affected by water restrictions on the city network. This was the fourth consecutive year in which this situation was experienced in São Paulo. However, it was without impact on production, as the site's crisis management plan includes the delivery of drinking water by truck.

In 2017, with a view to ensuring that the Group's future operations do not face water restrictions or outages, Valeo 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. As described in the section on risks related to accidental pollution of water and soil, a new internal tool currently being rolled out will also allow sites to report this type of event (see section 4.3.2 "Non-financial environmental risks" of this chapter, paragraph "Results and performance", pages 206 to 209).

➤ **Actions undertaken to reduce water consumption in 2018**

In 2018, 36 sites reported having taken action to reduce their water consumption. Sites may adopt technical measures such as:

- reducing domestic water flow rates;
- introducing closed circuits in new projects;
- installing new equipment such as a new reflector cleaning machine;
- installing systems to collect and reuse rainwater or industrial water after treatment.

The sites in Uitenhage (Thermal Systems Business Group, South Africa), Chennai 2 (Powertrain Systems Business Group, India), Meslin-L'Evêque (Visibility Systems Business Group, Belgium), Juarez (Visibility Systems Business Group, Mexico) and Chonburi (Thermal Systems Business Group, Thailand) applied technical measures of this nature in 2018.

Other sites have taken action to improve network maintenance (leak detection, pipe replacement, etc.) and to raise awareness among users so that they can reduce their consumption. A further six sites recycle and reuse their industrial water internally.

**Atmospheric emissions and discharges**

**Challenges**

Valeo's activities are liable to generate the discharge of substances into the air that could impact the environment. Such discharges must be tightly controlled to avoid pollution. The Group is committed to controlling the atmospheric emissions of its polluting products, which can result in air pollution with environmental or health impacts for several reasons:

- lack of control over discharges of this nature;
- poor performance by equipment;
- lack of regular inspection or emission measurements;
- absence of filters (mechanical or coal) on equipment;
- absence of burners upstream of the stacks.

The criticality of this type of event is limited, because each site is required to establish and implement a monitoring plan for its regulated emissions and to maintain an inventory of its atmospheric emissions. Valeo is in compliance with the prevailing regulatory requirements, and monitors any prospective changes.

**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 inventory of its emissions aimed at:

- listing the sources of atmospheric emissions, taking all of the site's processes and activities into consideration;
- listing facilities for the treatment of these emissions;
- describing 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.

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

Valeo monitors atmospheric emissions of volatile organic compounds (VOCs)<sup>(1)</sup>, nitrogen oxides (NO<sub>x</sub>), lead (Pb) and trichloroethylene (TCE) resulting from its activities. Emissions of sulfur oxides (SO<sub>x</sub>) are not monitored as equipment mainly uses natural gas, which does not emit sulfur oxides during combustion.

**Prohibited or regulated substances**

Valeo sites are required to identify any banned or locally regulated substances used in the construction of its buildings and production equipment, or in the composition of its products. All such prohibited or controlled substances are listed in a Banned, Regulated and Declared Substances (BRDS) database established by the Group.

More simply, the Group prohibits the use of the following substances in its products and processes:

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

For several years, Valeo has also 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. As mentioned above, 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.

(1) See Sustainable Development Glossary, page 262.

## Environmental management and performance of Valeo's sites

### Hazardous substances

Valeo prevents the risk of hazardous substances being released by a specific policy and directive aimed at eliminating the use of substances posing a threat to the environment and health.

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)<sup>(1)</sup>. Some of these substances were still present in manufacturing processes in 2018, but Valeo is working with its stakeholders to find alternatives.

### Volatile organic compounds

Valeo pays particular attention to monitoring atmospheric emissions related to its activity in respect of volatile organic compounds (VOC)<sup>(1)</sup>, and is applying a process designed to reduce its use of VOCs via the implementation of substitute aqueous solutions (shift from containing an oil-based solvent to a water-based paint), improving the efficiency of the processes implemented (robotization of a paint line, etc.), limiting and capturing emissions by geographically isolating operations.

### Performance

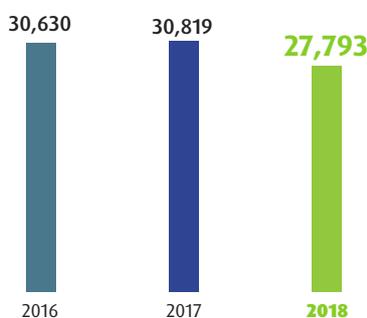
#### Lead and TCE emissions

Lead emissions remain immaterial, representing 36 kg in 2018, compared with 40 kg in 2017.

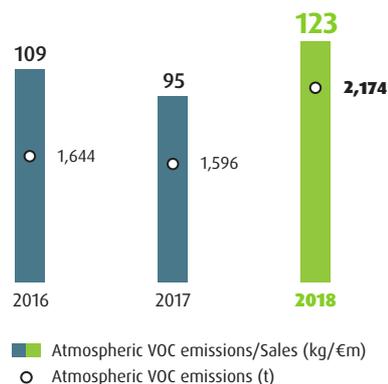
The Group again uses TCE in a non-material proportion following the consolidation of the Perai Penang site (Comfort & Driving Assistance Systems Business Group, Malaysia) in the reporting scope in 2018, even though it had been totally eliminated in 2017. The site will look for alternative products to TCE in 2019.

#### ► QUANTITY OF OZONE-DEPLETING SUBSTANCES USED

In the interests of transparency, the Group again performed an overall estimate of CFC and HCFC emissions in 2018. The chart below shows the quantity of ozone-depleting substances (in kg), which are used only in closed loop equipment at Valeo sites (refrigerants or fire extinguishing gas).



#### ► ATMOSPHERIC VOC EMISSIONS



The Group noted a significant increase in VOC emissions in 2018 following the consolidation of the Ichikoh sites by the Visibility Systems Business Unit. Valeo will continue to improve the efficiency of its filtration systems and mainstream the best practices implemented by some of its sites in order to reach its goal of reducing its VOC emissions.

### Achievements during the year

To offset the emission levels of the Ichikoh sites, a number of Asian sites took measures to reduce their atmospheric emissions. They include:

- the Yokote-shi site (Comfort & Driving Assistance Systems Business Group, Japan) replaced its air-conditioning system, which used HCFC, with a system using HFC;
- the Suzhou site (Thermal Systems Business Group, China) installed an activated carbon VOC filter<sup>(1)</sup> to reduce emissions;
- the Chennai 2 site (Powertrain Systems Business Group, India) installed a system that stores and condenses fumes in a tank. Ozone is generated and injected into this reservoir to dissolve the VOC particles present. On release, the amount of residual volatile organic compounds is negligible.

<sup>(1)</sup> See Sustainable Development Glossary, page 262.

## Reducing energy consumption and greenhouse gas emissions

### 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.

The Group could be exposed to excessive energy consumption by production sites, potentially resulting in a shortfall in competitiveness and an increase in greenhouse gas emissions, which could stem from:

- energy-intensive manufacturing processes;
- changes in regulations governing reductions in greenhouse gas emissions;
- obsolete equipment.

While energy consumption was not a material risk for Valeo in 2018, the Group works actively to keep abreast of potential change in greenhouse gas emission regulations. Concerning energy consumed (either from renewable or non-renewable sources), the Group is very much dependent on the energy mix available in each host country, as the energy consumed by its sites is produced locally. With that in mind, Valeo is evaluating the types of measures that could be taken to increase the share of renewable energies in its energy mix.

### Approach

For the last ten years, Valeo has been working to reduce its energy consumption, and more recently has set itself the goal of reducing its total energy consumption as a proportion of sales by 8% between 2016 and 2020.

In view of the importance of reducing energy consumption and emissions related to the production of GHGs (scopes 1 and 2), Valeo has also 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 .

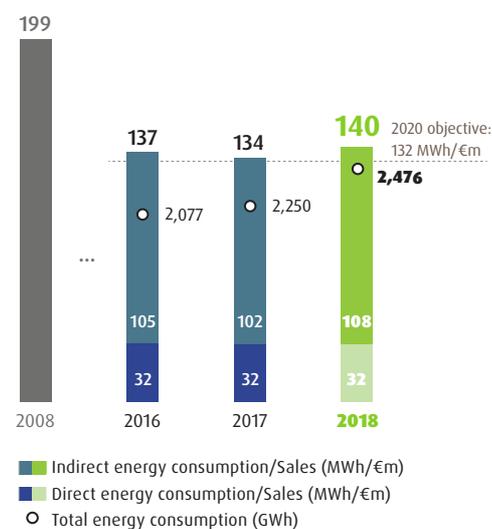
The Group monitors the sites' energy consumption on a quarterly basis through the Valeo Environmental Indicators internal tool.

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 (see section 4.3.1 of this chapter, "Valeo's environmental policy", paragraph "Assessment and certification procedures", pages 204 to 206). Since 2018, Valeo has partnered with an expert third party to conduct energy performance audits and highlight opportunities to reduce consumption.

### Performance

#### Energy performance

##### ► ENERGY CONSUMPTION



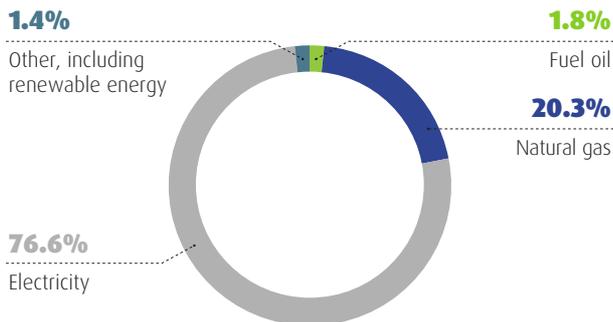
Between 2017 and 2018, energy consumption increased by 10% in absolute terms. Most of the increase was attributable to the increase in the sites' electricity consumption. Energy consumption as a proportion of sales was down 2% compared with the 2015 baseline.

The direct energy consumption (gas, fuel oil, renewable energy produced on site) as a proportion of sales has been broadly stable in recent years at 32 MWh/€m, and has been halved compared with the 2008 level.

Indirect energy consumption (electricity, purchase of thermal energy or compressed air) increased by 4.3% between 2017 and 2018, mainly due to the increase in electricity consumption resulting from the consolidation of electricity consumed by the new Ichikoh sites in the reporting scope. Since 2008, total energy consumption relative to sales has fallen by 30%.

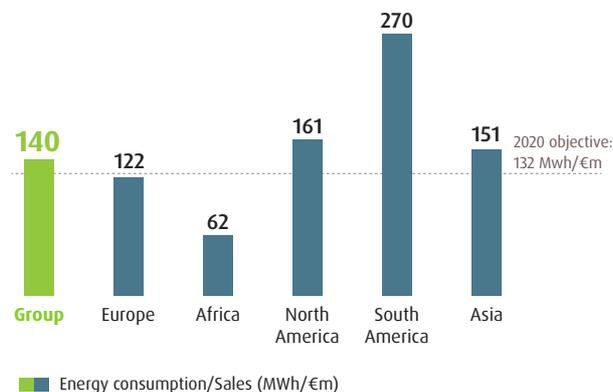
## Environmental management and performance of Valeo's sites

### ► BREAKDOWN OF ENERGY SOURCES IN 2018



The share of electrical energy has edged up, stabilizing at approximately three-quarters of the Group's consumption.

### ► REGIONAL BREAKDOWN OF ENERGY CONSUMPTION AS A PROPORTION OF SALES IN 2018



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 Europe and Africa, the ratio of energy consumption to sales remains above the performance target set for 2020, mainly due to the overall increase in electricity consumption in 2018.

### Reducing our carbon impact

#### GHG emissions (scope 1, scope 2 and scope 3)

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 2018, 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<sup>(1)</sup>, and direct fugitive emissions relating to refrigerant leaks (included in scope 1 of the international framework);
- **indirect GHG emissions** associated with energy consumption, related to the consumption of electricity, steam, compressed air and other sources (included in scope 2 of the international framework);
- **other indirect GHG emissions** related to purchases of products used in industrial processes, and the transportation of goods and people (included in scope 3 of the international framework).

### Scope 1

Direct GHG emissions as a proportion of sales were stable between 2017 and 2018.

Direct GHG emissions (ktCO <sub>2</sub> eq.) - Emissions positions	2015	2016	2017	2018
Emissions generated by fuel oil and gas combustion at sites (ktCO <sub>2</sub> eq.)	118.0	119.3	132.8	134.9
Direct emissions from non-energy processes (ktCO <sub>2</sub> eq.)	1.9	2.8	7.4	6.7
Emissions caused by Valeo's vehicle fleet (ktCO <sub>2</sub> eq.)	7.4	8.9	10.4	19.4*
Fugitive emissions (refrigerant leakage) (ktCO <sub>2</sub> eq.)	14.5	14.9	16.3	14.3
<b>TOTAL DIRECT EMISSIONS (ktCO<sub>2</sub>eq.)</b>	<b>141.8</b>	<b>145.8</b>	<b>166.9</b>	<b>175.3</b>
<b>TOTAL DIRECT EMISSIONS/SALES (tCO<sub>2</sub>eq./€M)</b>	<b>10.1</b>	<b>9.6</b>	<b>9.9</b>	<b>9.9</b>

\* The 2018 data have been calculated using the emission factor of Valeo vehicles (0.547 kg CO<sub>2</sub>eq./km/person), unlike in previous years where the coefficient applied was that of personal vehicles (0.253 kg CO<sub>2</sub>eq./km/person).

### Scope 2

Indirect GHG emissions as a proportion of sales increased by 8% between 2017 and 2018.

Indirect emissions related to electricity consumption <sup>(1)</sup> and other energy such as steam, compressed air, etc.	2015	2016	2017	2018
<b>TOTAL INDIRECT EMISSIONS (ktCO<sub>2</sub>eq.)</b>	<b>649.8<sup>(1)</sup></b>	<b>710.9</b>	<b>763.9</b>	<b>870.5</b>
<b>TOTAL INDIRECT EMISSIONS/SALES (tCO<sub>2</sub>eq./€M)</b>	<b>46.20<sup>(2)</sup></b>	<b>46.97</b>	<b>45.60</b>	<b>49.29</b>

(1) The calculation takes into account the primary energy sources used to generate electricity in each country.

(2) The 2015 data have been updated using the new 2015 emission factors issued by the International Energy Agency in mid-2016.

(1) See Sustainable Development Glossary, page 262.

Environmental management and performance of Valeo’s sites

In total, direct and indirect greenhouse gas emissions as a proportion of sales were up 5% compared with the 2015 baseline (56.3 tCO<sub>2</sub>eq./€m). While Valeo has been able to stabilize its direct GHG emissions (scope 1) as a proportion of sales, the Group’s growth in Asian countries is generating an increase in indirect emissions (scope 2).

► **GEOGRAPHIC BREAKDOWN OF DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS (SCOPES 1 AND 2) ASSOCIATED WITH THE GROUP’S ENERGY CONSUMPTION IN 2018**



The chart above shows the geographic breakdown of direct emissions related to gas and fuel oil combustion by sites and indirect emissions related to electricity consumption.

Sites in Asia emit nearly 48.5% of the Group’s total GHG emissions, as power plants supplying energy to Valeo’s sites in Asia are predominantly coal-fired. The Group’s growth in Asia therefore results in an increase in absolute terms in indirect emissions of greenhouse gases.

**Scope 3**

For transparency, in 2018, Valeo estimated all other indirect emissions sources (scope 3) linked to its activity. The following other 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, “Non-financial technological risks”, paragraph “CO<sub>2</sub> emissions related to the use of Valeo products (scope 3)”, page 197).

Other 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 data 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 (ktCO <sub>2</sub> eq.) - Sources of emissions	2015	2016	2017	2018
<b>Emissions generated by the production of the main materials used in industrial processes of which:</b>	<b>5,614</b>	<b>6,904*</b>	<b>7,770</b>	<b>8,764</b>
Materials (metals)	3,416	4,274*	4,817	5,722
Materials (other)	2,198	2,630*	2,953	3,042
<b>Emissions generated by upstream logistics:</b>	<b>237</b>	<b>223</b>	<b>296</b>	<b>343</b>
Road/rail/maritime transportation	174	106	164	222
Air/express transportation	63	117	132	121
<b>Emissions generated by employee travel of which:</b>	<b>139</b>	<b>169</b>	<b>195</b>	<b>222</b>
Commuting	108	136	153	182
Business trips	31	33	42	40
<b>TOTAL OTHER INDIRECT EMISSIONS (ktCO<sub>2</sub>eq.)</b>	<b>5,990</b>	<b>7,296</b>	<b>8,261</b>	<b>9,329</b>
<b>TOTAL OTHER INDIRECT EMISSIONS/SALES (tCO<sub>2</sub>eq./€M)</b>	<b>426</b>	<b>482</b>	<b>493</b>	<b>528</b>

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

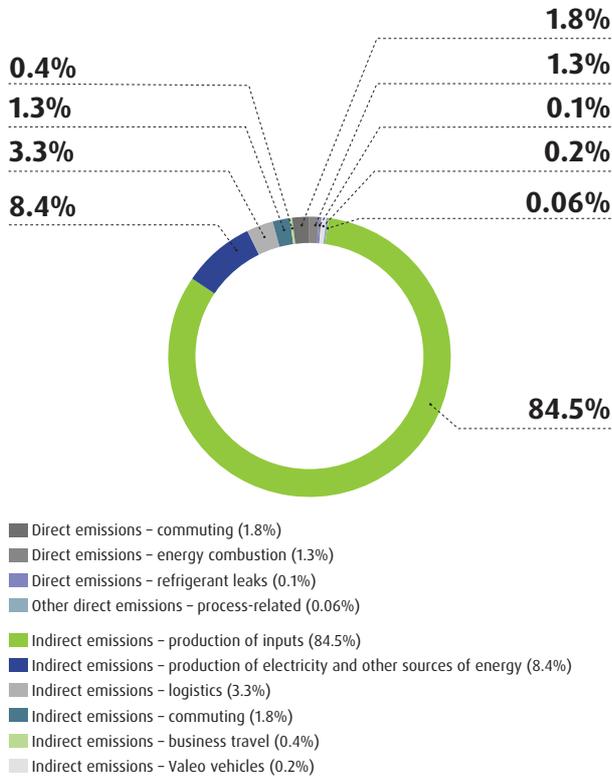
Scope 3 emissions as a proportion of sales increased by 7% between 2017 and 2018. Emissions related to products (installation in the end vehicle, use, end of life) are described in section 4.2.2 of this chapter, “Non-financial technological risks”, paragraph “CO<sub>2</sub> emissions related to the use of Valeo products (scope 3)”, page 197.

## Environmental management and performance of Valeo's sites

### The Group's industrial carbon footprint

In 2018, the Group's overall carbon footprint (scopes 1, 2 and 3, excluding emissions from the use of its products) was 10.37 million metric tons of CO<sub>2</sub>.

#### ► BREAKDOWN OF THE SOURCE OF GHG EMISSIONS IN 2018



The chart opposite shows that materials used in industrial processes account for the majority of the Group's overall carbon footprint (nearly 85%, of which two-thirds from metals), whereas direct emissions represent just under 3.5% of the overall footprint.

- **optimization of compressed air systems** by such means as the reduction of the use of pressure in air networks, implementing an organizational procedure for switching on and off compressors supplying the compressed air network and the detection of leaks using an ultrasonic sensor. Examples of sites that took measures bearing on this equipment include Uitenhage (Thermal Systems Business Group, South Africa), Timisoara (Visibility Systems Business Group, Romania) and Chrzanow (Visibility Systems Business Group, Poland);
- **insulation of buildings or replacement of windows:** the sites in Shanghai (Comfort & Driving Assistance Systems Business Group, China), Bobigny (Visibility Systems Business Group, France), Pianezza (Visibility Systems Business Group, Italy) and Bad Rodach (Thermal Systems Business Group, Germany) launched projects of this nature in 2018;
- installation of **systems to recover heat from compressors or furnaces** for reuse in other plant areas (showers, production hall, etc.). The sites in Mondovi (Powertrain Systems Business Group, Italy), Czechowice (Powertrain Systems Business Group, Poland) and Batam (Visibility Systems Business Group, Indonesia) began this process in 2018;
- most sites also set up **awareness campaigns** on the responsible use of energy, especially during the Sustainable Development Week in early June.

### Achievements during the year

In 2018, Valeo's sites undertook several projects to foster the use of renewable energy. They include Bad Rodach (Thermal Systems Business Group, Germany) and Toluca (Thermal Systems Business Group, Mexico), which installed photovoltaic panels to generate electricity.

The Sanand site (Thermal Systems Business Group, India) was awarded the Friend of the Environment prize by Autocomponents India magazine at the ACI Awards ceremony for the installation of its photovoltaic park, generating green energy and contributing to the reduction of CO<sub>2</sub> emissions.

Other initiatives have been taken by the Group's sites. They include:

- **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;
- **optimization of the plant's heating periods** by reducing the temperature to 18°C in offices during weekends in the Skawina site (Visibility Systems Business Group, Poland) for instance;

## Biodiversity

### Challenges

The 140 sites in the reporting scope occupy a total area of approximately 769 hectares, of which approximately 13% are left in their natural state. The rest is used for buildings, traffic areas and gardens.

Almost all of the sites occupied by Valeo, i.e., nearly 90% of its operating plants, are located in urban areas or areas zoned for industrial use. In addition, its activities are not liable to significantly alter ecological processes (no extraction or spraying, for instance).

To 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. Ten such sites were identified in 2018: three in South America and seven in Europe.

## Environmental management and performance of Valeo's sites

### 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 in June. Examples include:

- the Bursa site (Powertrain Systems Business Group, Turkey), which undertook to collect all hazardous household waste from its employees in order to process them in the appropriate channels;
- the San Luis Potosi 3 site (Powertrain Systems Business Group, Mexico), which offered its employees trees to plant;
- the Timisoara site (Visibility Systems Business Group, Romania), which planted 168 fruit trees, 272 lavender plants and roughly fifteen shrubs in front of its site;
- all sites in Chennai (India) organized a campaign to clean the beaches of Mahabalipuram in June 2018 to collect plastic waste.

### Transportation and logistics

#### 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, Valeo pursued its transportation optimization strategy to reduce associated CO<sub>2</sub> emissions in 2018.

#### Performance

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

- avoid any break in the logistic chain in series productions;
- reduce project development time (transportation of samples or prototypes) to meet market demand;
- deliver technological products on a just-in-time basis, given that capacity can be stretched on the markets (permanently or temporarily), or those that have specific characteristics that require them to be fitted quickly to maintain their optimal properties.

In 2018, emissions related to air transportation for the delivery of parts from suppliers amounted to 120,994 metric tons of CO<sub>2</sub>. Emissions related to air transportation for the delivery of Valeo products to customers amounted to 4,114 metric tons of CO<sub>2</sub>.

In **road transportation**, optimization work performed in previous years continued in 2018:

- 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, in turn, CO<sub>2</sub> emissions.

Emissions related to road transportation for the delivery of parts from suppliers amounted to 147,403 metric tons of CO<sub>2</sub>. Emissions related to road transportation for the delivery of Valeo products to customers amounted to 21,625 metric tons of CO<sub>2</sub>, compared with 18,221 metric tons of CO<sub>2</sub> in 2017.

The increase in CO<sub>2</sub> emissions from road transportation had three main causes:

- the strong growth recorded by Valeo in the previous year, which resulted in higher demand for transportation;
- the emphasis on continental supplies, which resulted in maritime transportation being replaced by road transportation;
- Valeo's increasingly systematic tendency to transport components from its suppliers' plants.

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

In 2018, emissions related to maritime transportation for the delivery of parts from suppliers amounted to 72,985 metric tons of CO<sub>2</sub>. Emissions related to maritime transportation for the delivery of Valeo products to customers amounted to 833 metric tons of CO<sub>2</sub>.

Lastly, Valeo opted decisively for **rail transportation** in 2018 due to the improvement of China-Europe and North America routes and its more environmentally friendly nature, as well as its 50% reduction in transit times on China-Europe routes. On this route, rail is becoming a viable alternative to air transportation in some areas. Road, maritime and air transportation is increasingly being diverted to rail, giving this mode of transportation the highest rate of growth in the Group.

In 2018, emissions related to rail transportation for the delivery of parts from suppliers amounted to 1,815 metric tons of CO<sub>2</sub>. Emissions related to rail transportation for the delivery of Valeo products to customers amounted to 197 metric tons of CO<sub>2</sub>.



## Environmental management and performance of Valeo's sites

### Achievements during the year

In 2018, Valeo's sites excelled by forming several working groups in partnership with carriers to improve container and truck fill rates.

Working groups of this nature were set up with the aim of optimizing loads containing non-stackable pallets (estimated at 60% of total pallets), and in turn reducing the amount of space wasted. The solution consists in creating a temporary double floor above a first level of pallets, either with double floors made to measure and destroyed during delivery, or removable double floors integrated into the means of transportation. This optimization approach avoids the use of 300 containers and 150 trucks per year.

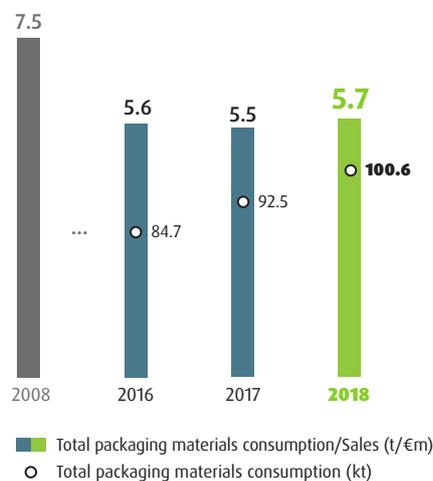
### Packaging

#### Challenges

Packaging is essential to product handling. 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 more than 85% of packaging materials used.

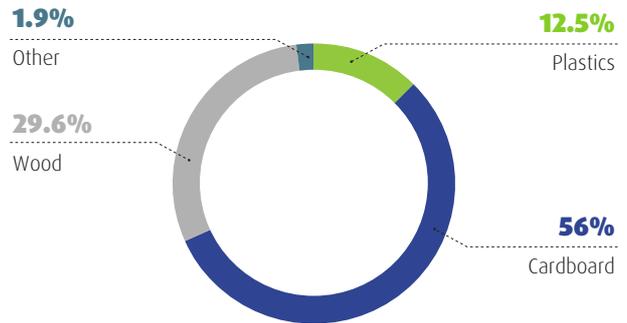
#### Performance

##### ► PACKAGING MATERIALS CONSUMPTION



**The total consumption of packaging materials as a proportion of sales has been stable for three years.** To reduce its environmental footprint, Valeo pays particular attention to the use of recycled materials. In 2018, 1,386 metric tons of packaging materials were recovered internally and reused. Since 2008, total packaging consumption has declined by 24% in relative terms.

##### ► BREAKDOWN OF PACKAGING MATERIALS CONSUMPTION IN 2018



#### 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.

### Achievements during the year

In general, Valeo sites are working on replacing disposable packaging with reusable packaging so as to reduce their use of packaging materials.

This policy can be adopted both for customer packaging and packaging for the storage of semi-finished products. The sites in Rayong (Thermal Systems Business Group, Thailand), Pianezza (Visibility Systems Business Group, Italy) and Sanand (Thermal Systems Business Group, India) undertook initiatives of this nature in 2018.

## 4.4 Valeo and its employees

### 4.4.1 The Group's employee policy

#### Change in Valeo's headcount

► CHANGE IN THE TOTAL HEADCOUNT OVER THREE YEARS

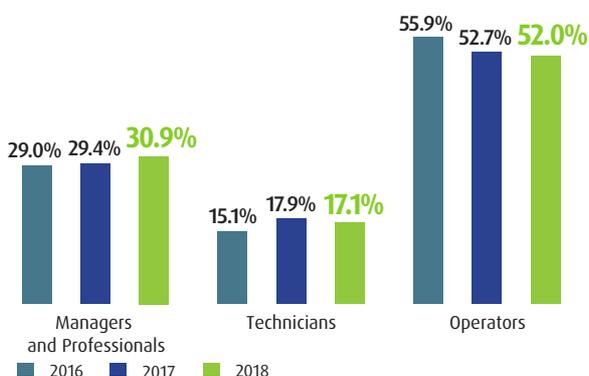
Headcount at December 31	2016	2017	2018	Change (2018/2017)
Managers and Professionals	23,960	29,365	31,683	7.9%
Technicians	12,518	17,852 <sup>(2)</sup>	17,542 <sup>(2)</sup>	-1.7%
Operators	46,183	52,686	53,211	1.0%
<b>Registered headcount<sup>(1)</sup></b>	<b>82,661</b>	<b>99,903</b>	<b>102,436</b>	<b>2.5%</b>
Interim staff	9,139	11,697	11,164	-4.6%
<b>TOTAL HEADCOUNT</b>	<b>91,800</b>	<b>111,600</b>	<b>113,600</b>	<b>1.8%</b>
of which:				
■ Permanent staff	67,383	80,788	84,200	4.2%
■ Non-permanent staff (fixed-term and temporary)	24,417	30,812	29,400	-4.6%

(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, 2018, Valeo had 113,600 employees, 1.8% more than in 2017.

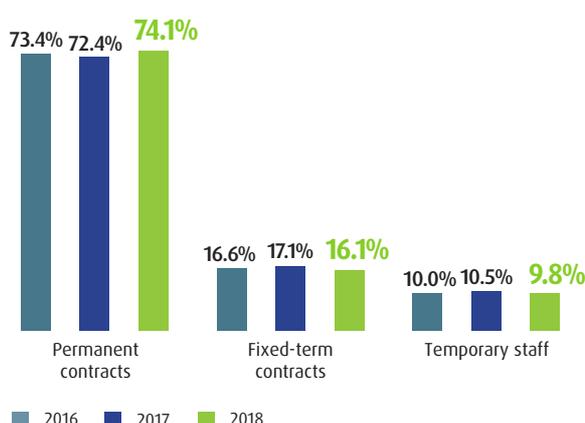
► BREAKDOWN OF REGISTERED HEADCOUNT BY SOCIO-PROFESSIONAL CATEGORY



One of the major challenges for Valeo in 2018 was to recruit a variety of profiles with the high level of skills necessary for the development and production of its products and systems. The electrification, automation and digitization of cars call on specialized and constantly evolving skills.

The increase in the proportion of Managers and Professionals in the Group's workforce at December 31, 2018 (a gain of 1.9 points between 2016 and 2018) reflects Valeo's innovation efforts aimed at bringing new products and innovative solutions to market. This population, which represented 23,960 employees in 2016, now represents 31,683 employees.

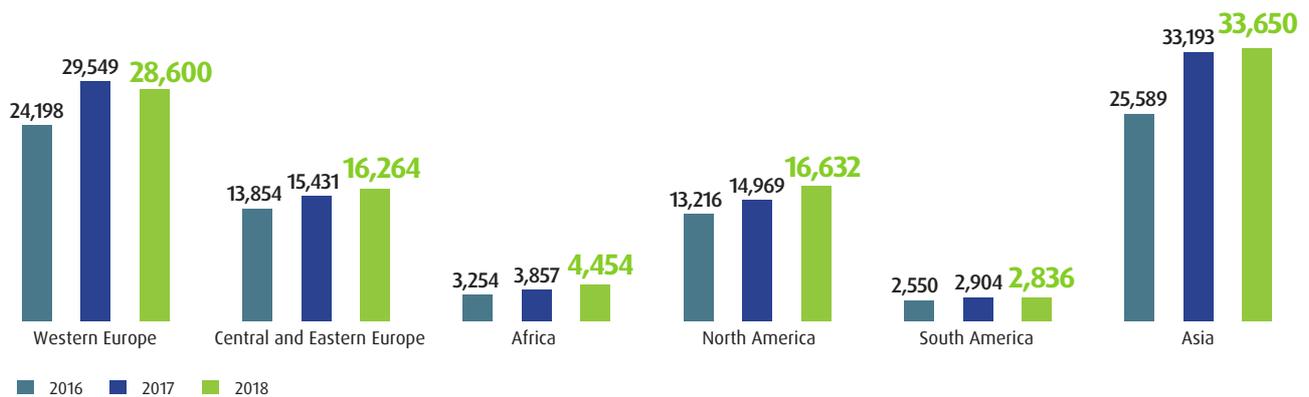
► BREAKDOWN OF REGISTERED HEADCOUNT BY CONTRACT TYPE



The automotive market is cyclical, and considerable flexibility is required to constantly adapt production capacity to fluctuating demand from customers around the world. That is why Valeo employed interim staff (fixed-term and temporary contracts) representing 25.9% of its total workforce in 2018. However, Valeo decided to lower this rate compared with 2017 (27.6%) through a policy of hiring on permanent contracts, particularly in France, with the recruitment on permanent contracts of more than 750 operators previously on temporary assignments.

## Valeo and its employees

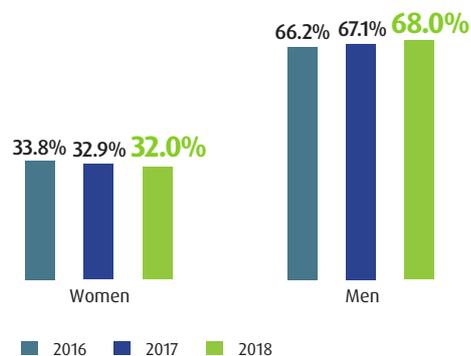
### ► BREAKDOWN OF REGISTERED HEADCOUNT BY GEOGRAPHIC AREA



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 2016 and 2018, the Group's workforce grew in all regions of the world: 31.5% in Asia, 36.9% in Africa and 25.8% in North America. The two regions with the largest workforce in 2018 were Asia (32.8%) and Western Europe (27.9%).

### ► BREAKDOWN OF REGISTERED HEADCOUNT BY GENDER



Between 2017 and 2018, the proportion of women within the Group was broadly stable. But the number of female hires continued to grow (see section 4.4.3 of this chapter, "Valeo's employee-related commitments", paragraph "Respecting and promoting diversity", pages 231 to 233), thanks to Valeo's initiatives to promote gender diversity.

## Policy and procedures

The Human Resources strategy is rolled out in procedures and policies on all the issues addressed by that department. They are circulated to the entire Human Resources network and are accessible to all employees on the Intranet (except for Employee Relations policies). They regulate the following ten issues:

1. Procedures and rules;
2. Human resources mission;
3. Fundamental rights;
4. General rules;
5. Involvement of personnel;
6. Travel policy;
7. Recruitment;
8. Compensation and benefits;
9. Development and training;
10. Employee relations.

Each network manager, at Group level, is tasked with updating them. Each of these procedures and policies represents the standard that must be applied uniformly throughout the Group. At each level, the Human Resources managers are responsible for their proper understanding and application.

## Organization

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.

It is rolled out through the “One HR” project, which is based on three pillars:

- close support for operational teams by dedicated Human Resources teams;
- expertise in specialized areas of Human Resources;
- the pooling of Human Resources to improve efficiency and the quality of services.

This “three pillars” model is rolled out at each level of the organization: in Group Management, in each Business Group, in each country and in certain Product Families and Product Lines. A total of 1,700 people work in the Human Resources network, broken down between the various specialties:

- Talent development;
- Training;
- Involvement of personnel;
- Compensation and benefits;
- Employee relations;
- Recruitment.

This organizational model is designed to reinforce the partnership between the business and Human Resources teams, develop Human Resources expertise and foster greater efficiency in the function. Valeo applies it 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 improving the quality of employee relations.

The Human Resources Department’s priorities are shown in the materiality matrix (see section 4.1.1 of this chapter, “From sustainable development challenges to non-financial risks”, pages 180 to 182). They form the foundations of the Group’s actions in respect of:

- safety and working conditions;
- attracting and retaining talent;
- promoting diversity;
- respecting and promoting fundamental rights.

Based on these four priorities, the Group has identified **three main risks**:

- health and safety (see section 4.4.2 of this chapter, “Non-financial employee-related risks”, paragraph “Health and safety, pages 221 to 223);
- attracting talent (see section 4.4.2 of this chapter, “Non-financial employee-related risks”, paragraph “Attracting talent”, pages 224 to 225);
- developing and retaining talent (see section 4.4.2 of this chapter, “Non-financial employee-related risks”, paragraph “Developing and retaining talent”, pages 225 to 229);

and **three firm commitments**:

- quality of life at work (see section 4.4.3 of this chapter, “Valeo’s employee-related commitments”, paragraph “Quality of life at work”, page 230);
- respecting and promoting diversity (see section 4.4.3 of this chapter, “Valeo’s employee-related commitments”, paragraph “Promoting and respecting fundamental rights”, pages 231 to 233);
- promoting and respecting fundamental rights (see section 4.4.3 of this chapter, “Valeo’s employee-related commitments”, paragraph “Promoting and respecting fundamental rights”, pages 234 to 235).

## 4.4.2 Non-financial employee-related risks

### Health and safety

#### Description of the risk

Guaranteeing a work environment free of risk of accidents is the first way to improve the quality of working life of employees and to ensure their involvement in the Group’s activities. To ensure the safety of its employees, Valeo monitors all accidents that occur, including “near misses”<sup>(1)</sup>. The Group has defined a typology of human risks comprising five categories:

- **Category 1:** severe accident (death, amputation, major trauma, disability);
- **Category 2:** significant material damage (which could have caused serious injury) and major “near misses”;
- **Category 3:** accident with lost time, regardless of the severity (including occupational illnesses);
- **Category 4:** accident without lost time, but which resulted in medical treatment off site (hospital or doctor);
- **Category 5:** accident without lost time, but which resulted in medical treatment on site or did not require medical treatment.

The safety of every person working on a site is essential, which is why the accidents of service providers are also monitored, as are employee accidents. Valeo’s demanding policy involves and empowers all of its employees through regular training and communication.

#### Risk management policy

To ensure that accident risks are kept under control, precise objectives per production area and per service are laid down, and policies are implemented to create a safe working environment conducive to the well-being of all.

To ensure an accident-free work environment for its employees, the Group has set itself the goal of more than halving the frequency rate (FR1)<sup>(2)</sup> of lost-time accidents by 2020. To achieve this objective, Valeo, through its risk management manual, rolls out policies and directives on a range of topics (building and facility safety, employee health and safety, data security and the environment).

(1) A “near miss” is an event that could have caused bodily injury.

(2) Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year. This indicator takes into account category 1 and 3 accidents. Occupational diseases are included in this indicator as category 3 accidents. Occupational diseases will therefore not be addressed outside this indicator.

## Valeo and its employees

In 2018, Valeo continued its plan for external audits to verify the proper application of these Group directives in terms of risk management. The Group is also pursuing its objective of obtaining OHSAS 18001 certification for all sites. At the end of 2018, 91% of the Group's sites were certified.

Ongoing improvement in on-site risk management is governed by the Quick Response to Quality Control (QRQC) methodology. All employees are trained in this approach as soon as they arrive at Valeo, in particular through the mandatory training modules: "Plan, Do, Check, Act", "Safety induction" and "Safety first". The "Safety first" training program, created in 2015, aims to influence the behavior of employees at work, from operator to manager. At the end of 2018, 64,886 employees had been trained, representing 63% of the target population. At the end of 2017, 57,520 employees had been trained, or 58% of the same population.

Guaranteeing an accident-free environment requires the governance of the General Management. The Group's 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.

The commitment of all employees is essential, which is why safety is an integral part of their objectives, particularly those of the Chairman and Chief Executive Officer. Jacques Aschenbroich's compensation is partially indexed to the number of accidents resulting in lost time and the reduction in the number of category 1 and 2 accidents.

### Measures taken to reduce the risk

For the maintenance of machines that are potentially a source of severe accidents, the Group has developed a directive and work instruction standards, known as "LOTO" (log out-tag out). Their purpose is to ensure that machines are no longer powered before maintenance operations so that no residual energy can cause an accident, or to prevent a third party from restarting the machine during the process. Instructional standards include a list of steps to follow and the order in which to perform them, so as to safely shut off the machine.

In parallel with this worklist, a certification checklist including all steps is used by the HSE managers and maintenance managers to ensure that the logging process runs smoothly. To qualify for certification of logging operations, maintenance technicians, method managers and HSE managers follow an e-learning on the LOTO process, lifting and electrical risks. In 2018, 6,097 employees took this module. More extensive one-day training organized by Bureau Veritas for service technicians, method managers and HSE personnel was begun in 2018. At the end of 2018, 160 people attended this training.

### The School of Safety Dojo

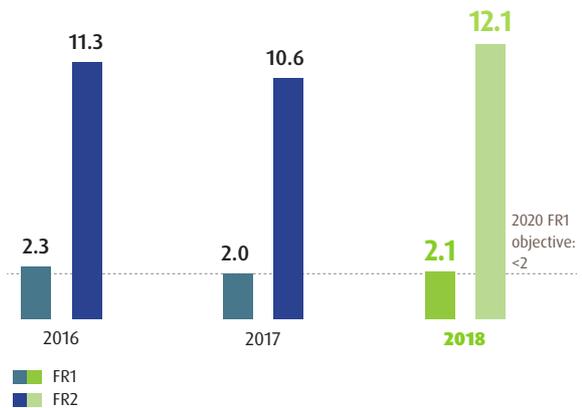
Launch of "The School of Safety Dojo", a training program on the Zaragoza site, Spain.

In November, following the example of other sites, the Zaragoza team in Spain launched its safety training program, "The School of Safety Dojo". Safety Dojo is a new Group standard, designed to support and develop the knowledge and skills of every employee in the field of safety and ergonomics. It is already in place on other sites, such as the Jingzhou plant in China. The dojo is a training room where people can practice and learn safety measures related to Valeo tools and trades. The dojo trains not only Valeo employees and newcomers, but also all Valeo suppliers, to reinforce their knowledge of safety rules and as such prevent any form of accident.

### Results and performance

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

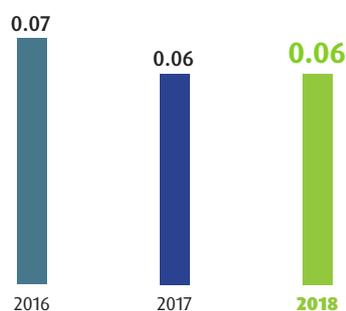
#### ► FREQUENCY RATE (FR1<sup>(1)</sup> AND FR2<sup>(2)</sup>) OF OCCUPATIONAL ACCIDENTS



- (1) Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year. This indicator takes into account category 1 and 3 accidents. Occupational diseases are included in this indicator as category 3 accidents. Occupational diseases will not be addressed outside this indicator.
- (2) Calculation of FR2: number of occupational accidents, with or without lost time x 1,000,000/number of hours worked during the year.

- **frequency rate 1 (FR1):** number of accidents with lost time per million hours worked. In 2018, the rate was 2.1. Valeo is therefore moving closer to its 2020 Group target of a rate of less than 2. FR1 performance varied between countries due to local laws and practices. In France and Italy, the rate was 10.9 and 6.9 respectively. It was 0.2 in India, 0.3 in China and 0.4 in Egypt;
- **frequency rate 2 (FR2):** number of accidents with or without lost time per million hours worked; frequency rate 2 increased by 1.5 points between 2017 and 2018. This increase is due to the inclusion of all category 5 “near-accidents”. The Group believes that any “near-accident”, because it could have led to injury, should be reported within this indicator. In 2018, Valeo chose to include all category 5 accidents in its FR2, regardless of their severity.

► **SEVERITY RATE (SR1<sup>(1)</sup>) OF OCCUPATIONAL ACCIDENTS**

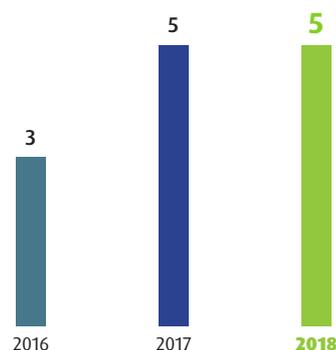


(1) Severity rate calculation: number of calendar days lost during the year x 1,000/number of hours worked during the year.

The severity rate has been falling for four years. The 2018 rate was in line with that of 2017 at 0.06, whereas it was 0.07 in 2015 and 2016.

The accidents covered by these indicators include all Valeo employees, regardless of their type of contract (permanent, fixed-term, apprenticeship, internship), interim staff and service providers. By contrast, hours worked by providers are excluded from the count. As a result, the calculation method has the effect of accentuating the frequency and severity rates.

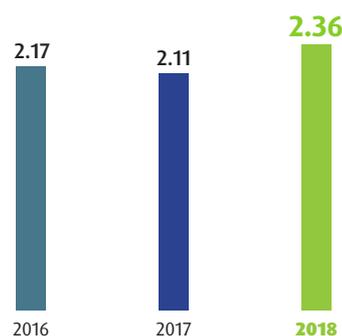
► **NUMBER OF CATEGORY 1 ACCIDENTS<sup>(1)</sup>**



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

The number of category 1 accidents stayed at five this year, in line with last year. They affected a temporary employee, two Valeo employees and two service providers. The challenge for Valeo is to ensure compliance with its safety standards by its service providers.

► **ABSENTEEISM RATE<sup>(1)</sup>**



(1) Calculation of the absenteeism rate: actual hours of absence expressed as a proportion of total possible working hours. Hours of absence taken into account are absences due to a workplace accident, illness, suspension of work, strikes, absences authorized other than statutory holidays, unauthorized absences. 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.

The increase in the absenteeism rate can be explained by the increase of more than 30% in the number of employees in Germany between 2017 and 2018, where absenteeism has traditionally been above the Group average.

### Attracting talent

#### Description of the risk

Attracting the best talent is a key challenge for Valeo in achieving its goals in a competitive environment that is undergoing profound transformation. The Group's success hinges on attracting skilled employees internationally in fast-growing markets and emerging countries, and in fields of advanced technology, such as CO<sub>2</sub> emissions reduction and intuitive driving technologies.

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 through various communication channels, including social networks. Having skilled teams ensures that Valeo can meet the expectations of its customers around the world, and add value in terms of innovation, total quality and competitive solutions and services.

#### Risk management policy

The Group relies on its employees to support its growth and ensure the achievement of its objectives. To this end, it is essential to develop policies serving to attract and recruit the best talent.

To achieve its growth and development objectives, the Group has set itself the ambition of:

- recruiting 6,000 employees each year over the next five years;
- having 600,000 followers on LinkedIn by 2020.

As part of the "One HR" comprehensive transformation project, a new recruitment organization has been set up with the creation of Talent Acquisition Centers (TAC) to generate recruitment synergies at national and regional level. The TACs bring together all teams dedicated to scouting and attracting talent in a given country or region. In 2018, Valeo had 21 TACs in the world, after starts this year in Japan and Morocco.

To support the implementation of this new organization, Valeo has developed a comprehensive IT solution to manage recruitment. The main objective is to increase the efficiency of the recruitment process, reduce its cost and duration, improve quality and follow-up, and give better visibility to job opportunities available.

#### Measures taken to reduce the risk

Valeo's recruitment policy is based on a strong employer brand, which enhances the Group's visibility and its appeal for the talents of tomorrow. Managing relationships with schools and forging strong and special partnerships is a priority for the Group. In 2018, 82% of Valeo's plants maintained relations with higher education institutions (universities, engineering schools, business schools, etc.).

To bolster its visibility with universities in the Group's host countries, Valeo organized a fifth edition of the Valeo Innovation Challenge in 2018. The competition is a means for Valeo to encourage students from around the world to innovate and develop their entrepreneurial spirit, by offering the winners the opportunity to create their own start-up. Valeo wanted the competing teams to be multidisciplinary (students from business schools working alongside those from engineering schools, etc.) to encourage synergies between their respective areas of expertise, mirroring its internal teams in that respect. They had a choice between three key themes for Valeo: vehicle electrification, autonomous vehicles and digital mobility. In 2018, 1,470 teams from 676 universities and 107 different countries took part, putting forward innovative solutions for the car of tomorrow.

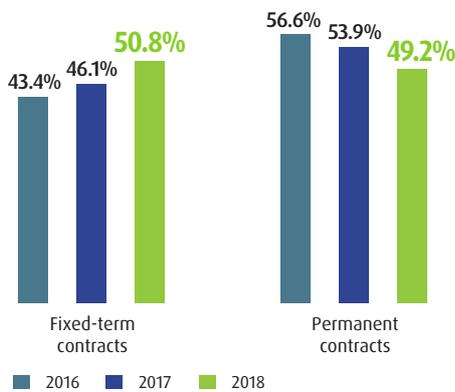
Accompanying Valeo's growth worldwide involves a vast recruitment plan. To this end, a team of recruitment experts has worked on implementing tools to anticipate needs. The TAC teams from different countries have created "Hiring4me", an e-learning module for managers, giving them the tools to create a unique and exemplary candidate experience, free of any discrimination in hiring.

### ➤ New onboarding program rolled out for new hires in 2018

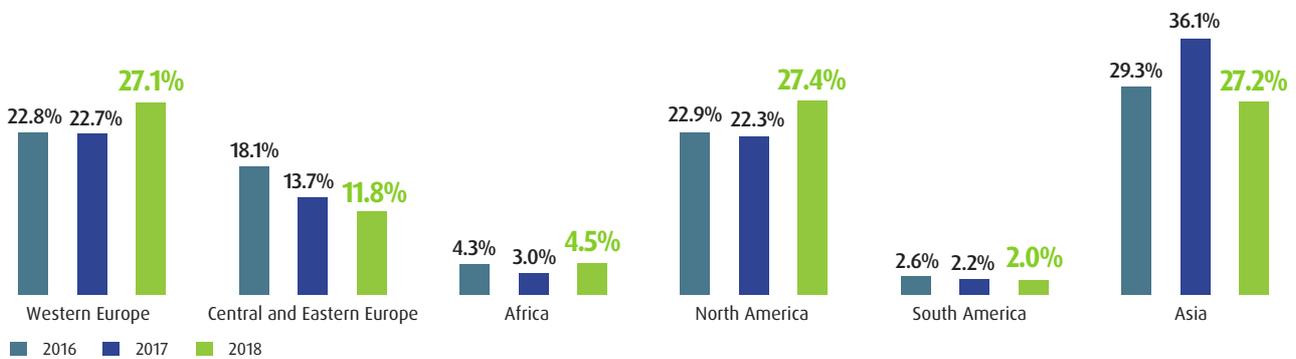
Wishing to facilitate quick and successful integration, Valeo developed an onboarding program called "Discovery" for Managers and Professionals in 2018. Harmonizing the onboarding process ensures that newcomers receive quality information, reinforces the role of the manager, ensures that more local information is provided, and provides an even friendly atmosphere thanks to a "buddy" support program. As such, the onboarding program of each newcomer is now organized around five major priorities: the welcome by a "buddy", an individually tailored program, presented from day one, that sets out the various stages of the employee's induction, an online course containing information about the Group (organization, products, values and culture), participation in a welcome session organized by the site and regular meetings with the manager during the first six months.

## Results and performance

### ► BREAKDOWN OF NEW HIRES BY CONTRACT TYPE<sup>(1)</sup>



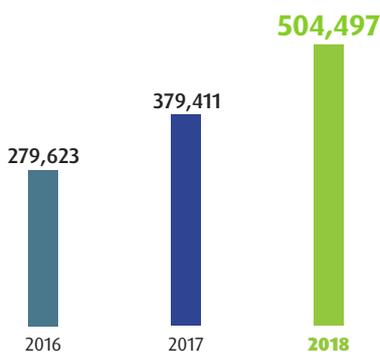
### ► BREAKDOWN OF NEW HIRES BY GEOGRAPHIC AREA<sup>(1)</sup>



In 2018, Valeo hired 29,221 employees, 14,373 of whom on permanent contracts and 14,848 on fixed-term contracts, compared with 19,022 and 16,273 in 2017. The contraction in hires on fixed-term and permanent contracts in 2018 is attributable to a slowdown in growth, particularly in the second half of the year. This reduction is particularly noticeable in China, where Valeo recruited 18% of its fixed-term contracts in 2018.

To support its ambitious hiring policy, Valeo is developing its presence on social networks, posting several times a week on LinkedIn, Facebook and Twitter, as well as on YouTube, Xing and WeChat.

### ► CHANGE IN THE NUMBER OF LINKEDIN FOLLOWERS



In 2018, the number of LinkedIn followers grew to 504,497, a 33% increase on 2017. Increasing numbers of employees are playing a role as ambassador in this area: 400 in 2017 and 900 in 2018.

For the fifth consecutive year, the quality of Valeo’s Human Resources policies and practices was recognized with the “Global Top Employer” label. In 2018, this certification was obtained by 24 countries in five regions (Europe, Asia-Pacific, North America, South America and Africa).

## Developing and retaining talent

### Description of the risk

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

To this end, Valeo is committed to recognizing and valuing talent, while retaining talented employees thanks to an ambitious compensation, professional development, training and internal mobility policy. The policy’s objective is to empower each employee in their career and the development of their skills to ensure their operational excellence.

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

## Valeo and its employees

### Risk management policy

Developing and retaining talent is one of the Group's most critical challenges, and the Human Resources team is organized with this in mind. At Group level, as well as at the country and plant levels, the managers responsible for talent development, training, compensation and benefits work together to develop ambitious policies that meet employee demands and match the Group's strategy. Together they focused on four essential levers:

- training;
- skills development;
- compensation and benefits;
- development of the network of experts.

The objectives of Valeo's Human Resources Department going out to 2020 are as follows:

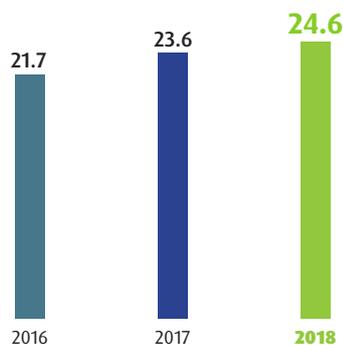
- stabilize the voluntary departure rate among Managers and Professionals at 7%;
- reach an employee shareholding rate of 45%;
- give 100% of employees training in at least one module each year.

### Measures taken to reduce the risk

#### Training

As employee training is a tool for developing and retaining talent, Valeo continued its internal training efforts in 2018. 98.5% of employees took at least one training course during the year, compared with 98.1% in 2017.

#### ► AVERAGE HOURS OF TRAINING PER EMPLOYEE – REGISTERED HEADCOUNT

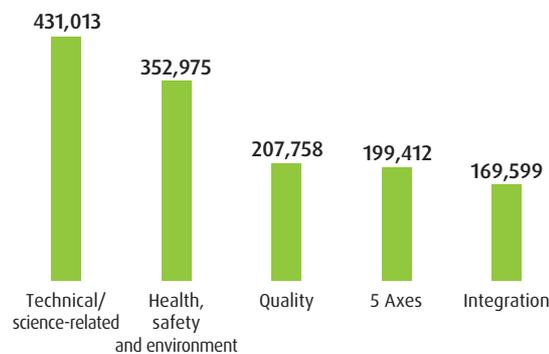


#### ► CHANGE IN THE NUMBER OF HOURS OF TECHNICAL TRAINING FOR TECHNICIANS AND ENGINEERS IN TECHNICAL POSITIONS BETWEEN 2016 AND 2018

	2016	2017	2018	Change (2018/2017)
Hours of face-to-face training	205,208	217,045	273,985	26.23%
Hours of technical e-learning	21,336	51,998	106,455	104.73%
<b>TOTAL TRAINING HOURS</b>	<b>226,544</b>	<b>269,043</b>	<b>380,440</b>	<b>41.40%</b>

Each employee received an average of 24.6 hours of training during the year, 4.2% more than in 2017. The steady increase in this ratio since 2016 reflects the importance that Valeo places on the knowledge and mastery of tools and working methods by all of its employees.

#### ► BREAKDOWN BY HOURS OF TRAINING OF THE FIVE MOST POPULAR TRAINING COURSES IN 2018



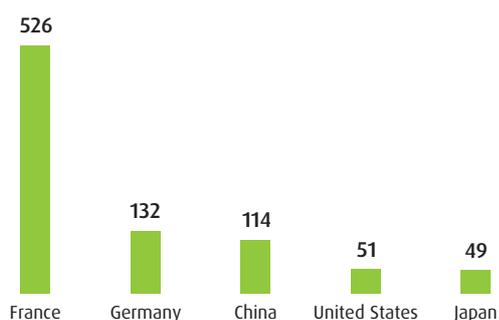
As safety and ergonomics are essential levers of commitment and motivation among our employees, the Group has developed specific training modules to foster awareness of these issues. As soon as they are inducted and throughout their career, employees receive training, both face-to-face ("Safety First") and digital (e-learning modules describing Health Safety Environment Directives), specifically dedicated to the identification, control and management of risks. A total of 352,975 training hours were devoted to safety in 2018, compared with 340,199 in 2017. The 3.75% increase in the number of hours of training dedicated to safety testifies to the Group's desire to minimize risk by involving all of its employees, above all through training.

To reinforce the expertise of its employees, Valeo has set up in-house technical training. The Group offers continuous training for its technicians and engineers to encourage innovation at all levels. Valeo stepped up technical training from 269,043 hours in 2017 to 380,440 hours in 2018, an increase of 41.4%.

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. Calling on internal and external experts and offering a large spectrum of training to Research and Development teams, the Technical Institutes now rank as a major part of the Group's innovation strategy.

Courses are run mainly through the Group's powerful network of Experts. They are designed to provide advanced training on Valeo products, technologies and manufacturing processes. Experts play a vital role in the transmission of knowledge and skills at all levels of the organization. Each year, the Group identifies and appoints Experts to provide support for prospective new products and the development of industrial processes. In 2018, Valeo had 1,151 Experts<sup>(1)</sup>, of 42 different nationalities in 21 countries worldwide, breaking down as 842 product experts and 299 process experts. Between 2016 and 2018, the number of Experts increased by 23%<sup>(2)</sup>.

► **TOP 5 COUNTRIES WITH THE MOST EXPERTS IN 2018**



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%).

**Talent development**

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 competency dictionary 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 a match 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 each level of the organization. This meeting thus promotes geographic and functional mobility. 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 allow Valeo to create a pool of internal talent to fill vacant positions. As a result, a total of 4,549 Managers and Professionals benefited from career development opportunities in 2018 (up from 2,924 in 2017). The average length of service of Valeo Managers and Professionals in each position is 2.5 years.

In addition to the specific actions taken among Managers and Professionals, the Group strives to promote career development among non-managers, both operators, and technicians and supervisors. In 2018, a specialist path accessible to non-managers was developed in France in the same spirit as the Expert approach. 65 specialists were appointed in 2018, 71% of whom are non-professionals.

(1) The process for appointing Experts and consolidating the data for the subsequent year takes place at the end of the year under review. As such, the data published in the 2017 Registration Document relate to 2018. From 2018, Valeo has decided to report the data for the year under review, consolidated on December 31 of the prior year. The 2018 data are therefore identical to those published in the 2017 Registration Document.  
 (2) To facilitate comparison and follow-up of change in its number of Experts, Valeo has decided to state the number of Experts in 2019. In 2019, Valeo will have 1,261 Experts, breaking down as 928 product Experts and 333 process Experts.

## Valeo and its employees

### Overall compensation and benefits

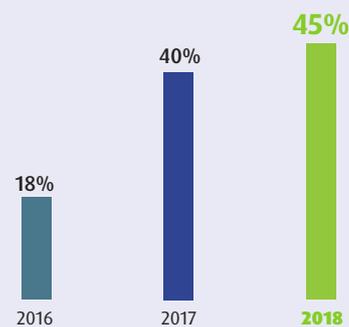
Valeo also conducts regular competitiveness analyses of salaries in major markets to ensure the appropriateness of pay scales in the countries where the Group operates. The information used to develop compensation policy is obtained from reliable and varied sources, including market practices from specialized compensation consulting firms, central bank and government agency forecasts.

Each year, the country's Human Resources Directors propose wage adjustments based on market analysis. All countries propose wage and benefits increases based on inflation, projected average increases in the market by category, the unemployment rate and sales. The Group validates and sets budget directives in each country, depending on their specific situation. This approach enables the Group to offer appropriate packages for each employee in all countries.

### Initiatives in 2018

In 2016, Valeo launched a share subscription offering reserved for employees, known as "Shares4U". A third employee shareholding campaign took place in 2018. 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 94,000 Group employees were eligible in 22 of the major countries where Valeo operates in 2018. At the end of the subscription period, which began on May 2 and ended on May 16, 2018, 599,979 new shares were subscribed at a price of 43.58 euros each. Employees received a discount of 20% to the reference share price. At December 31, 2018, more than 45% of employees were Valeo shareholders thanks to the share ownership policy implemented in 2010 and the recent *Shares4U* offerings (see Chapter 6, section 6.4.5 "Employee share ownership", page 418).

### PERCENTAGE OF EMPLOYEE SHAREHOLDERS AT VALEO



### PAYROLL COSTS AND PERSONNEL EXPENSES

(in millions of euros)	2016	2017	2018	Change (2018/2017)
Payroll costs excluding social security contributions and interim staff (A)	2,290	2,633	2,935	11.47%
Social security contributions (B)	531	617	675	9.40%
Pension costs under defined benefit plans (C)	37	59	57	-3.39%
Pension expenses under defined contribution plans (D)	83	109	112	2.75%
Total payroll costs (excluding interim staff) (E)	2,941	3,418	3,779	10.56%
Contribution rate ((B+D)/A)	26.80%	27.60%	26.81%	

(in millions of euros)	2016	2017	2018	Change (2018/2017)
Total personnel costs (including interim staff)	3,341	3,890	4,240	9.00%
As a % of sales	20.20%	21.00%	22.10%	-

### BREAKDOWN OF PAYROLL BY GEOGRAPHIC AREA IN 2018

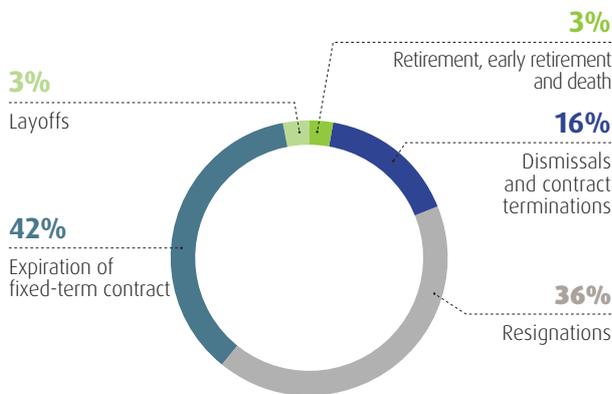
(in millions of euros)	France	Europe (excl. France)	Outside Europe
Payroll costs excluding social security contributions and interim staff (F)	671	1,086	1,178
Social security contributions (G)	255	238	182
Total payroll costs (excluding pension costs) (H)	926	1,324	1,360
Contribution rate (G/F)	38.00%	21.90%	15.40%

The payroll increased by 10.6% in 2018 compared with 2017, due to the increase in the Group’s registered headcount over the period and pay increases awarded under wage policies implemented in the various countries where the Group operates, thereby impacting personnel expenses as a proportion of sales, which were up 1.2% at 22.1%.

Social security contributions grew more slowly, due to the ceiling reached in some countries. Pension costs were stable between 2017 and 2018, with defined contribution plans accounting for nearly 66% of these expenses. The ratio of social security contributions eased slightly to 26.8%. It is nevertheless important to note that those paid in France represented 37.8% of total personnel expenses paid across the Group as a whole.

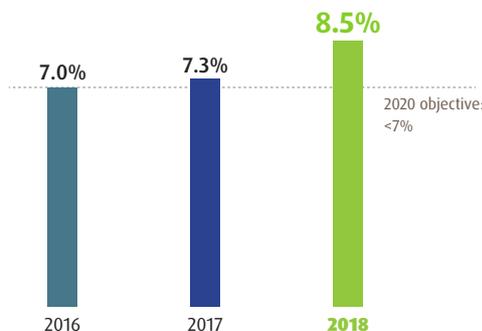
## Results and performance

### ► BREAKDOWN OF TURNOVER BY CAUSE IN 2018



In 2018, 25,320 employees left the Group, compared with 21,591 in 2017. The termination of fixed-term contracts was the biggest cause of departures (42%), followed by resignations, and dismissals and agreed terminations (36% and 16% respectively). Operators accounted for 63.5% of resignations, among which 49.6% were employees on fixed-term contracts. To ensure its operational excellence and the retention of talent, Valeo monitors the voluntary departure rate of Managers and Professionals and that of direct labor on a monthly basis.

### ► VOLUNTARY TURNOVER OF MANAGERS AND PROFESSIONALS\*



\* The calculation of the turnover of Managers and Professionals takes into account resignations during the year.

In 2018, the departure rate for Managers and Professionals in the Group was 8.5%, 1.2% more than in 2017. The main reasons for resignation, in addition to personal reasons, are related to compensation (24%) and career development (19.6%).

- Younger age groups (25-34 years) had the highest turnover rates: 11.25% for 25-29 year olds and 10.62% for 30-34 year olds;
- Turnover was lowest in South Africa (2.17%), Korea (2.62%), Brazil (4.41%), Spain (5.76%) and Russia (5.85%);
- Turnover was highest in Hungary, Romania and Tunisia, where special measures have been taken (compensation, career development, promoting diversity, etc.) to bring the rate down significantly;
- In 2018, Eastern Europe (12.06%) and North America (10.68%) accounted for the largest number of resignations in the Group.

Between 2016 and 2018, the increase in the departure rate for Managers and Professionals was directly linked to Valeo’s expansion and innovation strategy:

- the Group is recruiting a larger share of software engineers in its teams, which accounted for 16% of new hires in 2018. However, these profiles are in high demand on the market, and are therefore generally more volatile;
- the workforce in Asia posted the largest growth in the Group (39.8%). The development of the Group’s activities in this region, where the departure rate is traditionally higher, had an impact on Valeo’s overall departure rate.

To ensure the retention of talent, 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 own professional development, Managers and Professionals have been given the opportunity to communicate their desired career development opportunities ahead of the year-end appraisal since 2017. Their wishes were then reviewed and discussed by line management and the Human Resources network, with a view to giving precise feedback on career prospects during the year-end appraisal.

### 4.4.3 Valeo's employee-related commitments

#### Quality of life at work

##### Challenges

Quality of life at work is an integral part of Valeo's Human Resources strategy to attract, develop and retain talent. The Group works to continuously improve the quality of life at work for its employees by guaranteeing them:

- a safe work environment by offering ergonomic workstations and preventing psycho-social risks;
- a balance between professional and personal life by promoting the right to disconnect and facilitating teleworking;
- recognition and support in their work;
- prevention of harassment and discrimination;
- autonomy.

##### Approach

Operational excellence specific to Valeo's culture is based on the 5 Axes system. Valeo's 5 Axes system is designed to achieve total customer satisfaction, with the goal of becoming a preferred partner. Each of the 5 Axes is subdivided into work processes, and translated into a roadmap. A roadmap is made up of key objectives and a predefined list of actions to ensure its application as well as a series of questions allowing the manager and auditor to evaluate its proper rollout.

A healthy and pleasant working environment is key to guaranteeing the safety of employees. Valeo wishes to maintain a rate of more than 45% achievement of the "Quality of Life at Work" roadmap until 2020.

Aware of the need to formalize its quality of life at work policy, Valeo rolled out a Human Resources procedure entitled "Quality of life @work" in 2018. The purpose of this procedure is to define the quality of life at work, the means of improving it and the tools needed.

Quality of life at work committees are also set up in all plants around the world. They are composed of a multidisciplinary team: site manager, employee representatives and members of the HR network, Health, Safety and Environment network and the

site's medical team. They are tasked with the plant's Quality of Life at Work policy, tailored to the site's challenges, and ensuring that it is communicated to employees.

Valeo uses two distinct processes to monitor its Quality of Life at Work policy and evaluate actions implemented locally:

- the "Quality of Life at Work" employee involvement roadmap. Each year, Valeo's internal auditors check that the action plans drawn up as part of the roadmaps are properly implemented. By 2018, Valeo plants had achieved 52% compliance with the roadmap, compared with 40% in 2017;
- in addition to these audits, the Quality of Life at Work policy set up at each site is assessed through annual labor-related CSR reporting.

##### Performance

In 2018, considerable progress was made in terms of quality of life at work:

- 5,939 employees benefited from teleworking, representing 18.7% of Managers and Professionals, compared with 4.2% in 2017, i.e., more than four times as many Managers and Professionals;
- as in 2017, 82% of plants implemented at least one quality of life at work initiative;
- 4,450 employees attended training/awareness modules on quality of life at work;
- 29.6% of sites have set up a fund to assist employees experiencing financial hardship.

##### Achievements during the year

Wishing to adapt to changes in society and to improve quality of life at work for its employees in France, in 2014 Valeo introduced a Teleworking Charter. A Group agreement signed on October 17, 2018, applicable in France, takes note of the shared desire of Management and all representative trade union organizations to promote telework. It makes telework more accessible for the well-being of employees, to make work organization more flexible and to reinforce the Group's attractiveness. Management wishes to see the practice develop throughout the Group.

#### Launch of a global engagement survey in 2018

In 2018, Valeo launched a global "Engagement Survey" of all employees. It was conducted by an external firm, for the first time using digital means for the entire population. Employees were asked to share their perception and assessment of the Group's strategy, organization and management on a set of 16 themes, three of which were explicitly related to the quality of life at work. In total, 76% of employees responded: 74% of direct labor (technicians and operators who directly contribute to the manufacture and delivery of products or services sold) and 79% of indirect labor (all employees who facilitate production without contributing directly). A total of 74,097 responses were accordingly analyzed, making it possible to identify the Group's strengths and as such determine areas for improvement. Seen against the industry benchmark determined by the firm, employee satisfaction is higher at Valeo on the following topics: "clear career path" (9 points higher), "ethics culture" (7 points higher), "culture of diversity" (5 points higher) and "respect for direct management" (4 points higher). Based on their own results, each country and each site has established specific action plans to improve their performance in 2019.

## Respecting and promoting diversity

### Challenges

Valeo firmly believes in the importance and relevance of the diversity of its employees at all levels and in all areas of the company. A key element of its culture, Valeo works for diversity on four themes: gender equality, cohesion between the younger and older generations, a multicultural mindset and the inclusion of people with disabilities. In a competitive environment and diverse society, encouraging diversity among employees is a means of driving performance, and attracting and retaining talent.

### Approach

To ensure greater diversity across the Group, Valeo has set targets for each of the four themes to be achieved by 2020:

- **Gender:**
  - reach at least 35% of women in the total number of employees;
- **Disability:**
  - increase the number of employees with disabilities to 2,500 by 2020;
- **Cultural:**
  - increase the proportion of plants run by a local director, bringing it above 80%;
  - continue to reduce the proportion of expatriates among total Managers and Professionals to less than 1.2%;
  - reduce the share of French expatriates in the total proportion of the Group's workforce to less than 55%;
- **Generational:**
  - ensure that the share of employees over 50 is at least 13.5%.

To evaluate the measures taken and define the Group's objectives, a Diversity Committee was established in 2012 at the initiative of General Management. Chaired by the Group Senior Vice-President, Human Resources, assisted by the champions of each of the four diversity themes, it has four specialized sub-committees: Gender, Disability, Social and Cultural, and Generational.

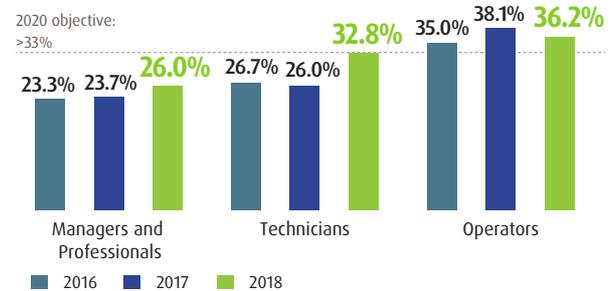
Firmly believing in the importance of diversity in non-financial and financial results, the Group decided in 2018 to incorporate the criterion of diversity into the variable compensation of Jacques Aschenbroich, its Chairman and Chief Executive Officer. The aim of this approach is to send a strong signal to the teams to encourage them to continue their actions in favor of diversity.

The Group's goal is to promote diversity everywhere. To ensure that the definition of diversity, its scope and the practical initiatives stemming from it are known and applied in all plants, a Human Resources "Valuing Diversity" policy applying to all employees was shared with the entire Human Resources network in 2017 and is accessible to everyone on the intranet.

## Performance

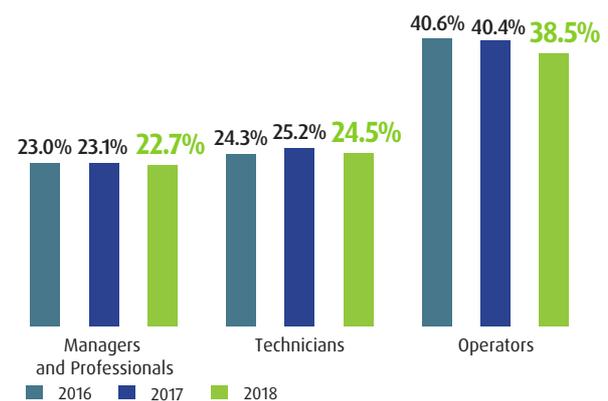
### Gender

#### ► PERCENTAGE OF WOMEN AMONG NEW HIRES



In 2018, women represented 33% of new hires, meaning that the Group has achieved its target for 2020 set in 2017. In 2018, Valeo decided to raise this target and set an ambitious target of 35% of women among new hires.

#### ► PROPORTION OF WOMEN PER SOCIO-PROFESSIONAL CATEGORY – REGISTERED HEADCOUNT



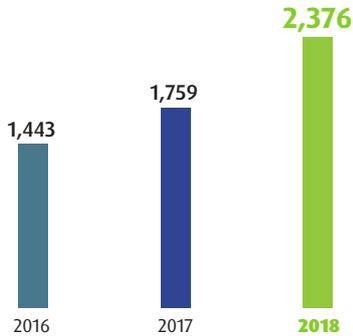
The percentage of women in the general population is 32.4%. The percentage of women Managers and Professionals is 22.7%. The share of women in R&D increased from 14.4% to 16.9% between 2017 and 2018. Valeo is committed to promoting and developing female talent. In 2018, the share of women in top management<sup>(1)</sup> was stable year on year at approximately 11.5%.

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

## Valeo and its employees

### Disability

#### ► NUMBER OF EMPLOYEES WITH DISABILITIES WORLDWIDE (DIRECT EMPLOYMENT)



The new disability management approach, which allowed for better follow-up of recruitment and promotion of the talents of workers with disabilities, had immediate positive repercussions: in 2018, Valeo had 2,376 workers with disabilities among its employees. This represents an increase of nearly 35% compared with 2017,

and primarily reflects the wider recognition of employees with disabilities as well as hiring initiatives in the Group's different countries. In 2018, 58 plants developed partnerships with agencies specializing in hiring people with disabilities.

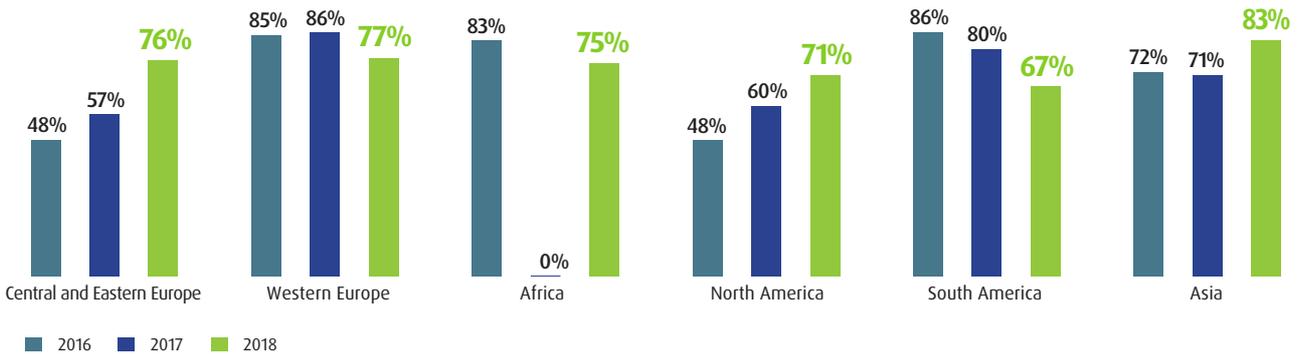
### Culture

In 2018, Valeo had 367 expatriates in its ranks, compared with 420 in 2017. The decline is encouraged by the Group, which wants to allow local managers to access key management positions. The countries hosting the largest number of expatriates are the United States (59 expatriates), France (54), Japan (48), China (45) and Germany (30).

The proportion of expatriates in the total number of Managers and Professionals was down 0.27 points compared with 2017 (1.43% in 2017 vs. 1.16% in 2018). French expatriates accounted for 58% of total Valeo expatriates in 2018. Expatriates working in Research and Development account for 24.5% of the Group's expatriates.

The Group currently includes employees of 139 different nationalities. Chinese, French, Mexican, Polish, German, Japanese, Spanish, Indian, American and Thai are the ten most widely represented nationalities within the Group.

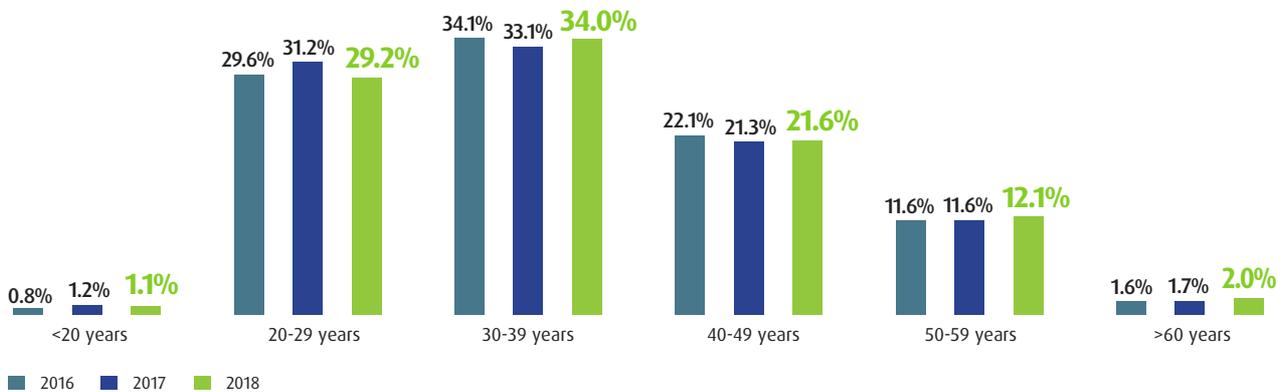
#### ► BREAKDOWN OF SITES RUN BY LOCAL DIRECTORS (2018)



In 2018, 75% of Valeo's plants were run by a local director, compared with 70% in 2017.

### Generational

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



In 2018, Valeo had a total of 15,077 employees aged over 50, and 32,563 aged under 30, representing 14.7% and 31.8% of the registered headcount respectively. 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.

- In 2018, Valeo hired 16,774 employees under 30, representing 62% of new hires, and 896 employees over the age of 50, representing 3.3% of new hires.
- In 2017, Valeo recruited 15,183 employees under the age of 30, representing 46% of new hires, and 2,901 seniors, representing 8.8% of new hires. The increase in the number of hires of people under 30 resulted from a hiring policy specifically dedicated to people in that age bracket.

## Achievements during the year

### Gender

Actively in favor of gender equality and the promotion of this diversity, the entire Group mobilized in 2018:

- during the year, 77% of the Group's plants implemented at least one initiative in favor of gender equality: organization of seminars and conferences, organization of photo exhibitions or sports tournaments, etc.;
- particularly attentive to the quality of life at work, 62.5% of the plants have introduced specific measures for pregnant women: adjustments to workstations or working hours, etc.;
- aware that women are less represented than men in its industry, in 2018, Valeo strengthened its partnership with association *Elles Bougent* by taking part in an event dedicated to introducing schoolgirls to the automotive industry at the Paris Motor Show. The number of *Elles Bougent* sponsors also increased. There are now 83 of them at Valeo, ten more than in 2017;
- on November 28, 2018, the Itatiba plant in Brazil signed the Declaration of Support for the Principles of Women Empowerment. This signature reflects the importance Valeo places on gender equality, and its determination to work with the most active organizations on the subject, such as UN Women.

### Disability

In June 2018, to develop the approach launched in France in other countries, a new Group approach known as the Disability Management Approach was drafted and implemented. It is a policy designed to respect the customs of each country in which Valeo operates. To this end, Valeo relies on the United Nations definition (Convention on the Rights of People with Disabilities), plus the concept of the working environment. The Group accordingly considers that an employee with a disability is one whose interaction with his/her work environment is undermined by his/her disability or impairment. By adopting this strategy, Valeo is implementing an organization aimed at inclusiveness for this population. From now on, and based on the existing French model, a duo of disability liaison officers is present on each

site. Composed of an employee from Human Resources and a volunteer employee, they have an advisory role for employees identified as workers with disabilities, and oversee their needs.

In France, the current disability agreement was signed again on March 8, 2018 by all of the Group's representative trade unions. Its application is ensured by the disability mission and by the disability liaison officers on each site. This is how Valeo manages to recruit, integrate and develop talented people with disabilities within the Group.

### HandiTech Trophy

In 2018, for the second year in a row, Valeo was part of the jury of the HandiTech Trophy. The Director of Innovation and Scientific Research accordingly contributed to the selection of the StreetCo and AVA projects that revolutionize, respectively, the mobility of people with reduced mobility and the means of communication available to deaf and mute people.

### Culture

In 2018, Valeo actively promoted cultural and social diversity, a real performance driver:

- during the year, 81% of the plants implemented at least one initiative in favor of cultural diversity: celebration of the World Day for Cultural Diversity, introduction of pairs formed by employees from different countries, circulation of an e-learning module;
- to attract talented young people from diverse backgrounds, Valeo has launched the Insertion Process. Currently piloted in France, it aims to integrate a greater number of young people from priority neighborhoods in urban policy<sup>(1)</sup>, especially for school work experience or work-study programs for college students.

### Generational

The Group takes care to create an environment in which four generations can work together as the retirement age increases and members of generation Z arrive on the labor market. This generational diversity is a factor of human enrichment for the Group, but it questions the perception of Valeo's management model by each generation. In 2018, Valeo implemented a number of measures in favor of generational diversity:

- 58% of the plants implemented at least one action in favor of generational diversity, especially to mark generational diversity day: activities, workshops, open days for high schools;
- extension of the policy of selective partnerships with higher education institutions at the international level, to promote diversity within teams. These initiatives in favor of youth employment and the integration of young people in the workplace allowed the Group to welcome: 1,651 interns, 1,223 apprentices and trainees, and 108 *Volontariat International en Entreprise* (VIE) program applicants.

(1) Priority neighborhoods in urban policy are characterized by a significant economic and social development gap with the other parts of the cities in which they are located.

### Promoting and respecting fundamental rights

#### Challenges

Valeo believes that employee progress is inseparable from financial performance. As employee trust is essential to its business and development, Valeo has undertaken to respect fundamental rights, and promotes open communication between employers and unions<sup>(1)</sup>.

It further believes that the unions are a key extension of management for explaining, discussing and adjusting the Company's action plans. The involvement of all employees through social dialog is a guarantee of success for all the policies undertaken by Valeo.

#### Approach

- The Group is committed to having the CSR report prepared in accordance with the provisions of the CSR agreement presented and discussed with local unions on all plants by 2020.
- To promote and ensure respect for fundamental 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 have received training on its content.

#### Social dialog

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 41.9% of the Group's registered headcount in 2018, or 42,953 employees, compared with 42,469 in 2017. Each country sets up specific bodies in line with local laws and regulations.

In 2018, 61.4% of Valeo plants 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 high quality 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.

### Fundamental rights

Valeo has participated in the UN Global Compact since 2004. The Group also aims to comply 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);
- respect for weekly rest periods (Conventions 14 and 106);
- 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).

Professional, individual and collective integrity is a key value of the Group. Wishing to ensure that it is embodied by all employees in all their exchanges (internally and externally), Valeo published its Code of Ethics in 2005. It combines the Valeo Values, the 5 Axes and the Valeo Compliance Program. 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. In 2018, 99% of employees had signed a declaration acknowledging having received a copy of the Code of Ethics, up from 95% in 2017<sup>(2)</sup>.

To ensure the correct application of its policies on child labor, the Group's internal audit department carries out an annual back-to-basics audit. Its purpose is to assess whether the risks associated with the hiring of employees under the legal working age have been addressed and mitigated by Valeo's rules and overall policies. Small business units located in Southeast Asia and new acquisitions where this risk is high are audited. In 2018, 40 sites were audited. The policy on the prohibition of child labor was respected at all such sites.

Valeo has introduced a raft of internal procedures to ensure that the commitments made by the Group are rigorously respected and that its policy on promoting and respecting fundamental rights is properly applied. In 2017, the Group conducted an in-depth review of the contents of six Human Resources procedures and policies on respecting and promoting fundamental rights including:

- prevention of harassment and discrimination;
- fight against child labor;
- fight against forced labor;
- promotion of social dialog.

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.

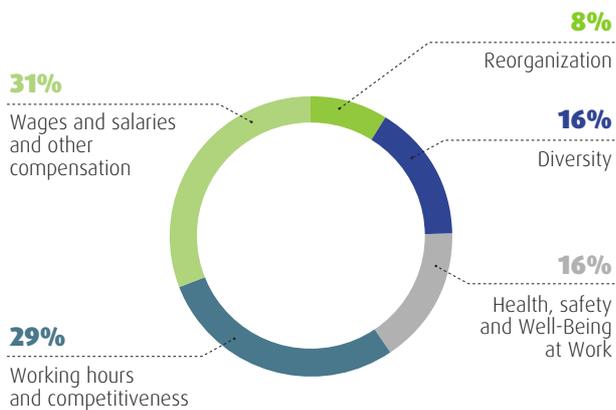
(1) This paragraph deals with the promotion and respect of the fundamental rights of Valeo employees. The risk related to sustainable development practices of tier-one suppliers is discussed in "risk related to suppliers' sustainable development practices" (see section 4.5.2 of this chapter, "Non-financial social risks", paragraph "Non-compliance with sustainable development requirements by Valeo's suppliers", pages 242 to 245).

(2) This percentage represents an unweighted average of the percentages of each site.

## Performance

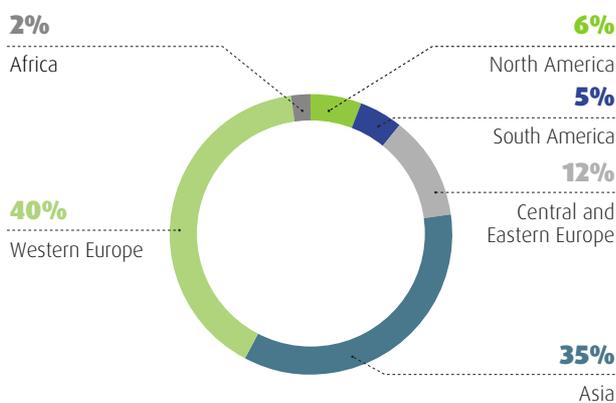
A total of 572 collective bargaining agreements were in force locally and nationally at Valeo's various sites worldwide in 2018. The topics covered by these agreements are as follows:

### ► BREAKDOWN OF AGREEMENTS IN FORCE BY CATEGORY IN 2018



In 2018, the main topics covered were wages and other compensation (31%), working hours and site competitiveness (29%), health, safety and quality of life at work (16%) and diversity (16%).

### ► BREAKDOWN OF AGREEMENTS SIGNED BY GEOGRAPHIC AREA IN 2018



The vast majority (87%) 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 2018. The high proportion of agreements signed in Asia demonstrates the Group's determination to promote this type of dialog with labor organizations worldwide.

## Achievements during the year

### Employee relations

A Corporate Social Responsibility (CSR) agreement was signed on July 10, 2012 and renewed 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. The procedures and principles defined in the agreement are being phased in by the subsidiaries at the various national and local levels. This agreement is intended to be a determined reflection of the commitment to universal principles for all of the Group's companies, as well as being pragmatic, by respecting cultural, social and economic differences in the implementation of the principles. In 2018, the CSR report provided for in the CSR agreement was presented and discussed at the European Works Council.

### Fundamental rights

Ethics is a central value in Valeo's culture and is defined as follows:

- support for the Group's commitment to sustainable development;
- compliance with fair trade practices and irreproachable business conduct;
- respect for individuals.

Respect by employees for these ethical principles is essential for the accomplishment of the Group's objectives. For that reason, each employee's performance is assessed based on his/her respect for Valeo's Values, including ethics, in the end-of-year appraisal.

Moreover, the Code of Ethics has been updated in line with the General Data Protection Regulation (GDPR), the Sapin II law<sup>(1)</sup>, the duty of care law<sup>(2)</sup> and the extension of the whistleblowing line. The updated code will be released in early 2019. Inappropriate behavior or breaches of the provisions of the Code of Ethics or Human Resources procedures are grounds for disciplinary action, including dismissal.

The scope of the Valeo whistleblowing line, which has hitherto been used to signal management of non-compliance with internal regulations concerning anti-competitive practices, corruption or fraud, has been extended. It now allows the reporting of any behavior contrary to international laws or agreements, including violations of fundamental rights, environmental breaches or the health or safety of people. 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. The scope of the whistleblowing line covers all employees and former employees, as well as suppliers.

A specific procedure for the prevention of harassment and discrimination provides for the initiation of an investigation as soon as the facts, proven or not, are reported via the whistleblowing line.

(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.

## 4.5 Valeo's social footprint

Valeo's social commitment covers three main areas: the fight against fraud and anti-competitive practices, the mobilization of the Group's supplier base on sustainable development actions and a commitment to promote economic activity in the regions where the Group operates.

To this end, Valeo has identified two risks, together with the appropriate mitigation measures, and has made two commitments.

### 4.5.1 The Group's social policy

#### The fight against fraud and anti-competitive practices

Due to the Group's global presence and its growing number of employees, the Ethics and Compliance Office has introduced a specific and comprehensive program to fight corruption and anti-competitive practices, and to promote compliance with economic sanctions and export controls (the Compliance Program). In 2018, the Compliance Program was extended to cover the protection of personal data.

For Valeo, the trust earned from its business partners is critical. As its Code of Ethics attests, fair trade practices, mutual respect and integrity among partners, customers, suppliers and other stakeholders are the foundation of long-term, quality and mutually beneficial relationships.

In this spirit, Valeo set up an extensive compliance program in 2012 to prevent a number of risks related to inappropriate and non-compliant behavior.

Run by the General Management and the Ethics and Compliance Office, endorsed by all management teams and relayed worldwide by 32 Compliance Champions, the Group's compliance program meets the highest international standards, including France's Sapin II<sup>(1)</sup> law. It breaks down into different policies, instructions, recommendations, tools and training modules.

The program entails integrating and applying a 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.

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

## ➤ A data protection program

Valeo has established a program to ensure compliance with the General Data Protection Regulation (GDPR), which came into force on April 25, 2018.

It has selected France's CNIL as the reference regulatory authority for the Group, and has appointed:

- a Data Protection Officer (DPO);
- a Data Protection Program Director;
- a Data Protection team comprising GDPR Champions representing countries, networks and the Business Groups.

Valeo has also adopted clear rules:

- a general policy reflecting Valeo's compliance commitment;
- an Employee Policy;
- a Privacy Statement used on Valeo.com;
- a comprehensive contractual system compliant with the GDPR for the outsourcing of data processing (DPA and International Transfer Clauses).

The program calls on the following tools:

- a multilingual register, to centralize processing in English and in the local language;
- a multilingual tool for collecting requests and complaints, both internal and external;
- two external and internal addresses for simple questions. The address for third parties is [dpo.ext@valeo.com](mailto:dpo.ext@valeo.com);
- an e-learning module offered to the 3,500 employees most affected by the program in 2018.

The program was taken into account in updating the Code of Ethics, the Code of Conduct for Business Partners and other relevant procedures.

## Sustainability requirements for Valeo's suppliers

### Key figures

## ➤ Key figures in 2018

- 1,151 suppliers account for 95% of the amount of direct purchases (manufacturing purchases);
- 592 suppliers are French;
- 50 suppliers account for 27% of the amount of indirect purchases (maintenance, subcontracting, travel, supplies, etc.).

### Directives for sustainability in the purchasing policy

Valeo's purchasing policy is built on three directives:

- quality and service, which aims to ensure optimal products, process and service quality;
- competitiveness, one of the key constraints in the automotive sector;
- innovation and advanced technology to support Valeo's strategic choices.

These three directives provide the framework for the goal of achieving sustainability in the purchasing policy, which involves:

- facilitating an understanding of the risks of a breakdown in the supply chain by taking into account a wider range of risk factors, known as sustainability factors (integrating the governance, social, environmental and fundamental rights dimensions, etc.);

- boosting suppliers' competitiveness by guiding them towards continuous improvement practices in terms of optimizing logistics and environmental costs, reducing energy costs, etc.;
- putting down deep roots in local ecosystems, applying a purchasing location policy at a regional level.

The first two aspects of the goal of promoting sustainability among Valeo's suppliers are discussed in section 4.5.2 of this chapter, "Non-financial social risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 242 to 245. Purchasing location policy is discussed below.

Valeo's social footprint

**Purchasing location aligned with consumption area**

The Group generally favors a location strategy compatible with the demands of economic competitiveness, and one that contributes to local economic integration. This strategy applies across all of the regions in which Valeo operates.

It allows the Group to:

- reduce transportation-related CO<sub>2</sub> emissions;
- support local employment by developing skills;
- meet the expectations of local stakeholders (customers, local and national governments) that increasingly encourage local integration.

Furthermore, the policy of reducing the risks related to currency fluctuations has also led Valeo to favor local suppliers that comply with its supplier selection criteria.

The supply chain is based on the following principles:

- symmetry between the areas of origin and consumption of purchases, reflecting the broad reach of Valeo's supply chain, in line with the Group's industrial footprint;
- balance between the main purchasing families, reflecting the breadth of Valeo's product portfolio.

The geographical breakdown of purchases by area of consumption and area of origin is accordingly virtually symmetrical:

► **BREAKDOWN OF DIRECT PURCHASES BY GEOGRAPHIC AREA OF ORIGIN IN 2018**



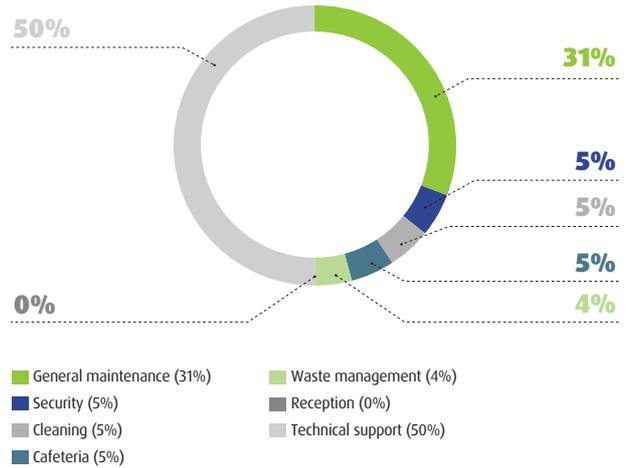
► **BREAKDOWN OF DIRECT PURCHASES BY GEOGRAPHIC AREA OF CONSUMPTION IN 2018**



Due to its long-established presence in the region, Europe is Valeo's primary geographic area in terms of consumption (53%) 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 (35%).

**Subcontracting**

► **TOTAL SUBCONTRACTING EXPENDITURE BY CATEGORY IN 2018**



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 sign and accept the provisions of the Valeo Business Partner Code of Conduct, and in particular the articles concerning employees' fundamental rights.

Subcontracting represented over 400 million euros in purchases in 2018. 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.

The use of subcontracting is also an important tool for the purchasing location in line with the geography of the Group's operations.

In France, the policy to strengthen local ecosystems is expressed in the following two initiatives Valeo has partnered.

**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.

### Ongoing sustainable development commitment through the Automotive Future Fund

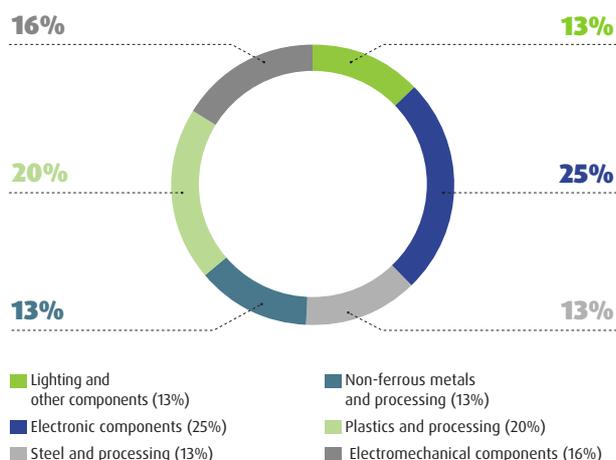
Since the FMEA Tier 2<sup>(1)</sup> was set up in 2010, Valeo has been involved, alongside Bpifrance and other automotive suppliers (Bosch France, Faurecia, Hutchinson, Plastic Omnium), in providing the fund with capital, selecting automotive suppliers and assisting the fund in acquiring minority stakes in their share capital to support them in their growth and investments. The fund was set up to take non-controlling interests in automotive companies engaged in industrial projects that create value. At the end of 2014, the Automotive Suppliers' Modernization Fund (FMEA) was renamed the Automotive Future Fund (*Fonds Avenir Automobile - FAA*).

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 the various 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.

### Typology of Valeo's purchases

#### ► BREAKDOWN OF PURCHASES BY COMMODITY IN 2018



The Group's purchases can be divided into six main components or systems, referred to as commodities: steel and processing, non-ferrous metals and processing, plastics and processing, electronic components and systems, electromechanical components and indirect purchases. Strategic decisions relating to these categories are centralized at Group level, where they are each managed by a designated Commodity Manager.

### A commitment to ecosystems and populations

#### Valeo sites, actors in their regions

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 creating and enhancing the appeal of businesses through transfers of competences.

Valeo has a policy of encouraging its sites to take responsibility and to support local initiatives around the world. To achieve this, Valeo has set the following two guidelines for each site:

- commit to building local ecosystems by:
  - forming partnerships with the world of education and local training,
  - participating in the structuring and existence of local research ecosystems;
- promote plants' initiatives in favor of and alongside local populations.

#### Promote the commitment of Valeo's sites worldwide

Each site organizes local plant initiatives that reflect locally identified needs and are consistent with their capacities. With the assistance of the site Human Resources Departments and site Research and Development managers, the site managers decide on actions that can be carried out to help the local population and employees. The Group offers avenues for thought, backed by examples of best practice circulated internally and evaluated through questionnaires.

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 third year running, all sites organized at least one corporate citizenship initiative. These various initiatives seek to improve working conditions for Valeo employees while also having a positive impact on the region's local development.

(1) Tier 2 automotive suppliers modernization fund. The tier corresponds to the automotive supplier's position relative to the automakers, thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

### 4.5.2 Non-financial social risks

#### Risk of corruption

Valeo sees fair trade practices as one of the foundations of its current success and a source of its future success. The trust earned from its business partners is critical. As its Code of Ethics attests, Valeo believes that fair trade practices, mutual respect and integrity among partners, customers, suppliers and other stakeholders are the foundation of long-term, quality and mutually beneficial relationships.

In this spirit, and because of its global presence, Valeo has since 2012 put together an extensive compliance program to prevent a number of risks related to inappropriate behavior, such as anti-competitive practices, acts of corruption and risks of economic sanctions.

Run by the General Management and the Ethics and Compliance Office, endorsed by all management teams and relayed worldwide by 32 Compliance Champions, the Group's compliance program breaks down into different policies, instructions, recommendations, tools and training modules. It meets the highest international standards, including France's Sapin II law<sup>(1)</sup>.

#### Description of the risk

The fight against corruption is intensifying and becoming more widespread. Most countries now have extremely stringent regulations sanctioning corruption and the absence of a compliance mechanism or program.

Valeo supports this desire to fight against corruption because of the extent of its operations in countries with endemic corruption, and due to the various risks of civil sanctions and the impact of potential corrupt practices on its reputation, operations, financial position and profitability.

The aim of Valeo's anti-corruption program is therefore to enable it to avoid these risks and to fulfill its commitment to integrity.

#### Risk management policy

The program set up by the Ethics and Compliance Office is intended for all employees, Managers and Professionals of the Group, especially in their interactions and exchanges with business or technical partners, or with public officials.

It also extends to certain third parties liable to expose Valeo when providing services to the Group.

The program is based on a clear set of internal rules that:

- put Valeo's determination to comply with regulations into practice in its day-to-day operations;
- 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.

It is complemented by a set of instructions and decision-making tools designed to prevent corrupt behavior and practices. The two main pillars of the anti-corruption program are the policy governing gifts, invitations, donations, and the management of conflicts of interest, and the policy for evaluating business partners. It is regularly updated in a continuous process of awareness raising, training and prevention.

The program is rolled out globally by the Ethics and Compliance Office, with the support of 32 Compliance Champions, who are experienced executives known and acknowledged by their peers and their teams. Drawing on their detailed knowledge of the specificities of their network, their country or their Business Group, they help relay the entire program to their teams, and guide employees on these challenges, thereby contributing actively to its implementation at all levels of the organization.

#### Measures taken to reduce the risk

As part of the policy presented above, Valeo:

- maintains global corruption risk mapping that allows it to adjust its policies and areas of attention as needed;
- has a Code of Ethics, a comprehensive anti-corruption program including policies, decision-making support tools and manuals for its staff and directors;
- also has a management program for risks represented by certain third parties, consisting of:
  - the Business Partner Code of Conduct,
  - specific mandatory training for certain employees;
- provides annual theoretical and practical training illustrated by numerous examples and practical cases to all Valeo Engineers and Professionals, as well as any employees exposed to corruption risks in the course of their duties;
- requires induction training in Business Ethics and Compliance for newcomers, particularly following acquisitions;
- regularly reaffirms its commitment to fighting corruption in its internal communications;
- benefits from an active prevention system:
  - an alert system open to all Valeo employees and stakeholders (two liaison officers, an outsourced whistleblowing line, an investigation team, etc.),
  - an Alerts Committee that processes alerts and determines the necessary action plans and/or sanctions,
  - regular internal controls,
  - targeted internal audits.

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

## Initiatives in 2018

### 1) Extension of prevention methods

The extension of prevention methods meets the needs of compliance with France's Sapin II law (Law No. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization) and the duty of care law, as well as various foreign regulations that pursue the same objectives. In addition to the various opportunities offered by Valeo since 2014 to report behaviors or practices that appear to contravene the law, its Code of Ethics, its Business Partner Code of Conduct and/or its compliance policies and procedures, Valeo has now expanded and extended its alert system. It allows internal and external whistleblowers to signal:

- suspected or proven cases of bribery or influence peddling, or suspected or proven breaches of the Valeo program or anti-corruption Code of Conduct;
- corruption or influence peddling;
- proven or suspected cases that may constitute:
  - a crime or offense,
  - a serious and manifest violation of an international commitment duly ratified or approved by France, of a unilateral act of an international organization taken on the basis of such an undertaking, or of legal or regulatory provisions,
  - a threat or serious harm to the public interest,
  - anti-competitive practices;
- the existence or materialization of risks associated with corruption, serious violations of human rights and fundamental freedoms, personal health and safety and the environment.

Alerts are dealt with confidentially by a trained and dedicated team. A specific document describes the procedure for formulating and issuing an alert using the system, which now includes:

- for Valeo employees:
  - the whistleblowing line,
  - the use of liaison officers appointed by Valeo for this purpose,
  - the use of the direct or indirect line manager;
- for third parties:
  - the whistleblowing line,
  - access to their contact at Valeo.

### 2) Stricter management of risks represented by third parties

In 2018, Valeo rounded out its policy for selecting agents and intermediaries through a general Due Diligence policy for Business Partners: customers, suppliers, business partners, etc. The new policy requires an analysis of the risk profile of the prospective partner as regards the fight against corruption, compliance with economic sanctions, human rights, anti-competitive practices, etc.

The Group has updated the Business Partner Code of Conduct and its awareness-raising tools (via e-learning modules) to provide all third parties representing Valeo with a full understanding of the Group's expectations on integrity, and in particular the fight against anti-competitive practices and corruption.

### Results and performance

#### Circulation of the Code of Ethics

In 2018, 99% of new employees signed a declaration acknowledging receipt of a copy of the Code of Ethics. This initiative is aimed at ensuring that all employees joining the Group are informed and have fully grasped their rights (social rights, human rights, etc.) and the rules that apply to them (anti-corruption, etc.).

The Code comes with a mandatory training module, the results of which are presented below.

#### Anti-corruption training

To ensure an understanding of internal and external anti-corruption policies, tools and behaviors, Valeo has developed e-learning modules for newcomers (people hired during the year) and Valeo's other Managers and Professionals.

To ensure an understanding of a minimum set of anti-corruption measures, Valeo has introduced a mandatory training module for newcomers (the "Anti Bribery Compliance Induction Program"). In 2018, 98.40% of the year's new employees took and passed it.

To ensure that all of the Group's Managers and Professionals, and people exposed to the risk of corruption, fraud and anti-competitive practices are properly trained to deal with those issues, Valeo has dedicated created mandatory online training programs. Compliance with training obligations in 2018 was subject to strict monitoring by the Group's Human Resources Department and the Ethics and Compliance Office, with mandatory catch-up sessions. In 2018, 99.89% of the people concerned took and passed it. In 2017, 99.59% of the same panel of people took it.

### Risk of non-compliance with sustainable development requirements by Valeo's suppliers

#### Description of the risk

Broad change in supplier chains, the emergence of new forms of indirect subcontracting and the desire to control risks of disruption in the supply chain by taking into account a wider range of risk factors have prompted Valeo to formalize over recent years a demanding policy in terms of sustainable development with regard to its suppliers.

In light of this reality, Valeo has begun implementing a policy to monitor its suppliers in the following key areas: governance, human rights, the environment, health and safety and supplier relations.

The Group has drawn up questionnaires on these key areas, which have become control points for Valeo.

### Risk management policy

#### Structure of the purchasing function at Valeo, and supplier relations

As a tier-one automotive supplier<sup>(1)</sup>, 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.

This is achieved in accordance with standards and laws in force while also meeting Valeo's sustainable development, ethics and compliance requirements, the Group's priorities towards its suppliers relate to:

- quality;
- industrial location;
- competitiveness.

#### Management of the supplier panel

The Group's Purchasing Department has two major priorities:

- commodity (product family)/segment, focusing on specific commodity purchasing strategies;
- project and mass production, focusing on day-to-day operations (initiation of projects using cost-effective parts, implementation of technical manufacturing efficiencies, diversification of suppliers, etc.).

Purchasing departments in each of the Group's regions (Europe, Middle East, Africa, China, India, Japan, ASEAN<sup>(2)</sup>, North America and South America) interact continuously with the commodity/segment teams to ensure that efficient, meaningful purchasing strategies are applied.

#### Sustainable development requirements and consolidation of suppliers in the Valeo panel

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 fundamental rights, environmental protection, employee health and safety, and quality).

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

(2) ASEAN: Association of Southeast Asian Nations.



Over 90% of the mandatory items in the supplier qualification questionnaire relate to non-economic criteria. For instance, **sustainable development criteria are given a weighting of 20% in the supplier's final score**, and any failure to meet these criteria automatically disqualifies them from Valeo's supplier panel.

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 panel, 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.

To be included in the supplier panel, 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 fundamental 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 liable 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 2018.

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.

## Measures implemented

### Assessment of 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 have launched a survey on sustainable development choices across a representative sample of suppliers accounting for 67% of the Group's production purchases.

In 2018, Valeo reinforced this assessment of practices by scheduling a global audit campaign every January 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 specific sectors to be targeted 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<sup>(1)</sup>, 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 fundamental 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. 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 2018.

### Initiatives in 2018

#### Assessment of electronic component suppliers' sustainable development practices

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

Since 2016, Valeo has 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. For the years covered, suppliers accounting for nearly 30% of 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 were identified:

- introduction of enhanced training in sustainable development in operations for middle management;
- greater attention to be 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 carried out checks in 2018 on the actions taken 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 the 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 obtain a credible assessment of their own lower-tier suppliers.

## Results and performance

### Results of assessment of electronic component suppliers' sustainable development practices in 2018

An annual self-assessment of sustainable development choices made by a representative sample of suppliers whose sales with Valeo covered 77% of the Group's production purchases was conducted in 2018. The response rate was 12% in 2018.

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 50% of them have

also made their policies public. With a view to validating their commitments, over 50% 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 66% 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 and the duty of care, as part of supplier selection processes or through self-assessment or audits.

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

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. Going by their responses, eight suppliers appear not to comply with the sustainable development requirements set by the Group. Specific monitoring of these suppliers will be organized in 2019, including, if necessary, a dedicated on-site audit, with the aim of implementing a corrective action plan for the coming year.

**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 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 2018, 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).

Since then, the comprehensive CFSI initiative has been expanded to form the Responsible Minerals Initiative (RMI). The actors in the value chain are integrated into the prevention and audit actions of this initiative, notably through the pooling of due diligence procedures and the results of audits. Valeo is contributing to this initiative through a company specialized in monitoring and evaluating practices in terms of conflict minerals.

To help suppliers 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.

By monitoring discussions in this area in Europe, Valeo evaluates its internal processes with a view to anticipating and adapting the Group’s tools in line with the future European framework.

**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.



**4.5.3 Valeo’s social commitments**

**Pro-active 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 2018.

**► MAIN CORPORATE CITIZENSHIP INITIATIVES AT VALEO SITES**

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

### Approach and achievements during the year

#### 2018, continuity in the Group's special relationship with Japan

In 2014, for the 50<sup>th</sup> 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 from Japan to Paris.

Valeo created 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 2018, the exchange program was awarded to Minami Soichiro, an assistant professor at Kyoto University specializing in public finance, environmental economics and transportation policies. The year-long research project was aimed at examining the roles and instruments of local governments in policies in the field of sustainable transportation, focusing in particular on comparative analyses of local public policy tools in France and Japan for the consolidation of new technologies in urban and regional transit systems.

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 2018 meeting was held in Paris.

#### Action by sites with local communities

Valeo has a policy of accountability for its sites, and supports local initiatives around the world. For initiatives in the local economy, Valeo sets the following two guidelines for all Group sites:

- form partnerships with the world of education and local training;
- participate in setting up and running local research ecosystems.

#### Relationships with local educational and training bodies

As a global group with a strong R&D dimension and structured networks (see section 4.2.1 of this chapter, "Group Research and Development policy", paragraph "Valeo, an actor in the governance of institutional collaborative research organizations", pages 192 to 195), Valeo also encourages the Group's sites to join specific local initiatives covering relationships with local educational and training institutions (engineering schools, universities, technical institutes, etc.).

As such, 82% of sites worldwide initiated partnerships and exchanges with higher education structures (universities/engineering schools) in 2018. 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 the Group's visibility, experience sharing and collaborative relationships beyond the simple opportunity to develop industry-oriented projects.

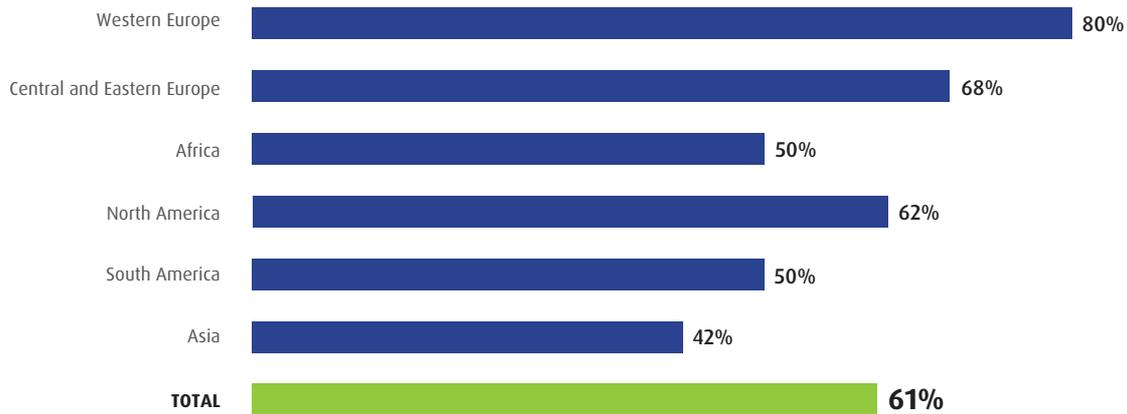
#### ► SHARE OF SITES PARTNERING WITH LOCAL UNIVERSITIES/ENGINEERING SCHOOLS IN 2018



Similarly, at the primary school level, the Group first called on sites to build closer relationships with elementary and high schools in 2016, as a means of addressing Valeo's lack of visibility as a local economic actor and potential current or future employer. The positive outcomes two years after the introduction of this

objective reflect sites' awareness of the importance of visibility for industrial players at all levels of the education system. Collaborations of this nature can take various forms, predominantly site visits and introductions to industrial professions.

► **SHARE OF SITES PARTNERING WITH LOCAL ELEMENTARY/HIGH SCHOOLS IN 2018**



⊙ **Valeo is committed to promoting industrial jobs among women**

With a robust internal commitment to diversity and the desire to promote the industry's professions to the younger generations, especially young women, several Group sites have set up partnerships with local high schools and teaching institutions.

For example, the La Verrière site (France), in partnership with a local high school, hosted 20 senior high school students, including 14 girls, for nearly a year. The trainees worked on the design and manufacture of a prototype cupholder in the door, integrated into the vehicle cabin. The aim of the project was to support and train these students in computer-assisted design, with the help of experts from the simulation team of the site's R&D center.

In addition, at the Paris Motor Show in October 2018, Valeo hosted various classes from high schools that have partnered with Valeo sites in France, inviting them to visit the Group's stand and find out more about the automotive industry. In this context, a delegation of high school students led by the association Elles Bougent, which aims to strengthen the mix of companies in industrial and technological sectors, was a special guest on the Valeo stand.

Similarly, the Ben Arous site (Tunisia), as part of its participation in the EcoWin project and its partnership with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), hosted a group of high school girls for a day of meetings around jobs in the industry.



**Relationships with local research ecosystems**

Despite a strong industrial footprint in the geography of its sites, Valeo encourages its industrial sites to become involved in local Research, Development and Innovation (R&D&I) ecosystems. This action serves to support, facilitate and anticipate current and future development needs closer to local markets, particularly in countries with growth potential.

This type of approach is also encouraged by the Group for the knock-on effect it can generate on a local ecosystem in favor of greater cooperation between local skills and expertise, and the gradual emergence of cross-sector synergies.

In 2018, 20% of sites in Central and Eastern Europe were part of a local research ecosystem (local competitiveness clusters, participation in collaborative research projects, etc.). In North America (United States, Canada and Mexico), the figure was nearly 20%. The aim is to increase the numbers in the future.

**Plants' initiatives alongside local populations**

**Valeo sites involved in dialog with local stakeholders**

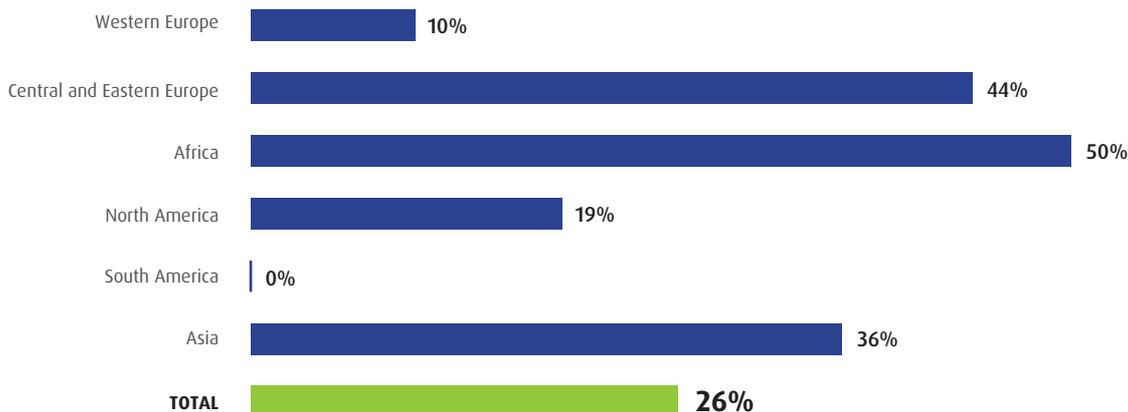
In 2018, more than 30% of employees at Valeo Group sites worldwide volunteered on operations to help local communities. Their contribution mainly involved time spent on educational activities or as expert speakers at local seminars, schools and universities, as well as at technical training sessions. Initiatives like this are part of 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 local communities.

## Valeo's social footprint

### ► PROPORTION OF SITES THAT HELD AN OPEN DAY IN 2018



### 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. After opening its 30<sup>th</sup> library in November 2017, Valeo continued this program in 2018 by involving more sites. Since its launch, the program has provided access to a library and books for more than 5,000 children, with more than 20,000 books donated.

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;
- initiatives to help address public health issues. For example, blood donation campaigns were organized in many of the Group's host countries worldwide in 2018;
- charity targeting the poorest populations, 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;

- awareness raising around sustainable development, during the "sustainable development week" held every June in a large part of the Group's sites.

These initiatives are the result of proactive commitment by the sites and their employees. They demonstrate the importance of links with local communities.

In 2018, 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 maneuver a wheelchair and offer them a certain degree of mobility.

## Public and regulatory policies

### Challenges

As a major innovator in the automotive industry operating in many countries, Valeo is committed to transforming the automotive industry and to making a positive impact in its regions.

### Approach and achievements during the year

In its relations with public organizations, the approach adopted is to support the Group in becoming involved in the three revolutions that are currently redefining the automotive industry: vehicle electrification, autonomous and connected vehicles and digital mobility.

### 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 – EGVl);

- participation in the creation of roadmaps, under Valeo's co-chairmanship (since 2014) of the European Road Transport Research Advisory Council (ERTRAC), the European Commission technology platform (see section 4.2.1 of this chapter, "Group Research and Development policy", paragraph "Valeo, an actor in the governance of institutional collaborative research organizations", page 192).

In 2017, in compliance with the French legal framework<sup>(1)</sup>, 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. Similarly, in the course of 2018, Valeo sent the HATVP a summary of the activities to be declared in accordance with the applicable legal framework<sup>(1)</sup>.

### 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 headquarters, 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<sup>(2)</sup> per year).

As in previous years, the Group did not use public affairs consultancy services in 2018. 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.

## Membership of professional bodies

As an independent, global tier-one<sup>(3)</sup> 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 Proveedores de 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*).

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

(2) Full-time equivalents.

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

### 4.6 Methodology and international guidelines

#### 4.6.1 Sustainable development reporting methodology

##### Reporting methodology for environmental indicators

In view of the lack of public guidelines applicable to the automotive supplier business, environmental indicators were reported in compliance with internal procedures developed by the Group. The main methodology rules used to prepare the indicators published in this Registration Document are described below.

##### Scope and consolidation

###### Scope

Published environmental data concern all plants and distribution platforms managed by Valeo worldwide, excluding research centers not located at production sites, administrative sites, sites located at or near automaker sites, such as vehicle front-end assembly sites, and subsidiaries in which the Group has a non-controlling interest. In all, a total of 130 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, 2017 and 2018 figures published in this document correspond to the new period, while figures from previous years correspond to the former period.

Calculation of ISO 14001, ISO 50001 and OHSAS 18001 certification indicators takes into account all production sites and distribution platforms managed by Valeo worldwide, excluding research centers not located on production sites, administrative sites, sites located directly on automakers' sites or nearby (such as front-of-vehicle assembly sites) and the subsidiaries in which the Group has a non-controlling interest. In all, a total of 140 production sites report their environmental indicators.

All new sites are required to obtain certification by the third year following their inclusion in the Group's scope. Accordingly, 140 sites were likely to obtain ISO 14001, ISO 50001 and OHSAS 18001 certification in 2018.

###### 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. 2018 sales are calculated on the basis of a year beginning on October 1, 2017 and ending on September 30, 2018 so as to match the reporting period of the 2017 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 (Valeo Environmental Indicators), 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.

##### Specifications

In view of the French law on the duty of care of parent companies and ordering companies, additional data have been attached to the presentation of environmental, social and labor-related data. Most were taken from internal data sources that existed prior to this law and are published in this document. The information was also subject to an external audit (see below).

##### 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, VEI applies automatic upstream controls designed to prevent data entry errors and allow sites to provide reporting information with regard to material differences versus previous years.

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

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

## Methodological limits

Methodologies relating to certain environmental indicators may be limited due to:

- the absence of harmonized national or international definitions, especially on hazardous substances and waste;
- use of estimates where measurements are not possible, for example for atmospheric VOC<sup>(1)</sup> 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 VEI 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 using the obligations and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code resulting from the "Grenelle II" decree of April 24, 2012.

## Scope and consolidation

### Scope

The Group includes in its worldwide scope of consolidation the 186 plants, 21 research centers, 38 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 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 the Group's Human Resources Department via a personal data management application, PeopleSoft.

Financial data are sent directly by the Group Finance Department.

## Specifications

In view of the French law on the duty of care of parent companies and ordering companies, additional data have been attached to the presentation of environmental, social and labor-related data. Most were taken from internal data sources that already existed before this law and are published in this document. The information was also subject to an external audit (see below).

## 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.

(1) See Sustainable Development Glossary, page 262.

### 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 186 plants, 21 research centers, 38 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 information is 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 surveyed responded to this questionnaire, the published data covers 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

In view of the French law on the duty of care of parent companies and ordering companies, additional data have been attached to the presentation of environmental, social and labor-related data. Most were taken from internal data sources that already existed before this law and are published in this document. The information was also subject to an external audit (see below).

### 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	Chapters/Sections	Pages
<b>STRATEGY AND ANALYSIS</b>			
G4-1	● Statement on sustainable development and the Group's strategy by the Chief Executive Officer	4 - Interview with Jacques Aschenbroich	178
G4-2	● Key impacts, risks and opportunities	4.1 - Valeo and sustainable development: strategy, policy and organization	180
<b>ORGANIZATIONAL PROFILE</b>			
G4-3	● Name of the organization	7.1.1 - Company name and headquarters	416
G4-4	● Primary brands, products and services	1.4 - Operational organization	
G4-5	● Headquarters	7.1.1 - Company name and headquarters	416
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	432 422
G4-8	● Markets served (geographic breakdown, sectors served and types of customers and beneficiaries)	Integrated Report - Business review and results 1.4 - Operational organization	4 70
G4-9	● Scale of the organization (number of employees, locations)	Integrated Report - Business review and results 1.4 - Operational organization 4.4 - Change in headcount	4 70 219
G4-10	● Breakdown of employees by employment type, employment contract, region and gender	4.4 - Valeo and its employees	219
G4-11	● Percentage of total employees covered by collective bargaining agreements	4.4.3 - Promoting and respecting fundamental rights	234
G4-12	● Description of the organization's supply chain	4.1.4 - Valeo, a responsible partner 4.5.1 - Sustainability requirements for Valeo's suppliers	189 237

Methodology and international guidelines

GRI code	Description of the indicator	Chapters/Sections	Pages
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	48 275 411
G4-14	● Precautionary principle and actions in this area	4.2.2 – Non-financial technological risks 4.3.2 – Non-financial environmental risks 4.4.2 – Non-financial employee-related risks 4.5.2 – Non-financial social risks	196 206 221 240
G4-15	● External charters, principles and initiatives to which the Group subscribes	4 – Interview with Jacques Aschenbroich 4.4.3 – Promoting and respecting human rights	178 234
G4-16	● Membership of associations and/or advocacy organizations	4.1.4 – Valeo, a key driver of a sustainable automotive industry 4.5.3 – Public and regulatory policies	189 249
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>			
G4-17	● List of entities included in the consolidated financial statements and list of those not included in the report	4.6.1 – Sustainable development reporting methodology	250
G4-18	● Procedure for defining report content	4.1.1 – From sustainable development challenges to non-financial risks	180
G4-19	● List of material aspects	4.1.1 – Materiality matrix plotting the sustainable development challenges	180
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	192 202 219 236
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	192 202 219 236
G4-22	● Restatements of information provided in previous reports	No restatements in 2018	
G4-23	● Changes in the scope and aspect boundaries	No substantial changes were observed in 2018	
<b>STAKEHOLDER ENGAGEMENT</b>			
G4-24	● List of stakeholders	4.1.4 – A sustainable development policy based on strong relationships with stakeholders	188
G4-25	● Basis for the identification and selection of stakeholders	4.1.4 – A multi-stakeholder approach	188
G4-26	● Stakeholder engagement	4.1.4 – Types of dialog with stakeholders	188
G4-27	● Topics raised through stakeholder engagement and how the organization has responded	4.1.4 – Types of dialog with stakeholders	188
<b>REPORT PROFILE</b>			
G4-28	● Reporting period	4.6.1 – Sustainable development reporting methodology	250
G4-29	● Date of most recent previous report	3/27/2018	
G4-30	● Reporting cycle	4.6.1 – Sustainable development reporting methodology	250
G4-31	● Contact person	6.2 – Investor relations	
G4-32	● “Compliance” option chosen and GRI G4 index	4.6.2 – Cross-reference with national and international guidelines	252
G4-33	● Independent verifier’s report	4.9 – Independent verifier’s report on the non-financial information statement presented in the management report	409
<b>GOVERNANCE AND COMMITMENTS</b>			
G4-34	● Governance structure	4.1.2 – Sustainable development – governance and structure 3 – Corporate governance	182 103
G4-35	● Process for delegating authority for economic, environmental and social topics from the Board of Directors to senior executives and other employees	1.4 – Operational organization	70

## Methodology and international guidelines

GRI code	Description of the indicator	Chapters/Sections	Pages
G4-36	● Senior executives responsible for economic, environmental and social issues, and relationship with the Board of Directors	4.1.2 – Sustainable development – governance and structure	182
G4-37	● Stakeholder consultation by the Board of Directors	7.1.10 – Shareholders’ Meetings	431
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	106
G4-39	● Independence of the Chairman of the Board of Directors	3.2.1 – Composition of the Board of Directors	106
G4-40	● Nomination and selection processes for the Board of Directors and its specialized committees, and the experience and expertise of its members	3.2.1 – Composition of the Board of Directors 3.2.2 – Preparation and organization of the Board of Directors’ work	106 132
G4-41	● Process established by the Board of Directors to avoid and manage conflicts of interest; disclosure of conflicts of interest to stakeholders	3.2.3 – Declarations concerning the Group’s corporate officers	144
G4-42	● Role of the Board of Directors and senior management in the development, approval and review of the tasks, values or mission statements, strategies, organizational policies and objectives relating to economic, environmental and social impacts	-	-
G4-43	● 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	182
G4-44	● 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	182
G4-45	● Role of the Board of Directors in the identification and management of economic, environmental and social impacts, risks and opportunities	3.2.2 – Preparation and organization of the Board of Directors’ work	132
G4-46	● Role of the Board of Directors in reviewing the effectiveness of the organization’s risk management processes for economic, environmental and social topics	3.2.2 – Preparation and organization of the Board of Directors’ work	132
G4-47	● Frequency of reviews of economic, environmental and social impacts, risks and opportunities by the Board of Directors	4.1.2 – A committee of the Board of Directors in charge of corporate social responsibility	182
G4-48	● Committee or highest-level position that formally reviews and approves the sustainable development report	5.6.5 – The Sustainable Development Report is an integral part of the Management Report, reviewed and approved by the Board of Directors	398
G4-49	● Process for communicating critical concerns to the Board of Directors	7.1.10 – Shareholders’ Meetings	431
G4-50	○ Nature and total number of critical concerns communicated to the Board of Directors and the mechanism used to address and resolve them	-	-
G4-51	● Compensation policy of the members of the Board of Directors and senior executives; relationship between compensation and performance (including labor-related and environmental performance)	3.3 – Compensation of corporate officers, Board members and other Group executive managers	152
G4-52	● 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	152 132
G4-53	● Method used to seek and take into account the views of stakeholders on compensation	7.1.10 – Shareholders’ Meetings	431
G4-54	○ Ratio of the annual total compensation of the highest-paid individual in the organization to the median total annual compensation	-	-
G4-55	○ Ratio of the percentage increase of the annual total compensation of the highest-paid individual in the organization to the median percentage increase in annual total compensation	-	-

GRI code	Description of the indicator	Chapters/Sections	Pages
<b>INNOVATION</b>			
G4-DMA	● Management approach	Integrated Report	10
G4-EN7	● Reduction in energy requirements of products and services	Integrated Report – Strategy	16
G4-DMA	● Management approach	4.2.2 – Risk of non-compliance with environmental product regulations	196
G4-EN2	● Percentage of materials used that are recycled input materials (packaging only)	4.2.2 – Risk of non-compliance with environmental product regulations	196
G4-EN27	● Extent of mitigation of environmental impacts of products and services	4.2.2 – Consumption of raw materials 4.2.2 – Consumption of chemicals 4.2.2 – Use of recycled input materials	200 200 200
G4-EN28	● Percentage of products sold and their packaging materials that are reclaimed by category	4.3.3 – Packaging	218
G4-DMA	● Management approach	4.2.1 – A partnership approach to Research and Development	193
G4-EC8	● Significant indirect economic impacts, including extent of impacts	4.2.1 – Valeo, an actor in the governance of institutional collaborative organizations 4.2.1 – Multifaceted academic partnerships	194 195
<b>ENVIRONMENTAL ECO-EFFICIENCY</b>			
G4-DMA	● Management approach	4.3.3 – Reducing energy consumption and greenhouse gas emissions	213
G4-EN3	● Direct energy consumption by primary energy source	4.3.3 – Reducing energy consumption and greenhouse gas emissions	213
G4-EN4	● Indirect energy consumption by primary energy source	4.3.3 – Energy consumption	213
G4-EN5	● Energy intensity	4.3.3 – Energy intensity (in MWh/€m)	213
G4-EN6	● Reduction of energy consumption	4.3.3 – Reduction of energy intensity	213
G4-EN15	● Direct greenhouse gas emissions (scope 1)	4.3.3 – Scope 1 greenhouse gas emissions	214
G4-EN16	● Energy-related indirect greenhouse gas emissions (scope 2)	4.3.3 – Scope 2 greenhouse gas emissions	214
G4-EN17	● Other indirect greenhouse gas emissions (scope 3)	4.3.3 – Scope 3 greenhouse gas emissions	215
G4-EN18	● Greenhouse gas emissions intensity	4.3.3 – Greenhouse gas emissions per million euros of sales	214-215
G4-EN19	● Reduction of greenhouse gas emissions	4.3.3 – Reducing energy consumption and greenhouse gas emissions	214
G4-DMA	● Management approach	4.3.2 – Risk associated with accidental pollution of water and/or soil 4.3.3 – Discharges and waste	206 209
G4-EN20	● Emissions of ozone-depleting substances (ODS)	4.3.2 – CFC and HCFC emissions	206
G4-EN21	● Emissions of nitrogen oxides (NOx) and sulfur oxides (SOx) and other significant atmospheric emissions	4.3.2 – Atmospheric VOC emissions 4.3.2 – Atmospheric NOx emissions	212 212
G4-EN22	● Total water discharge by quality and destination	4.3.3 – Total water discharge by sites	209
G4-EN23	● Total weight of waste by type and disposal method	4.3.2 – Total waste generated	206
G4-EN24	● Total number and volume of significant spills	4.3.2 – Accidental spills over the year	208
G4-EN25	● Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention	4.3.2 – Total hazardous waste generated	209
G4-DMA	● Management approach	4.3.3 – Transportation and Logistics – Approach and performance 4.3.3 – Packaging – Approach	217 217
G4-EN30	● Significant environmental impacts of transporting products and other goods and materials for the organization’s operations, and transporting members of the workforce	4.3.3 – Greenhouse gas emissions related to logistics 4.3.3 – Greenhouse gas emissions related to business travel	217 215
G4-EN1	● Consumption of raw materials (packaging only)	4.3.3 – Total consumption of packaging materials and breakdown by type of packaging	218

## Methodology and international guidelines

GRI code	Description of the indicator	Chapters/Sections	Pages
G4-DMA	● Management approach	4.3.5 – Water	209
G4-EN8	● Total water withdrawal by source	4.3.5 – Total water consumption, by use, by geographic area and by source	210
G4-EN9	● Water sources significantly affected by withdrawal of water	4.3.5 – Water restrictions	210
G4-EN10	● Percentage and total volume of water recycled and reused	4.3.5 – Water reuse	205
G4-DMA	● Management approach	4.3.3 – Biodiversity	216
G4-EN11	● Operational sites owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	4.3.3 – Sites located in or near protected areas	216
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	Not disclosed	
G4-EN13	● Habitats protected or restored	4.3.3 – Biodiversity	216
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	Not disclosed	
<b>EMPLOYEES</b>			
G4-DMA	● Management approach	4.4.2 – Workplace health and safety	221
G4-LA5	● Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on workplace health and safety programs	4.4.3 – Organization of labor relations	234
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	4.4.2 – Frequency rate of accidents with and without lost time for the Group and for France 4.4.2 – Absenteeism rate for the Group and by geographic area	222 223
G4-LA8	● Health and safety topics covered in formal agreements with trade unions	4.4.3 – Breakdown of agreements signed by category	235
G4-DMA	● Management approach	4.4.2 – Attracting talent/Developing and retaining talent	221
-	● Response rate to the Employee Feedback Survey	4.4.2 – Attracting talent/Developing and retaining talent	221
G4-LA1	● Total number and rates of new employee hires and employee turnover by age group, gender and region	4.4.2 – Attracting talent/Developing and retaining talent	221
G4-LA9	● Average hours of training per year, per employee, by gender and by employee category	4.4.2 – Attracting talent/Developing and retaining talent	221
G4-LA10	● Programs for competences management and lifelong learning that support the continued employability of employees and assist them in managing career endings	4.4.2 – Attracting talent/Developing and retaining talent	221
G4-LA11	● Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	4.4.2 – Attracting talent/Developing and retaining talent	221
G4-DMA	● Management approach	4.4.3 – Respecting and promoting diversity	231
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	4.4.3 – Percentage of women on the Board and the Operations Committee 4.4.3 – Breakdown of women by socio-professional category 4.4.3 – Proportion of employees with disabilities in the world and in France 4.4.1 – Breakdown of registered headcount by gender	231 231 232 231

GRI code	Description of the indicator	Chapters/Sections	Pages
<b>COMMITMENT TO CORPORATE CITIZENSHIP</b>			
<b>G4-DMA</b>	● Management approach	1.4 – Operational organization	70
<b>G4-PR1</b>	● Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	1.4 – Operational organization	70
<b>G4-DMA</b>	● Management approach	4.5.2 – Risk of non-compliance with sustainable development requirements by Valeo’s suppliers	242
<b>G4-EN32</b>	● Percentage of new suppliers that were screened using environmental criteria	4.5.2 – Risk of non-compliance with sustainable development requirements by Valeo’s suppliers	242
<b>G4-LA14</b>	● Percentage of new suppliers that were screened using labor practices criteria	4.5.2 – Risk of non-compliance with sustainable development requirements by Valeo’s suppliers	242
<b>G4-S09</b>	● Percentage of new suppliers that were screened using criteria for impacts on society	4.5.2 – Risk of non-compliance with sustainable development requirements by Valeo’s suppliers	242
<b>G4-HR10</b>	● Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken	4.5.2 – Risk of non-compliance with sustainable development requirements by Valeo’s suppliers	242
<b>G4-EC9</b>	● Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	4.5.1 – Sustainability requirements for Valeo’s suppliers	236
<b>G4-DMA</b>	● Management approach	4.5.2 – Corruption risk	240
<b>G4-56</b>	● Codes of conduct and ethics	4.5.2 – Corruption risk	240
<b>G4-57</b>	● Advisory mechanisms (ethical and lawful behavior)	4.5.2 – Corruption risk	240
<b>G4-58</b>	● Alert mechanisms (unethical and unlawful behavior)	4.5.2 – Corruption risk	240
<b>G4-S04</b>	● Communication and training on anti-corruption policies and procedures	4.5.2 – Corruption risk	240
<b>G4-DMA</b>	● Management approach	4.2.3 – Valeo, a participant in the remanufacturing market	201
<b>G4-DMA</b>	● Management approach	4.5.3 – Public and regulatory policies	249
<b>G4-S06</b>	● Total value of political contributions by country and recipient/beneficiary	4.5.3 – Public and regulatory policies	249
<b>G4-DMA</b>	● Management approach	4.5.3 – Voluntary commitment to local communities	245
<b>G4-S01</b>	● Percentage of operations with implemented local community engagement, impact assessments and development programs	4.5.3 – Voluntary commitment to local communities	245
<b>G4-EC6</b>	● Proportion of senior management hired from the local community at significant operation sites	4.5.3 – Voluntary commitment to local communities	245

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 Research and Development at Valeo

	Unit	2016	2017	2018
<b>KEY RESEARCH AND DEVELOPMENT INDICATORS</b>				
Gross Research and Development expenditure (as a % of original equipment sales)		11.1%	11.8%	13.0%
Net Research and Development expenditure (as a % of sales)		5.8%	6.1%	8.2% <sup>(4)</sup>
Research and Development headcount		13,700	17,900	19,800
Number of customer projects managed		2,700	2,800	3,000
Number of collaborative projects funded		>50	>50	>50
Number of patents filed		1,840	2,053	2,144
Proportion of innovative products <sup>(1)</sup> in the order intake		50%	50%	53%
<b>RESOURCE AND ECO-DESIGN INDICATORS<sup>(2)</sup></b>				
Consumption of heavy metals	t	8.3	7.7	9.8
Consumption of heavy metals/Sales	kg/€m	0.55	0.46	0.55
Consumption of chlorinated solvents	t	191.4	0	114
Consumption of chlorinated solvents/Sales	kg/€m	12.64	0	6
Consumption of CMR substances <sup>(3)</sup>	t	365.1	121.2	130
Consumption of CMR substances <sup>(3)</sup> /Sales	kg/€m	24.1	7.2	736
Consumption of recycled plastics	kt	11.9	10.9	12.3

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

(2) Sales calculated for the period from October 1, 2017 to September 30, 2018, as stated in the methodological note on pages 250 to 251.

(3) See Sustainable Development Glossary, page 262.

(4) Under IFRS 15.

#### 4.7.2 Environmental management and performance of Valeo's sites

The indicators are presented in their order of appearance in section 4.3.

	Unit	2016	2017	2018
<b>INDUSTRIAL MAPPING OF VALEO SITES<sup>(1)</sup></b>				
Total sales across all sites in reporting scope <sup>(2)</sup>	€m	15,138	16,750	17,661
Number of sites in reporting scope	-	120	132	140
<b>GENERAL POLICY ON ENVIRONMENTAL ISSUES</b>				
Number of sites able to obtain ISO 14001 and OHSAS 18001 certification <sup>(3)</sup>	-	130	128	140
ISO 14001-certified sites	%	94	95	92
OHSAS 18001-certified sites	%	91	95	91
ISO 50001-certified sites	%	12	13	17
Functional expenditure allocated to environment	€k	17,221	19,028	21,022
Cleanup costs, sites in operation	€k	560	1,086	1,717
Amount of investments for the protection of the environment (excluding cleanup costs)	€k	3,338	5,731	5,843
Number of fines and compensation awards	-	1	1	1
Amount of fines and compensation awards	€k	118	6	63
Total provisions allocated to environmental risks	€m	14	16	15
Number of environmental complaints	-	7	8	12

(1) Data may vary slightly depending on the rate of site response on specific indicators (see section 4.6 "Methodology and international guidelines", pages 250 to 251).

(2) Sales calculated for the period from October 1, 2017 to September 30, 2018, as stated in the methodological note on pages 250 to 251.

(3) See Sustainable Development Glossary, page 262.

(4) Data updated in accordance with the new energy factors received from the International Energy Agency in mid-2016.

Summary of Valeo's Research and Development and CSR performance

	Unit	2016	2017	2018
<b>ACCIDENTAL POLLUTION OF WATER AND/OR SOIL</b>				
Volume of industrial effluents treated	k cu.m	820	794	916
Heavy metal content in these effluents	kg	28	20	53
Number of significant spills	-	0	0	0
Total waste generated	kt	257.2	277.6	275.8
Of which hazardous waste	%	9	9	9
Of which non-hazardous waste	%	91	91	91
Total waste generated/Sales	t/€m	17.0	16.6	16.2
Waste recovery rate	%	89	89	91
Total waste exported	t	1,986	1,613	2,464
Ratio of total waste exported/Total waste generated	%	0.8	0.6	0.9
<b>WATER MANAGEMENT</b>				
Total water consumption	k cu.m	2,783	2,926	3,711
Total water consumption/Sales	cu.m/€m	184	175	210
Water outages and restrictions	-	6	6	1
<b>ATMOSPHERIC EMISSIONS AND DISCHARGES</b>				
Atmospheric lead emissions	kg	13	40	36
Atmospheric lead emissions/Sales	g/€m	0.86	2.38	2.04
Atmospheric TCE emissions	t	21.1	0	1.8
Atmospheric TCE emissions/Sales	kg/€m	1.4	0	0.1
Quantity of ozone-depleting substances used	kg	30,630	30,819	27,793
Emissions of ozone-depleting substances	kg CFC-11eq.	489	513	469
Atmospheric VOC emissions <sup>(2)</sup>	t	1,644	1,596	2,174
Atmospheric VOC emissions/Sales	kg/€m	109	95	123
Atmospheric NO <sub>x</sub> emissions	t	122	136	139
Atmospheric NO <sub>x</sub> emissions/Sales	kg/€m	8.1	8.1	7.85
<b>REDUCE ENERGY CONSUMPTION AND GREENHOUSE GAS EMISSIONS</b>				
Total energy consumption	GWh	2,077	2,250	2,476
Proportion of electricity	%	75.9	75.3	76.6
Proportion of natural gas	%	22.6	22.6	20.3
Proportion of fuel oil	%	1.0	1.5	1.8
Proportion of other energy sources	%	0.5	0.6	1.4
Total energy consumption/Sales	MWh/€m	137	134	140
Direct energy consumption/Sales	MWh/€m	32	32	32
Indirect energy consumption/Sales	MWh/€m	105	102	108
Energy efficiency: expected gain	MWh	76,117	53,893	27,031
Direct greenhouse gas (GHG) emissions <sup>(3)</sup>	kt CO <sub>2</sub> eq.	145.8	166.9	175.3
Indirect GHG emissions	kt CO <sub>2</sub> eq.	710.9 <sup>(4)</sup>	763.9	870.5
Other relevant indirect GHG emissions	kt CO <sub>2</sub> eq.	7,296	8,261	9,329
<b>PACKAGING</b>				
Packaging materials consumption	kt	84.7	92.5	100.6
Proportion of plastic packaging	%	8.8	9.9	12.5
Proportion of cardboard packaging	%	61.8	59.4	56
Proportion of wood packaging	%	27.7	29.1	29.6
Proportion of other types of packaging	%	1.7	1.6	1.9
Packaging materials consumption/Sales	t/€m	5.6	5.5	5.7

(1) Data may vary slightly depending on the rate of site response on specific indicators (see section 4.6 "Methodology and international guidelines", pages 250 to 251).

(2) Sales calculated for the period from October 1, 2017 to September 30, 2018, as stated in the methodological note on pages 250 to 251.

(3) See Sustainable Development Glossary, page 262.

(4) Data updated in accordance with the new energy factors received from the International Energy Agency in mid-2016.

## Summary of Valeo's Research and Development and CSR performance

### 4.7.3 Valeo and its employees

The indicators are presented in their order of appearance in section 4.4.

	2016	2017	2018
<b>CHANGE IN VALEO'S HEADCOUNT</b>			
Managers and Professionals	23,960	29,365	31,683
Technicians	12,518	17,852 <sup>(2)</sup>	17,542 <sup>(2)</sup>
Operators	46,183	52,686	53,211
<b>REGISTERED HEADCOUNT<sup>(1)</sup></b>	<b>82,661</b>	<b>99,903</b>	<b>102,436</b>
Interim staff	9,139	11,697	11,164
<b>TOTAL HEADCOUNT</b>	<b>91,800</b>	<b>111,600</b>	<b>113,600</b>
Permanent staff	67,383	80,788	84,200
Non-permanent staff	24,417	30,812	29,400
<b>BREAKDOWN OF REGISTERED HEADCOUNT BY SOCIO-PROFESSIONAL CATEGORY (%)</b>			
Managers and professionals	29.0%	29.4%	30.9%
Technicians	15.1%	17.9%	17.1%
Operators	55.9%	52.7%	51.9%
<b>BREAKDOWN OF REGISTERED HEADCOUNT BY CONTRACT TYPE (%)</b>			
Permanent contracts	73.4%	72.4%	74.1%
Fixed-term contracts	16.6%	17.1%	16.0%
Interim staff	10.0%	10.5%	9.8%
<b>BREAKDOWN OF REGISTERED HEADCOUNT BY GEOGRAPHIC AREA</b>			
Western Europe	24,198	29,549	28,600
Central and Eastern Europe	13,854	15,431	16,264
Africa	3,254	3,857	4,454
North America	13,216	14,969	16,632
South America	2,550	2,904	2,836
Asia	25,589	33,193	33,650
<b>BREAKDOWN OF REGISTERED HEADCOUNT BY GENDER (%)</b>			
Women	33.8%	32.9%	32.0%
Men	66.2%	67.1%	68.0%
<b>HEALTH AND SAFETY</b>			
Number of lost-time occupational accidents per million hours worked, Group (FR1)	2.3	2.0	2.1
Number of occupational accidents, with or without lost time, per million hours worked, Group (FR2)	11.3	10.6	12.1
Number of days lost owing to an occupational accident per thousand hours worked, Group (SR1)	0.07	0.06	0.06
Number of category 1 accidents	3	5	5
Rate of absenteeism	2.17%	2.11%	2.36%
<b>ATTRACTING TALENT</b>			
<b>BREAKDOWN OF NEW HIRES BY CONTRACT TYPE (%)</b>			
Permanent contracts	56.6%	53.9%	49.2%
Fixed-term contracts	43.3%	46.1%	50.8%
<b>BREAKDOWN OF NEW HIRES BY GEOGRAPHIC AREA<sup>(3)</sup> (as a %)</b>			
Western Europe	22.8%	22.7%	27.1%
Central and Eastern Europe	18.1%	13.7%	11.8%
Africa	4.3%	3.0%	4.5%
North America	22.9%	22.3%	27.4%
South America	2.6%	2.2%	2.0%
Asia	29.3%	36.1%	27.2%
Change in the number of LinkedIn followers	279,623	379,411	504,497

(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.

(3) Hires resulting from external growth operations are not included in this calculation.

Summary of Valeo's Research and Development and CSR performance

	2016	2017	2018
<b>DEVELOPING AND RETAINING TALENT</b>			
Percentage of employees trained	99.5%	98.1%	98.5%
Number of training hours provided	1,859,854	2,270,563	2,403,014
Average hours of training per employee	21.7	23.6	24.6
Percentage of training hours devoted to safety	17%	15%	15%
Number of hours of technical training for technicians and engineers in technical positions	226,544	269,043	380,440
Percentage of employee shareholders at Valeo	18%	40%	45%
<b>BREAKDOWN OF DEPARTURES BY CAUSE</b>			
Resignations	7,217	7,723	9,190
Expiration of fixed-term contracts	N/A	9,284	10,550
Dismissals and contract terminations	3,064	3,610	4,191
Retirement, early retirement and death	493	565	692
Layoffs	492	418	697
Turnover of Managers and Professionals	7.0%	7.3%	8.5%
<b>RESPECTING AND PROMOTING DIVERSITY</b>			
<b>PERCENTAGE OF WOMEN AMONG NEW HIRES (%)</b>			
Managers and Professionals	23.3%	23.7%	26.0%
Technicians	26.7%	26.0%	32.8%
Operators	35.0%	38.1%	36.2%
Percentage of women among new hires	31.2%	32.0%	33.0%
<b>BREAKDOWN OF WOMEN BY SOCIO-PROFESSIONAL CATEGORY (%)</b>			
Managers and Professionals	23.0%	23.1%	22.7%
Technicians	24.3%	25.2%	24.5%
Operators	40.6%	40.4%	38.5%
Number of employees with disabilities	1,443	1,759	2,376
<b>NUMBER OF SITES RUN BY LOCAL DIRECTORS (%)</b>			
Western Europe	85%	86%	77%
Central and Eastern Europe	48%	57%	76%
Africa	83%	0%	75%
North America	48%	60%	71%
South America	86%	80%	67%
Asia	72%	71%	83%
<b>BREAKDOWN OF REGISTERED HEADCOUNT BY AGE GROUP (%)</b>			
<20 years	0.8%	1.2%	1.1%
20-29 years	29.6%	31.2%	29.2%
30-39 years	34.1%	33.1%	34.0%
40-49 years	22.1%	21.3%	21.5%
50-59 years	11.6%	11.6%	12.1%
>60 years	1.6%	1.7%	2.0%
Number of interns	1,834	1,959	1,651
Number of apprentices	151	1,195	1,223
Number of VIE (Volontariat international en entreprise) applicants	151	135	108

### 4.8 Sustainable Development Glossary

<b>ADEME</b>	French Environment and Energy Management Agency ( <i>Agence de l'environnement et de la maîtrise de l'énergie</i> ): public body undertaking operations with the aim of protecting the environment and managing energy. <a href="http://www.ademe.fr">www.ademe.fr</a>
<b>CDP</b>	Carbon Disclosure Project: an independent, non-profit organization working to drive greenhouse gas emissions reductions for companies and cities by collecting environmental data and analyzing their carbon emissions policy. <a href="http://www.cdproject.net">www.cdproject.net</a>
<b>CMR</b>	Substances classified as carcinogenic, mutagenic, or reprotoxic.
<b>VOC</b>	Volatile organic compound: VOCs are composed of carbon, oxygen and hydrogen and are readily found as atmospheric gases.
<b>ELV Directive</b>	European Directive No. 2000/53 of September 18, 2000 to reduce end-of-life vehicle waste through prevention, collection, treatment and recycling measures.
<b>NFIS</b>	Introduced by Government order No. 2017-1180 of July 19, 2017 on the disclosure of non-financial information by certain large corporations and groups of corporations, the non-financial information statement (NFIS) reflects the current legal and regulatory framework for the disclosure of sustainable development information for companies in France. It supersedes the sustainable development information disclosure system previously existing in France (known as "Grenelle II" reporting in reference to Law No. 2010-788 of July 12, 2010 on the national commitment for the environment, sometimes referred to as the "Grenelle II law").
<b>AFF</b>	Automotive Future Fund ( <i>Fonds Avenir Automobile - FAA</i> ), bringing together, under the aegis of the French public investment bank BPI, the main French automotive industry players (automakers and automotive suppliers) to provide joint support for domestic suppliers experiencing financial or operational difficulties.
<b>FTSE4Good</b>	Non-financial rating agency. <a href="http://www.ftse.com/products/indices/ftse4good">http://www.ftse.com/products/indices/ftse4good</a>
<b>GHG</b>	Greenhouse gas: gases which absorb infrared rays emitted by the Earth's surface, contributing to the greenhouse effect.
<b>GRI</b>	Global Reporting Initiative: a non-profit organization that develops globally applicable guidelines on corporate sustainability policy and reporting. <a href="http://www.globalreporting.org">www.globalreporting.org</a>
<b>ISO 14001</b>	International standard on environmental management systems.
<b>ISO 50001</b>	International standard on energy management systems.
<b>MSCI</b>	Internationally recognized financial and non-financial research and rating agency specializing in environmental, social and corporate governance research and ratings. <a href="http://www.msci.com">www.msci.com</a>
<b>Natura 2000</b>	All European natural sites, whether land- or water-based, identified for the rarity or fragility of their wildlife or plant species and their habitat. <a href="http://www.developpement-durable.gouv.fr/Natura-2000,2414-.html">http://www.developpement-durable.gouv.fr/Natura-2000,2414-.html</a>
<b>Oekom-Research</b>	Non-financial rating agency. <a href="http://www.oekom-research.com">www.oekom-research.com</a>
<b>OHSAS 18001</b>	International standard on occupational health and safety management systems.
<b>Open Innovation</b>	Open Innovation is a concept that involves promoting innovation by deriving the maximum possible benefit from the ecosystem surrounding the company, primarily through collaboration between various players (governmental organizations, private companies, academic and research companies, innovative start-ups, etc.).
<b>QRQC</b>	Quick Response Quality Control: four-step problem resolution method: Detection, Communication, Analysis and Verification.
<b>REACH Regulation</b>	European regulation No. 1907/2006 of December 18, 2006 (Registration, Evaluation, Authorisation and Restriction of Chemicals).
<b>RMI</b>	The Responsible Minerals Initiative, formerly the Conflict-Free Sourcing Initiative, helps companies and organizations make informed choices about responsibly sourced minerals in their supply chains. The initiative, which brings together more than 360 companies from ten different industries, has defined common principles and provides shared monitoring of high-risk suppliers.
<b>RobecoSAM</b>	RobecoSAM (Sustainable Asset Management): an asset manager specialized in sustainable investment and analyzing companies' non-financial (environmental, social, governance, etc.) performance. The quality of the analyses provided led the company to partner with Standard & Poor's to set up and manage the Dow Jones Sustainability Indices, which track the sustainability performance of 2,500 of the largest companies in the Dow Jones Global Total Stock Market Index.
<b>SAE International</b>	Society of Automotive Engineers International: a US-based association. Similarly to the VDA (see below), this organization has defined six levels of driving automation, from 0 (no automation, the driver must control everything) to 5 (full automation, no driver input required). Levels 3 and 4 correspond respectively to "conditional automation" and "high automation".
<b>Seveso</b>	The Seveso European Directive requires European Union member states to identify industrial sites which present risks of major accidents. Companies can be Seveso-classified based on the quantities and types of hazardous products on site.
<b>Sustainalytics</b>	Internationally renowned provider of ESG and corporate governance research and ratings. <a href="http://www.sustainalytics.com">www.sustainalytics.com</a>
<b>VDA</b>	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.
<b>ZNIEFF</b>	French natural zone of interest for ecology, flora and fauna ( <i>Zone naturelle d'intérêt écologique, faunistique et floristique</i> ): an inventory program aiming at collecting exhaustive and up-to-date information on 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 the non-financial information statement presented in the management report

For the year ended December 31, 2018

*This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

To the Shareholders' Meeting,

In our quality as an independent verifier, accredited by the COFRAC under the number no. 3-1050 (scope of accreditation available on the website [www.cofrac.fr](http://www.cofrac.fr)), and as a member of the network of one of the statutory auditors of your company (hereafter "entity"), we present our report on the consolidated non-financial information statement established for the year ended on the 31 12 2018 (hereafter referred to as the "Statement"), presented in chapter 4 of the management report pursuant to the provisions of the Article L.225 102-1, R.225-105 and R.225-105-1 of the French Commercial code (*Code de commerce*).

### Responsibility of the entity

It is the responsibility of the Board of Directors to establish the Statement in compliance with the legal and regulatory provisions including a presentation of the business model, a description of the main non-financial risks, a presentation of the policies applied regarding these risks as well as the results of these policies, including key performance indicators.

The Statement has been established by applying the procedures of the entity (hereinafter referred to as the "Criteria"), the significant elements of which are presented in the Statement and available on request at the entity's headquarters.

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### Independence and quality control

Our independence is defined by regulatory requirements pursuant to the provisions of the Article L.822-11-3 of the French Commercial code (*Code de commerce*) and the Code of Ethics of our profession. 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 express a limited assurance conclusion on:

- the compliance of the Statement with the provisions of Article R.225-105 of the French Commercial Code;
- the fairness of the information provided pursuant to paragraph 3 of I and II of Article R.225 105 of the French Commercial Code, namely the results of the policies, including key performance indicators, and the actions related to the main risks, hereinafter the "Information".

Nonetheless, it is not our responsibility to express any form of conclusion on:

- compliance by the entity with other applicable legal and regulatory provisions, particularly regarding the vigilance plan and the fight against corruption and tax evasion;
- compliance of products and services with applicable regulations.

### Independent verifier's report on the non-financial information statement presented in the management report

#### Nature and scope of the work

Our work described below has been carried out in accordance with the provisions of Articles A.225 1 *et seq.* of the French Commercial Code determining the procedures in which the independent third party conducts its mission and according to professional standards as well as to the international ISAE standard 3000 - Assurance engagements other than audits or reviews of historical financial information.

The work that we conducted enables us to assess the compliance of the Statement with the regulatory provisions and the fairness of the Information:

- We took note of the activity of all the companies included in the scope of consolidation, the statement of the main social and environmental risks related to this activity, and, if applicable, its effects regarding compliance with human rights, the fight against corruption, tax evasion as well as the resulting policies and their results;
- We assessed the suitability of the Criteria in terms of its relevance, comprehensiveness, reliability, neutrality and understandability by taking into consideration, if relevant, the best practices of the industry;
- We verified that the Statement covers each category of information provided in III of Article L.225-102-1 of the French Commercial Code regarding social and environmental matters, as well as respect of human rights and the fight against corruption and tax evasion;
- We verified that the Statement includes an explanation justifying the absence of the information required by the 2<sup>nd</sup> paragraph of III of Article L.225-102-1 of the French Commercial Code;
- We verified that the Statement presents the business model and the main risks related to the activity of all the entities included in the scope of consolidation; including if relevant and proportionate, the risks created through its business relationships, products or services, policies, actions and results, including key performance indicators;
- We verified, when relevant to the main risks or the policies presented, that the Statement presents the information provided for in Article R.225-105 II of the French Commercial Code;
- We assessed the process of selecting and validating the main risks;
- We inquired about the existence of internal control and risk management procedures put in place by the entity;
- We assessed the consistency of the results and the key performance indicators selected regarding the main risks and policies presented;
- We verified that the Statement covers the consolidated scope, i.e. all the companies included in the scope of consolidation in accordance with Article L.233-16 of the French Commercial Code;
- We assessed the collection process put in place by the entity for the completeness and fairness of the Information;
- We implemented the key performance indicators and other quantitative results that we considered the most important presented in Appendix 1:
  - analytical procedures to verify the correct consolidation of the collected data as well as the consistency of their evolutions;
  - detailed tests on the basis of samples, consisting of checking the correct application of the definitions and procedures and reconciling the data with the supporting documents. This work was carried out with a selection of contributing entities listed below: VIS – Angers (France), VIS – Martos (Spain), VIS – Queretaro (Mexico), PTS – San Luis Potosi (Mexico), CDA – Chonburi (Thailand), THS – Rayong (Thailand), PTS – Étapes-sur-Mer (France), CDA – Shenzhen (China), which cover between 9% and 12% of consolidated data selected for these tests (10% of the total headcount, 12% of worked hours, 6% of training hours, 6% of voluntary departures among managers and professionals, 9% of total waste, 12% of hazardous waste);
- We consulted documentary sources and conducted interviews to corroborate the qualitative information (actions and results) that we considered the most important presented in Appendix 1;
- We assessed the overall consistency of the Statement with our knowledge of the entity.

We consider that the work we have done by exercising our professional judgment allows us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work.

#### Means and resources

Our verification work mobilized the skills of six people and took place between October 2018 and March 2019 on a total duration of intervention of about nine weeks.

We conducted about ten interviews with the persons responsible for the preparation of the Statement, including the Sustainable Development, Human Resources, Health, Safety and Environment, and Risk departments.

Independent verifier’s report on the non-financial information statement presented in the management report

**Conclusion**

Based on our work, we have not identified any significant misstatement that causes us not to believe that the non-financial information statement complies with the applicable regulatory provisions and that the information, taken together, is fairly presented, in compliance with the Criteria.

**Comments**

Without qualifying our conclusion above and in compliance with the provisions of Article A.225-3 of the French Commercial Code (*Code de Commerce*), we draw your attention to the following points:

- Following its belated validation, the list of the main non-financial risks has been modified. The conclusions presented in our report are limited to the main risks validated.

Paris-La Défense, March 22, 2019

*French original signed by*  
Independent verifier

**Ernst & Young et Associés**

Eric Mugnier

*Partner, Sustainable Development*

Jean-François Bêlorgey

*Partner*

**Appendix 1: The most important information**

**SOCIAL INFORMATION**

**Quantitative Information (including key performance indicators)**

Frequency rate of accidents with lost time  
Frequency rate of accidents with and without lost time  
Severity rate of accidents  
Number of category 1 accidents  
Headcount  
Percentage of women among new hires  
Breakdown of women by socio-professional category in percentage  
Number of employees with a disability  
Number of collective bargaining agreements  
Voluntary turnover of managers and professionals  
Breakdown of turnover by cause  
Average number of hours of training per employee  
Absenteeism rate

**Qualitative information (actions or results)**

Employment (attractiveness, retention, absenteeism)  
Health and safety (prevention actions)  
Social relations (social dialogue, collective agreements), training Equal treatment (equality between men and women, fight against discrimination, insertion of people with disabilities)

**ENVIRONMENTAL INFORMATION**

**Quantitative Information (including key performance indicators)**

Production of hazardous and non-hazardous waste in tons  
Breakdown between recovered and not recovered waste  
Number of accidental spills  
Percentage of ISO 14001-certified sites  
Category 11 CO<sub>2</sub> emissions related to the use of Valeo products (scope 3) between 1 January 2018 to 31 December 2018 in kt eq. CO<sub>2</sub>

**Qualitative information (actions or results)**

The results of the environmental policy (certifications, products)  
Pollution prevention measures (water and soil)  
Circular economy (waste management and waste treatment)  
Climate change (significant emissions sources)

**SOCIETAL INFORMATION**

**Quantitative Information (including key performance indicators)**

Share of production purchases for which the suppliers’ sustainable development practices were assessed during the year  
Percentage of identified suppliers having provided a certified report on conflict minerals  
Share of employees who acknowledged receipt of the Code of Ethics  
Share of the target population which completed the online training program on anti-corruption  
Share of new comers who completed the online training “Anti-Bribery Induction Program”

**Qualitative information (actions or results)**

Subcontracting and suppliers (environmental and social issues)  
Actions in favor of human rights, in particular, respect for fundamental ILO Conventions

