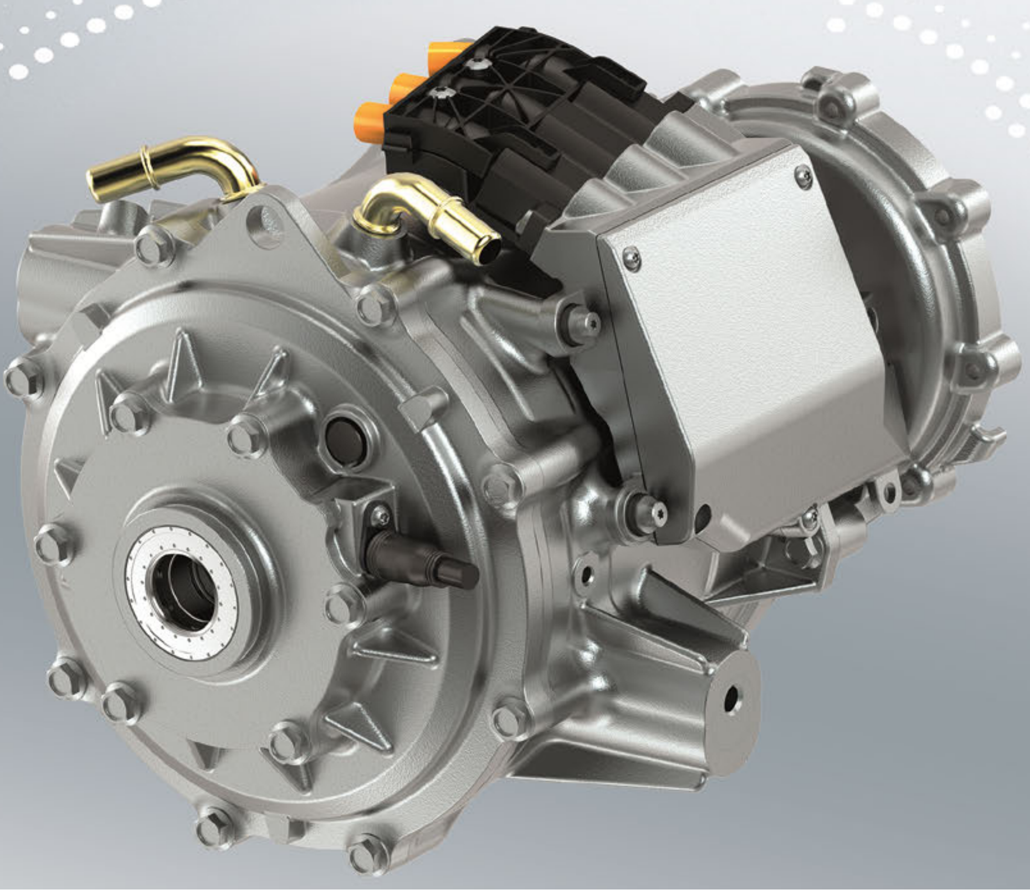

2017 REGISTRATION DOCUMENT

INTEGRATED REPORT
ANNUAL FINANCIAL REPORT
CORPORATE GOVERNANCE
AND SUSTAINABLE
DEVELOPMENT REPORT

Permanent magnet synchronous motor (85 kW)
Valeo Siemens eAutomotive technology

SMART TECHNOLOGY FOR SMARTER CARS

Valeo

CONTENTS

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

2017 REGISTRATION DOCUMENT

INTEGRATED REPORT

ANNUAL FINANCIAL REPORT

THE CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT REPORT

AUTORITÉ DES MARCHÉS FINANCIERS AMF

The French version of this Registration Document was filed with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2018, pursuant to Article 212-13 of the AMF's General Regulations. It may only be used in connection with a corporate finance transaction when accompanied by a prospectus approved by the AMF. The English language version of this report is a free translation of the original, which was prepared in French. In all matters of interpretation, views or opinions expressed in the original language version of the document in French take precedence over the translation.

In accordance with Article 28 of European Regulation No. 809/2004 dated April 29, 2004, the reader is invited to refer to previous Registration Documents containing the following specific information:

1. The management report, consolidated financial statements, parent company financial statements, Statutory Auditors' reports on the consolidated financial statements and parent company financial statements for the year ended December 31, 2016, and the Statutory Auditors' special report on related-party agreements in respect of 2016 included in the Registration Document filed with the AMF on March 24, 2017, under number D.17-0226.
2. The management report, consolidated financial statements, parent company financial statements, Statutory Auditors' reports on the consolidated financial statements and parent company financial statements for the year ended December 31, 2015, and the Statutory Auditors' special report on related-party agreements in respect of 2015 included in the Registration Document filed with the AMF on March 25, 2015, under number D.16-0211.

111,600
EMPLOYEES

33
COUNTRIES

15
DISTRIBUTION PLATFORMS

20
RESEARCH CENTERS

35
DEVELOPMENT CENTERS

184
PLANTS

STRATEGIC OPERATIONS IN 2017

- Takeover of **Ichikoh**, Japan's leading automotive lighting company
- Acquisition of **FTE automotive**, a leading producer of hydraulic actuators for automatic transmissions
- Creation of **Valeo-Kapec**, a global leader in torque converters for automatic transmissions

2017 KEY FIGURES

€1.9bn
Gross R&D expenditure

€27.6bn
Order intake for the Valeo Group, with innovative products accounting for **50%** of the total

€6.1bn
Order intake for **Valeo Siemens eAutomotive**, a leading supplier of hybrid and electric vehicle components

€18.6bn
Sales

CONTENTS

Valeo Integrated Report

“VALEO’S EXCELLENT POSITIONING ON THE [...] MARKETS OF HYBRID AND ELECTRIC VEHICLES, AND AUTONOMOUS VEHICLES”

JACQUES ASCHENBROICH

— TECHNOLOGICAL **INNOVATION**, GROWTH AND FINANCIAL PERFORMANCE

2017, A SOLID YEAR IN A COMPLEX ECONOMIC ENVIRONMENT

Valeo's very strong results in 2017 once again demonstrate the relevance of our growth model, and I would like to thank the Valeo teams for their commitment and professionalism.

Our results were achieved amid a more complex economic environment, shaped in particular by the rise in the value of the euro and in raw material prices in 2017. Against this background, our sales rose 12%, and our original equipment sales climbed 7% on a like-for-like basis[(1)] outpacing global automotive production by 5 percentage points. This growth was accompanied by a 15% increase in our gross margin, an 11% rise in our operating margin[(2)], and an 8% improvement in net income excluding non-recurring items[(3)].

Valeo's structure also evolved significantly in 2017. At the start of the year we were pleased to welcome Ichikoh's teams to the Group. In light of our 2017 results, which were better than expected, the entity's integration can be considered a success. In addition, FTE automotive was acquired and Valeo-Kapec was created at the end of the year.

2017 was also marked by our very high order intake. The Group is continuing to invest in the major automotive industry trends – powertrain electrification and the autonomous vehicle. Order intake[(4)] hit another record at 27.6 billion euros, up 17% on 2016, with innovative products[(5)] accounting for 50% of the total. On top of this order intake, the Valeo Siemens eAutomotive joint venture specializing in high-voltage electric powertrain technologies recorded 6.1 billion euros in order intake in 2017 and a cumulative 10 billion euros at end-February 2018, evenly distributed between Europe and China. These commercial successes once again reflect Valeo's excellent positioning on the fast-growing markets of hybrid and electric vehicles, and autonomous vehicles and justify our sustained investment in R&D and production capacity.

Based on these excellent results, at the next Shareholders' Meeting, shareholders will be asked to vote on the payment of a dividend of 1.25 euros per share, corresponding to a payout ratio of 34%, up a slight 2 percentage points.

STRONG GROWTH OUTLOOK IN THE AREAS OF HYBRID AND ELECTRIC VEHICLES, AND AUTONOMOUS VEHICLES

In 2018, we are expecting another year of strong sales growth, of around 8%[(6)]. Like-for-like[(1)] original equipment sales are expected to grow by around 5% in 2018 and accelerate in the second half ahead of expected double-digit growth in 2019.

In 2018, this growth should enable us to achieve an operating margin[(7)] in line with 2017, despite the recent rise in raw material prices and in the euro.

In addition, the Valeo Siemens eAutomotive joint venture, which is currently bearing the costs required to push ahead with development projects resulting from its extremely high order intake and set up its organization to accommodate its very fast-paced expansion, will temporarily have a slightly negative impact on Valeo's results[(8)].

By 2022, the commercial successes recorded by Valeo Siemens eAutomotive in high-voltage hybrid and electric vehicles should enable it to generate sales of over 2 billion euros and achieve a similar margin[(9)] to that of Valeo.

Valeo is at the center of the three technological revolutions – electrification, the autonomous vehicle and digital mobility. Thanks to its excellent positioning in each of these revolutions, Valeo has become a growth stock. Our strategy will continue to focus on growth and profitability, as well as strengthening our commitment to sustainable development.

March 29, 2018

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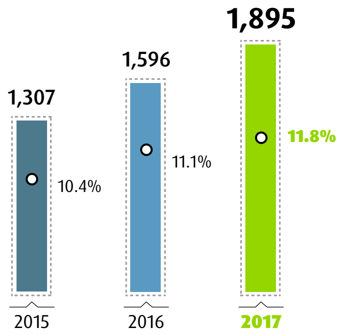
(1) See Financial Glossary, page 36.
(2) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 36.
(3) Net attributable income (see Financial Glossary, page 36), excluding a 117 million euro non-recurring expense relating to the decline in value of deferred tax assets, proportional to the decrease in the US corporate income tax rate.
(4) See Financial Glossary, page 36, excluding Valeo Siemens eAutomotive.
(5) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.
(6) Assuming that global automotive production increases by 1.5% and raw material prices and exchange rates remain in line with current levels.
(7) Operating margin (as a % of sales) excluding share in net earnings of equity-accounted companies.
(8) Accordingly, the "Share in net earnings of equity-accounted companies" caption will have an impact of around -0.2 points on Valeo's statement of income in 2018.
(9) EBITDA margin (as a % of sales), see Financial Glossary, page 36.

Business review and results

GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

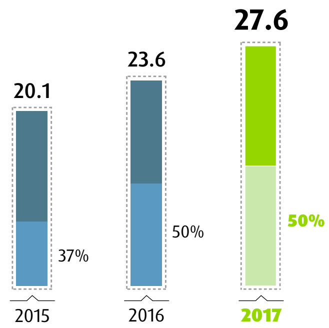
In millions of euros and as a % of original equipment sales



In 2017, net Research and Development expenditure totaled 1,130 million euros, or 6.1% of total sales.

ORDER INTAKE[1]

In billions of euros and innovative products and systems as a % thereof[2]

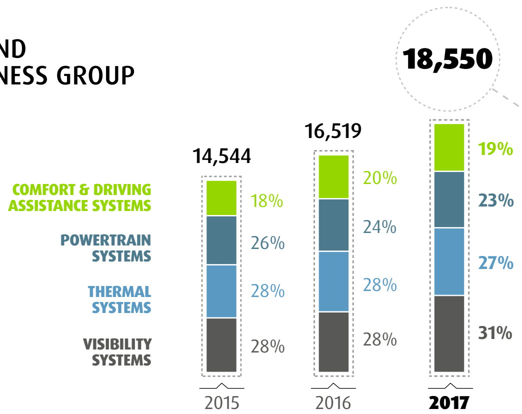


The Valeo Siemens eAutomotive joint venture also had cumulative order intake of 10 billion euros at end-February 2018, of which 6.1 billion euros was recorded in 2017.

SALES

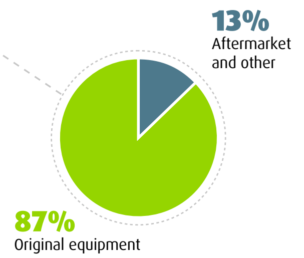
TOTAL SALES AND SALES BY BUSINESS GROUP

In millions of euros and as a % of sales



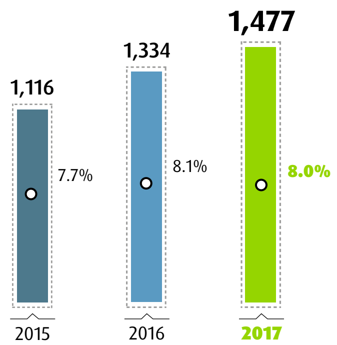
BY DISTRIBUTION NETWORK

As a % of sales



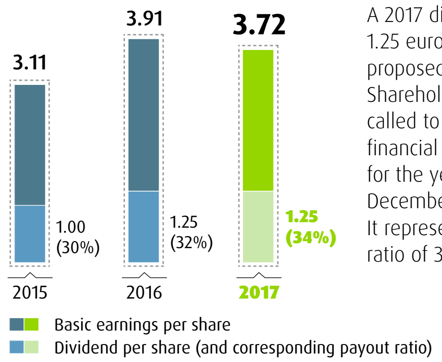
OPERATING MARGIN

Including share in net earnings of equity-accounted companies[3]
In millions of euros and as a % of sales



BASIC EARNINGS PER SHARE AND DIVIDEND PER SHARE

In euros



A 2017 dividend of 1.25 euros will be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017. It represents a payout ratio of 34%.

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(1) Valeo Group order intake (see Financial Glossary, page 36), excluding Valeo Siemens eAutomotive.
(2) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.
(3) See Financial Glossary, page 36.

Performance compared to automotive production

ORIGINAL EQUIPMENT SALES GROWTH AND BREAKDOWN BY DESTINATION REGION

Like for like (constant Group structure and exchange rates)*

WORLD

OE sales
+7%

Outperformance **5 pts**

Outperformance **8 pts**

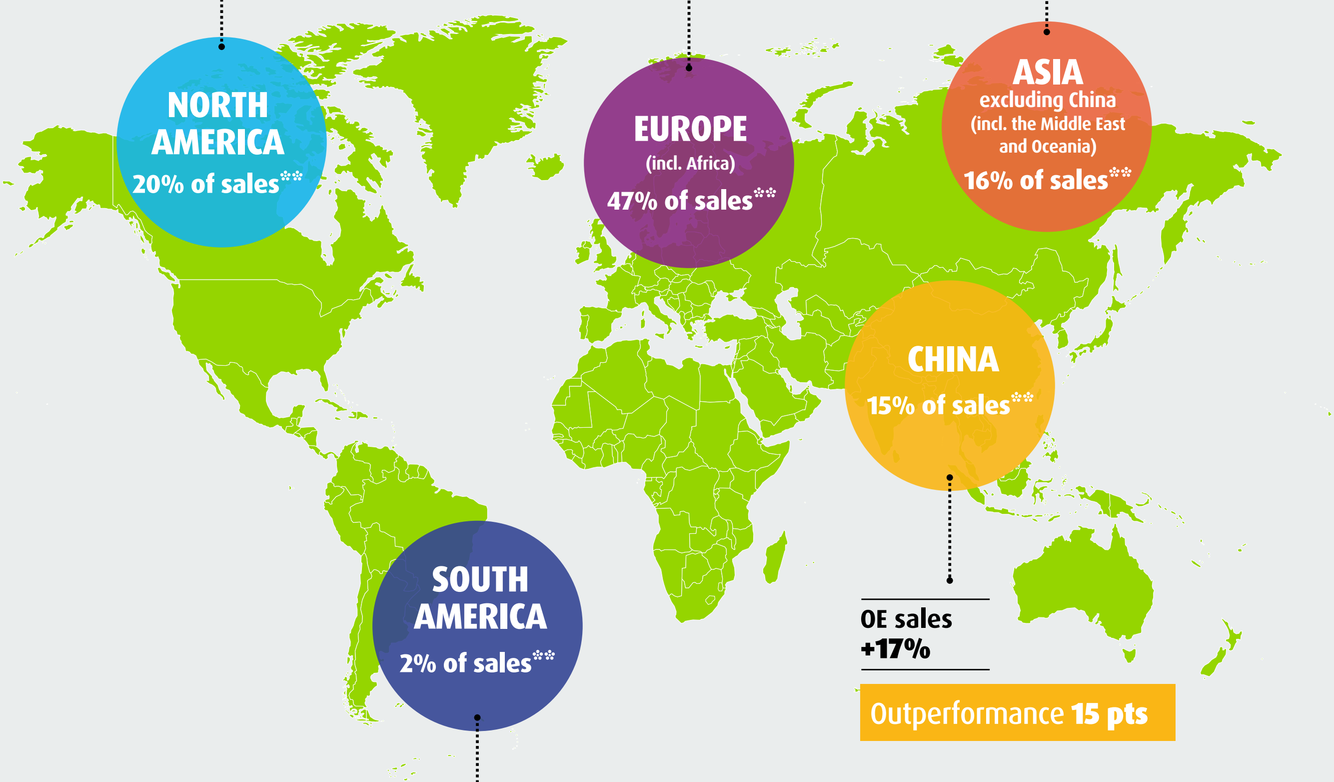
OE sales
+4%

Outperformance **3 pts**

OE sales
+6%

Outperformance **0 pts**

OE sales
+4%



OE sales
+17%

Outperformance **15 pts**

OE sales
+16%

Underperformance **6 pts**

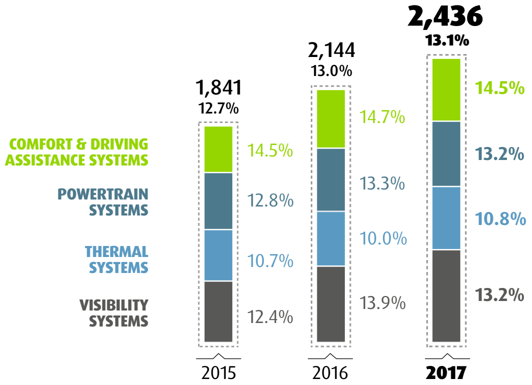
* See Financial Glossary, page 36. Changes in exchange rates and Group structure during the year are described in Chapter 5 of the 2017 Registration Document, section 5.1.1 "Sales growth", page 273.

** Original equipment sales by destination.

Cash flow and financial structure

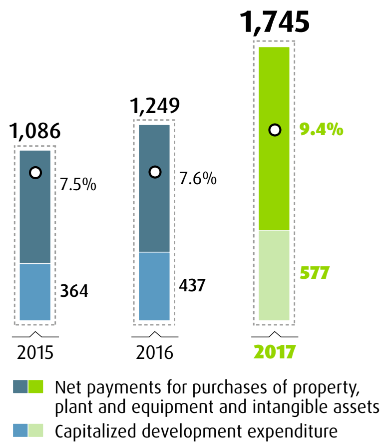
TOTAL EBITDA(1) AND EBITDA BY BUSINESS GROUP

In millions of euros and as a % of each Business Group's sales



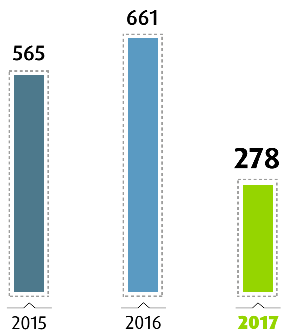
INVESTMENT FLOWS

In millions of euros and as a % of sales



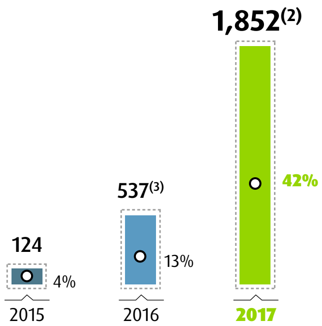
FREE CASH FLOW(1)

In millions of euros



NET DEBT

In millions of euros and as a % of consolidated stockholders' equity attributable to owners of the Company



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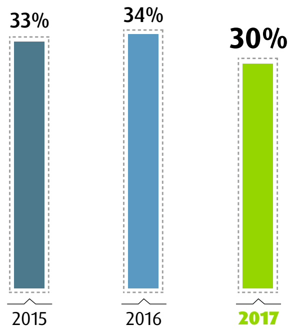
(1) See Financial Glossary, page 36.
(2) Note that, in 2017, Valeo carried out the following external growth transactions: takeover of Ichikoh, creation of Valeo-Kapec and acquisition of FTE automotive.
(3) Net debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade as well as the impacts of finalizing the allocation of goodwill to Spheros.

Other profitability indicators

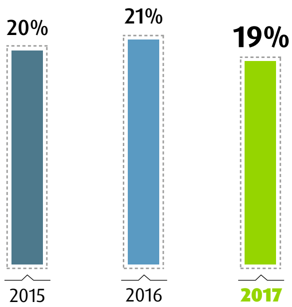
ROCE(1)

(return on capital employed)



ROA(1)

(return on assets)



Non-financial indicators(2)

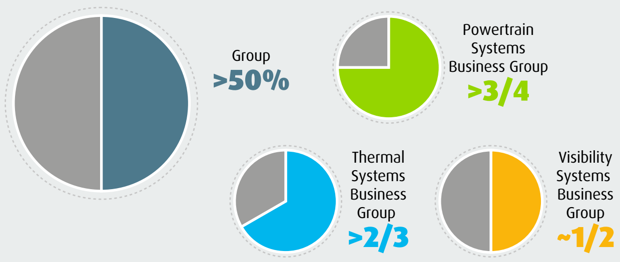
ROBECOSAM Sustainability Award Bronze Class 2018

NON-FINANCIAL PERFORMANCE
recognized by the DJSI World and Europe indices

ENVIRONMENT - INNOVATION

CONTRIBUTION TO CO_2 EMISSIONS REDUCTION

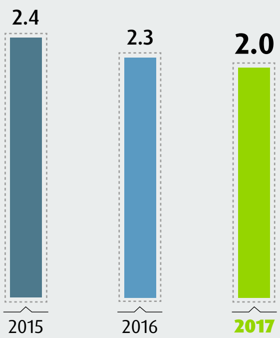
% of total 2017 original equipment sales, by Business Group, attributable to products that contribute to CO_2 emissions reduction



NB: the Comfort & Driving Assistance Systems Business Group's contribution is not material

SOCIAL - LABOR-RELATED

FREQUENCY RATE (FR1(3)) OF OCCUPATIONAL ACCIDENTS



GOVERNANCE

7
BOARD OF DIRECTORS MEETINGS HELD IN 2017

92%
OF DIRECTORS ARE INDEPENDENT(4)

93%
AVERAGE EFFECTIVE ATTENDANCE RATE

42%
OF THE BOARD OF DIRECTORS' MEMBERS ARE WOMEN(5)

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(1) See Financial Glossary, page 36.
(2) The performance chart presented in the "Sustainable growth" section of the Integrated Report, page 23, summarizes the Group's non-financial performance.
(3) Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year.
(4) In accordance with the AFEP-MEDEF Code, this figure does not include the director representing employees.
(5) In accordance with decree no. 2017-1781 of December 27, 2017 on equal access for women and men to the Boards of Directors of companies and organizations, this percentage excludes the director representing employees.

In a changing world, electrification, the autonomous vehicle and digital mobility are disrupting the automotive industry

New demographic, social, environmental and technological dynamics are drastically transforming the way we live, work, consume and travel, resulting in a new set of challenges for the automotive industry[(1)].

Increasingly stringent regulations aimed at reducing air pollution

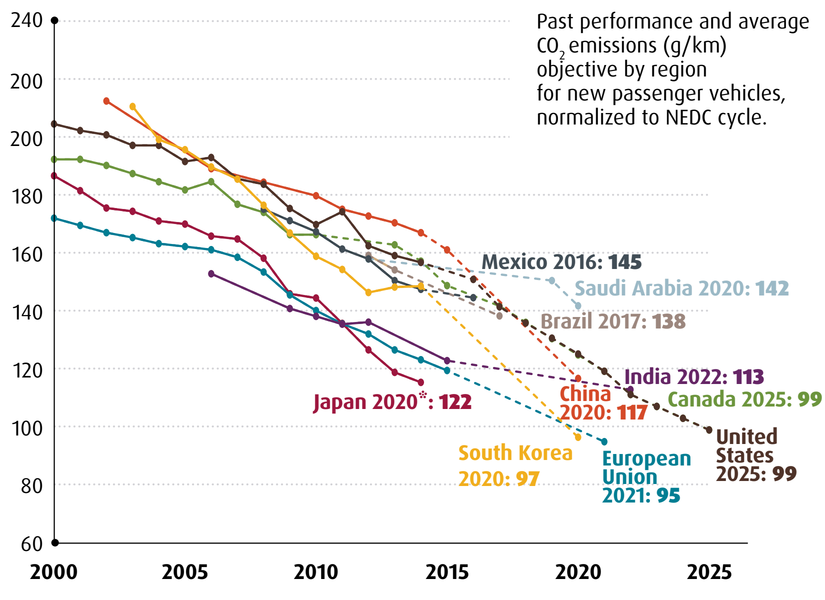
The introduction of ever more stringent national and regional automotive regulations has resulted in a need to bring greener vehicles to market.

Cities across the world are also lining up as new regulators, adapting urban infrastructure and encouraging new mobility behaviors through coercive regulations and "nudges" intended to curb noise and air (CO_2, nitrogen oxide [NOx] and fine particle emissions) pollution as well as the number of road accidents.

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

- in the European Union, many cities have introduced urban access regulations, with 561 such schemes in place to date, including 264 low emission zones[(3)]. London (United Kingdom) has implemented eight different access systems, including congestion charges and low emission zones, to encourage people to use public transportation;
- in Asia, the city of Beijing (China) has introduced an odd-even license plate policy, quotas for new car sales and total driving restrictions for highly polluting vehicles on days of heavy smog;
- in North America, several cities including Atlanta (United States) and Montreal (Canada) have created high-occupancy vehicle lanes to encourage car-pooling.

MARKET CONTEXT – REGULATORY IMPACT ANALYSIS[(2)]



* Japan reached its 2020 target in 2013.

Moving forward, some cities are planning to bring in increasingly restrictive measures. Paris (France), Madrid (Spain), Athens (Greece) and Mexico City (Mexico), for example, have committed to a full ban on diesel vehicles by 2025. Similarly, the streets of central Oslo (Norway) will be off limits for passenger vehicles as of 2019.

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(1) See Chapter 4 of the 2017 Registration Document, section 4.2.1 "From analysis of megatrends to the vehicle concept of tomorrow", pages 181 to 184.
(2) Source: International Council on Clean Transportation (ICCT) – July 2017.
(3) Source: European Commission.

As the world's population grows, the proportion of people living in urban areas should also increase [...] from 54% in 2016[1] to 66% by 2050[2].

A world of transformations

Evolving demographics characterized by a growing and aging population

By 2050, the world's population is expected to reach 9.8 billion[2].

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

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

Accelerating urbanization

As the world's population grows, the proportion of people living in urban areas should also increase – particularly in Asia and Africa – from 54% in 2016[1] to 66% by 2050[2].

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

Emergence of new middle classes

With fewer barriers to trade and economic growth, middle classes are emerging – particularly in India and China – which are set to drive growth in the global economy.

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

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

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

Technological revolution and the digital society

Technological innovation is accelerating – nowhere is this more evident than in robotics, artificial intelligence, information systems and communications.

The Internet and smartphones have become able to connect objects, and the take-up of mobility technology has increased. This is making it easier to provide near-unlimited, real-time access to information, thereby transforming the way people communicate, work and travel.

An increasing number of consumers are choosing usership and sharing as an alternative to ownership.

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

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(1) Source: World Bank.
(2) Source: United Nations.

The three technological revolutions taking place in the automotive market…

Regulatory pressure and the appeal of new technologies are promoting the development of innovations, particularly in the areas of reducing CO_2 emissions and improving road safety. The automotive industry is working to develop greener vehicles that offer greater comfort and safety for road users.

Electrification of powertrains

The decline in demand for diesel vehicles and the obligation for automakers to comply with increasingly stringent local, national and regional regulations on CO_2 emissions are leading to the development of new solutions in terms of powertrain electrification, such as:

- optimization of internal combustion engines through transmission automation, particularly using dual-clutch transmissions;
- 48 V medium-power hybrid solutions enabling powertrain electrification at a competitive cost;
- high-power (over 60 V) electrification with electric vehicles and plug-in hybrids, offering a significant reduction in CO_2 emissions and the option of traveling in zero-emissions mode, especially in urban areas.

The autonomous vehicle

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

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

To inform and reassure drivers, particularly when switching between automated and manual mode, automakers need to develop applications that make automation features easy to use.

Digital mobility

Mobility requirements are growing, especially in urban areas.

As well as using their own vehicle, consumers are increasingly turning to new mobility solutions. Car-pooling, car-sharing – alternatives to individual ownership – and ride-hailing services are seeing exponential growth. These new services are being rolled out on digital peer-to-peer platforms such as Uber and BlaBlaCar.

As was the case with the rise of mobile telephony, connectivity will lead to the emergence of new services. Such technology offers more efficient mobility, by optimizing travel time, price and accessibility, and fosters the emergence of new mobility-related services, such as smart parking, fleet management and bike-sharing.

Digital mobility requires vehicles to be increasingly connected both to other vehicles and to infrastructure.

... are accelerating in Asia, the world's largest market

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

Since 2012, more than 50%[1] of vehicles have been manufactured in Asia. With 28 million vehicles[1] produced in 2017, representing 29% of global automotive production, China is the world's biggest producer of automobiles.

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

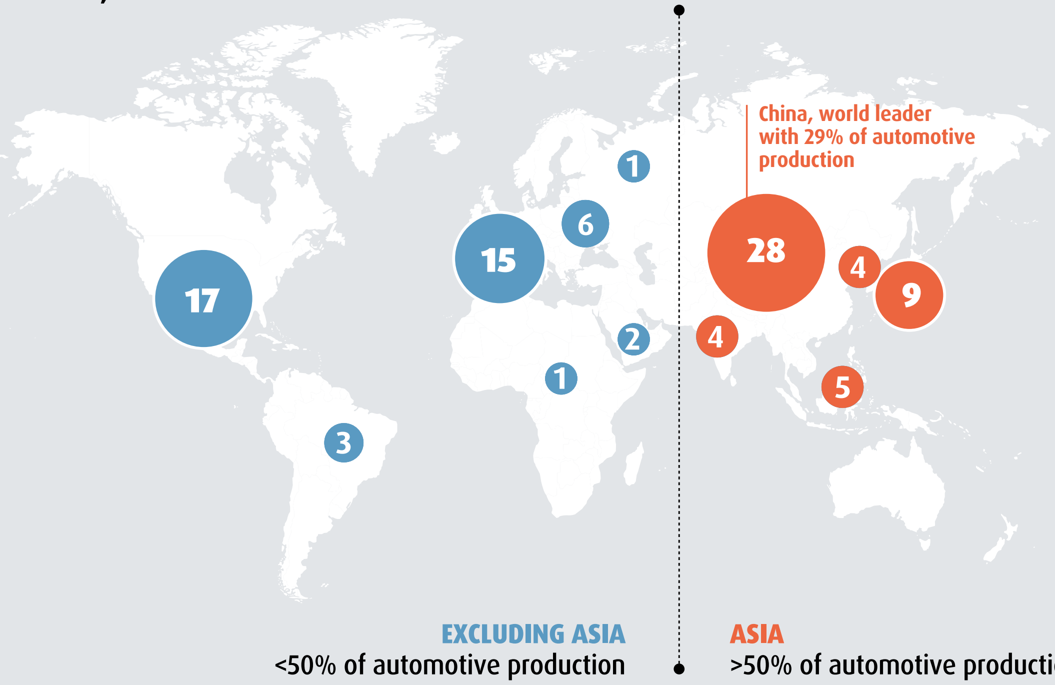
Asia at the epicenter of the three technological revolutions

China is currently the leading producer of electric vehicles worldwide. Starting in 2024, the country will apply the most stringent pollutant emissions regulations in the world, helping to accelerate the trend toward powertrain electrification.

To speed up the development of the autonomous vehicle, a number of technology partnerships and consortiums have been formed in Asia, particularly in China, Japan and South Korea.

Singapore and an increasing number of other cities in Asia have made mobility a central component of their economic development strategy, optimizing and combining public, private, shared and digital mobility solutions.

REGIONAL BREAKDOWN OF GLOBAL AUTOMOTIVE PRODUCTION IN 2017, IN MILLIONS OF VEHICLES[1]



Strengthened global platform strategy

The expansion of global automotive production platforms – where different vehicles that share parts and systems are now assembled – has put greater onus on automotive suppliers to build a worldwide R&D and industrial footprint that enables the same products to be delivered to identical standards of quality and reliability across the world.

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(1) Information relating to automotive production is based on data provided by LMC.

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

The major technological and geographic changes described previously are the cornerstones of Valeo's growth strategy, built on two drivers:

- sustained Research and Development efforts to maintain a leading position in CO_2 emissions reduction and intuitive driving; and
- strengthening its presence in high-growth potential regions, especially in Asia and emerging countries.

The three automotive revolutions, offering new growth opportunities for Valeo

The three revolutions shaping the automotive industry – powertrain electrification, the autonomous vehicle and new mobility services driven by digital technology – offer Valeo new growth opportunities by increasing technology content per vehicle.

Powertrain electrification is gathering pace in response to the need to reduce CO_2 emissions and offset the decline in diesel vehicle sales.

Valeo enjoys a longstanding presence in the electric technologies market:

- as the first supplier to offer its customers the Stop-Start system, Valeo has long specialized in the development and manufacture of low-voltage electric systems. In recent years, the Group has recorded a strong order intake for 48 V mild-hybrid systems, cementing its status as a world leader[1] in this area;
- in late 2016, Valeo also created the strategic Valeo Siemens eAutomotive joint venture with Siemens, a world leader in high-voltage (over 60 V) electric systems for plug-in hybrid and electric vehicles.

Powertrain electrification also creates new growth opportunities for Valeo:

- in the area of transmission systems, vehicle hybridization drives the need for automated transmissions;
- in terms of thermal systems, the emergence of electric and hybrid vehicles entails the introduction of battery temperature management systems to optimize the lifespan of the battery and the electric range of the vehicle;
- with regard to visibility systems, efforts to optimize energy management of vehicle features notably help increase the take-up of LED lighting.

The growing demand for vehicle automation brings with it an increase in the number of sensors and onboard software.

Valeo is positioned as the global leader[1] in driving assistance. Boasting the widest portfolio of sensors on the market, from ultrasonic sensors, radars and cameras to laser scanners, the Group develops powerful onboard software.

To cater to the highest levels of autonomy, the Group now offers a diverse range of technological solutions which, among other things, enable vehicles to park themselves and drive on the highway in automated mode.

The growing volume of information available to the driver has also spurred a need to provide more intuitive human-machine interfaces.

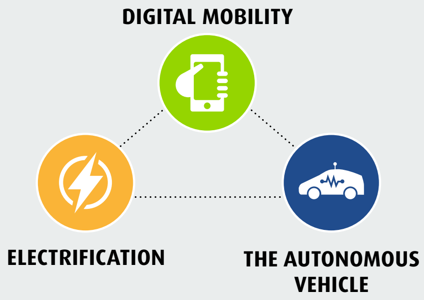
The requirements of digital mobility are leading to the creation of new services, the arrival of new customers and the need to build new technology partnerships.

Valeo has positioned itself as a recognized technology supplier for new smart mobility solutions, notably by forming partnerships with and acquiring direct stakes in key new mobility and services players, such as:

- Navya, a company specialized in the design of fully autonomous electric shuttles;
- Cisco, for the development of Cyber Valet Services, which enables vehicles to park autonomously, i.e., without a driver onboard, in connected car parks;
- CloudMade, a developer of smart and innovative big data-driven automotive solutions such as a machine learning platform which seeks to improve and personalize vehicle comfort and safety for drivers and their passengers;
- Kuantic, which designs innovative integration solutions aimed at the onboard telematics market for fleet managers;
- Capgemini, Valeo's partner in marketing Mov'inBlue™, an unrivaled smart mobility solution for corporate vehicle fleets and car rental companies that allows users to exchange virtual keys via their smartphones.

The three revolutions currently shaping the automotive industry are therefore growth drivers for Valeo, which will support the future development of each Business Group and respond to the market's paradigm shift towards electric, autonomous, shared vehicles.

VALEO AT THE CENTER OF THE AUTOMOTIVE INDUSTRY'S THREE REVOLUTIONS



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

Innovation, Valeo's DNA

As a trusted technology partner for automakers, Valeo develops innovative solutions to meet new challenges in the automotive industry.

An efficient, tailor-made technological development process

To meet the requirements of its various customers and maintain its technological leadership, Valeo constantly develops and adapts its range of products and systems in line with market demand and specific consumer expectations in the different regions of the world. The Group regularly analyzes its innovations portfolio as well as changing medium- and long-term market needs:

- Valeo's approach to innovation starts with an analysis of social megatrends and the long-term expectations of vehicle users, particularly through in-depth surveys of consumer groups carried out by the Product Marketing teams and regular dialog with key Group customers;
- the trends identified during these various studies are used by the Product Marketing and Research and Development teams to validate the main technological development priorities. They are included in ten-year product roadmaps, which are updated twice a year.

Using this approach, the Group seeks to develop and deliver products and solutions that will make the car of tomorrow an increasingly intuitive, autonomous, connected, safe and environmentally friendly vehicle without compromising on user comfort and well-being (see Chapter 4 of the 2017 Registration Document, section 4.2.1 "Group Research and Development policy", pages 181 to 185).

A recognized innovation strategy fueling organic growth

Valeo invests nearly 12% of its original equipment sales in Research and Development. The Group has 20 research centers and 35 development centers worldwide, located close to automakers.

Valeo protects its innovations through an active patent filing policy: it filed 2,053 patents in 2017, 12% more than in 2016. It also maintains its status as the biggest patent filer in France. In addition, for the second year in a row, Valeo is the top French company in terms of patents filed with the European Patent Office, and now ranks in the top 20 patent filers across all nationalities.

An open innovation strategy[1]

In recent years, Valeo has stepped up and internationalized its efforts to implement an innovation-oriented ecosystem by forming numerous collaborations with universities, laboratories, start-ups and other major companies working in manufacturing or the new economy.

In line with this open innovation strategy, the Group launched Valeo.ai, the first global research center specializing in artificial intelligence and deep learning for automotive applications. Based in Paris, Valeo.ai aims to become a key player in the mobility industry by leveraging its close ties with a vast community of scientists and academics, particularly through strategic alliances with renowned partners such as the French National Institute of IT and Automation Research (INRA), Telecom ParisTech, Mines ParisTech and the French Alternative Energies and Atomic Energy Commission (CEA).

Similarly, Valeo is expanding its own start-up and open innovation ecosystem by investing in venture capital funds in Silicon Valley (United States), France, Germany, Israel and China and by acquiring direct stakes in innovative companies.

This open innovation strategy notably allows Valeo to shorten development cycles for its products and time-to-market for its innovations (see Chapter 4 of the 2017 Registration Document, section 4.2.4 "A partnership approach to Research and Development", pages 192 to 196).

2017 KEY FIGURES

VALEO, A TECH COMPANY

17,900
RESEARCH AND DEVELOPMENT EMPLOYEES

+31%
INCREASE IN RESEARCH AND DEVELOPMENT EMPLOYEES COMPARED TO 2016

11.8%
OF ORIGINAL EQUIPMENT SALES DEDICATED TO GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

VALEO, FRANCE'S BIGGEST PATENT FILER

2,053
PATENTS FILED

50%
INNOVATIVE PRODUCTS[2] IN THE ORDER INTAKE

2,800
DEVELOPMENT PROJECTS

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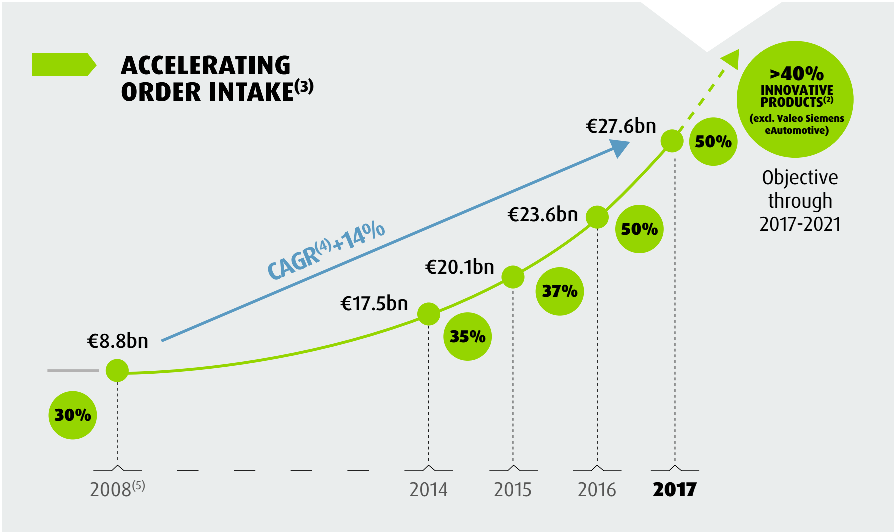
(1) See Sustainable Development Glossary in the 2017 Registration Document, page 267.
(2) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.

Accelerating order intake, driving Valeo's future organic growth

For several years, Valeo's original equipment sales growth has come from a sharp rise in its order intake(1) as a result of the success of its innovations(2).

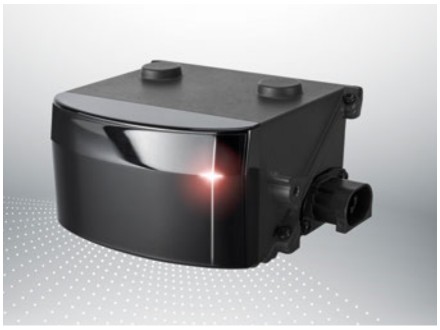
Annual order intake is a key indicator of Valeo's future original equipment sales growth, and represented 87% of consolidated sales in 2017. Based on order forecasts already received from automaker customers, the Group believes it has good visibility of its three- and five-year original equipment sales, which are already roughly 85% and 50% covered, respectively, by the order book. This is because an order goes into production on average three years after Valeo and the customer sign the contract.

Order intake is measured over the length of the vehicles' production cycle for a maximum of five years and based on the price negotiated with the customer, with a unit price at production launch and annual contractual reductions. Contracts take the form of open orders from customers, with no firm guarantee of volumes. For this reason, the order book may vary depending on Valeo's changing estimates of reasonable automotive production volumes.

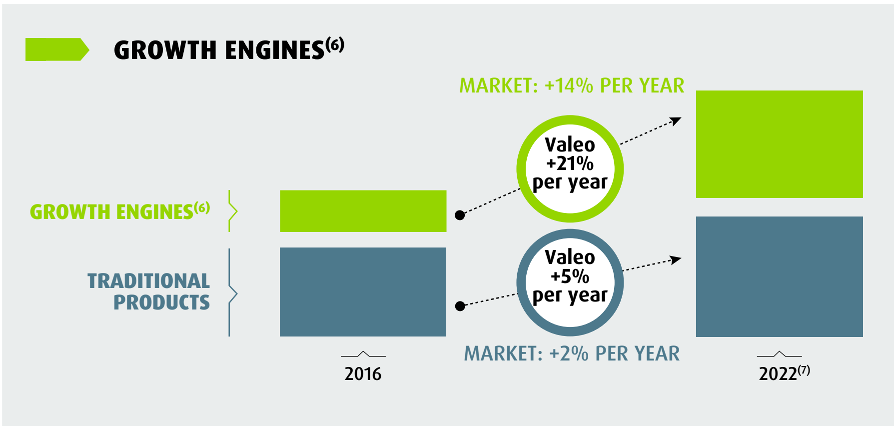


Valeo innovations are recognized and adopted by automakers. The acceleration in the order intake in the past four years, more than 40% of which was for innovations(2), confirms the Group's strong organic growth potential and its structural capacity to significantly outperform automotive production in the medium term.

Based on this trend, the increase in Valeo's sales will be above all driven by innovative products with high growth potential(6) (growth of approximately 21% per year between 2016 and 2022).



In 2017, Valeo successfully launched its Valeo SCALA™ laser scanner, the first mass-produced LiDAR (light detection and ranging) device on the market.



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(1) See Financial Glossary, page 36.
(2) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.
(3) Valeo Group order intake (see Financial Glossary, page 36), excluding Valeo Siemens eAutomotive.
(4) Average annual growth in order intake for the 2008-2017 period.
(5) The 2008 baseline corresponds to average order intake between 2005 and 2009.
(6) Growth engines are strategic products and services that are positioned on growth markets or generate a significant increase in the Group's sales.
(7) Based on Valeo estimates.

Proactive business portfolio management

Valeo has carried out several targeted strategic transactions to support its value creation model based on innovation and organic growth, thereby strengthening:

- its portfolio of innovative technologies designed to reduce CO_2 emissions and develop intuitive driving; and
- its foothold in high-growth potential markets.

Valeo carried out six strategic transactions in 2016 and 2017. The Group intends to capitalize on its highly complementary product offerings, customer base and geographic positioning to speed up time-to-market for new technological solutions and generate operational synergies, in line with the strategic plan presented in February 2017.

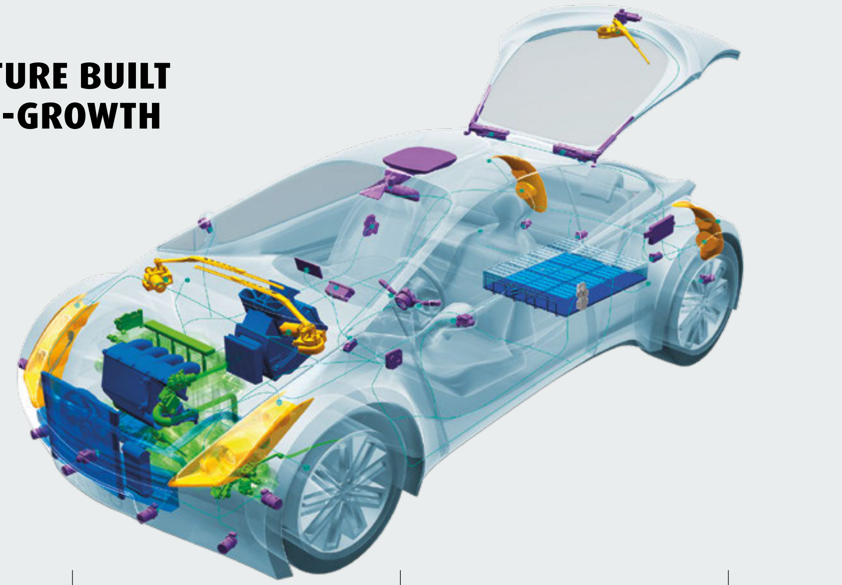
TARGETED STRATEGIC TRANSACTIONS

2016 ACQUISITION	2016 ACQUISITION	2016 CREATION OF JOINT VENTURE	2017 TAKEOVER	2017 ACQUISITION	2017 VALEO-KAPEC JOINT VENTURE
peiker	SPHEROS	Valeo Siemens eAutomotive	ICHIKOH	FTE automotive	PHC Valeo
World no. 2 in high-speed telematics and cybersecurity systems required for autonomous and connected vehicles	**World no. 1** in thermal systems for buses, a high-growth market	**World no. 1** in high-voltage electrification for plug-in hybrid and electric vehicles	Valeo becomes **world no.1** in lighting systems thanks to a stronger presence in Asia and among Asian customers	**World no. 1** in active hydraulic actuators for automatic transmissions	**World no. 1** in torque converters for automatic transmissions
COMFORT & DRIVING ASSISTANCE SYSTEMS BUSINESS GROUP	THERMAL SYSTEMS BUSINESS GROUP	POWERTRAIN SYSTEMS BUSINESS GROUP	VISIBILITY SYSTEMS BUSINESS GROUP	POWERTRAIN SYSTEMS BUSINESS GROUP	POWERTRAIN SYSTEMS BUSINESS GROUP

These external growth transactions are in line with the Group's goal of maintaining its investment grade status with rating agencies Standard & Poor's and Moody's. They are described in detail in Chapter 5 of the 2017 Registration Document, section 5.4.6, Note 2.2 "Changes in the scope of consolidation" to the 2017 consolidated financial statements, pages 298 to 305.

AN ORGANIZATIONAL STRUCTURE BUILT ON FOUR MARKET-LEADING, HIGH-GROWTH POTENTIAL BUSINESS GROUPS

Valeo is structured around four well-balanced, coherent Business Groups that offer innovative solutions to meet the major changes taking place in its markets aimed at reducing CO_2 emissions and developing intuitive driving. Valeo enjoys leading positions and growth potential in its main markets:



COMFORT & DRIVING ASSISTANCE SYSTEMS

19% of sales*

NO. 2 – COMFORT & DRIVING ASSISTANCE SYSTEMS**

NO. 1 – DRIVING ASSISTANCE SYSTEMS**

Tomorrow's cars will be automated and connected. Innovative, intuitive interfaces will be needed to support this functional enhancement. The Comfort & Driving Assistance Systems Business Group focuses on driver experience, developing solutions to make mobility safer, more intuitive and more connected.

Growth in the Business Group is driven by three simultaneous waves of innovation:

- more automated driving
- more connected driving
- more intuitive driving

(see Chapter 1 of the 2017 Registration Document, section 1.4.1 "Comfort & Driving Assistance Systems", pages 43 to 46)

POWERTRAIN SYSTEMS

23% of sales*

NO. 1 – ELECTRICAL SYSTEMS**

NO. 2 – TRANSMISSION SYSTEMS**

The Powertrain Systems Business Group develops innovative powertrain solutions to reduce CO_2 emissions and fuel consumption without compromising on driving performance or pleasure.

Growth in the Business Group is driven by three continuous waves of innovation:

- smart engines and transmissions
- electrification medium power
- electrification high power

(see Chapter 1 of the 2017 Registration Document, section 1.4.2 "Powertrain Systems", pages 47 to 50)

THERMAL SYSTEMS

27% of sales*

NO. 2 – THERMAL SYSTEMS**

NO. 1 – BUS THERMAL MANAGEMENT**

To address the new challenges facing the automotive industry, the strategic objectives of the Thermal Systems Business Group are three-fold: reduce harmful emissions from vehicles with internal combustion engines, increase driving range and battery life for hybrid and electric vehicles, and promote passenger health and well-being.

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

- internal combustion engine emissions decrease
- electric vehicle driving range and reliability
- health and well-being

(see Chapter 1 of the 2017 Registration Document, section 1.4.3 "Thermal Systems", pages 51 to 55)

VISIBILITY SYSTEMS

31% of sales*

NO. 1 – WIPER SYSTEMS**

NO. 1 – LIGHTING SYSTEMS**

The Visibility Systems Business Group designs efficient and innovative lighting and wiper systems which support the driver and passengers in all weather, day and night, and in their various onboard activities.

Growth in the Business Group is driven by three successive waves of innovation aimed at reduced CO_2 emissions and the development of intuitive driving:

- generalization of LEDs
- reinvention of wiper systems
- experience of traveling

(see Chapter 1 of the 2017 Registration Document, section 1.4.4 "Visibility Systems", pages 56 to 59)

VALEO SERVICE

Valeo Service supplies original equipment spares to automakers and replacement parts to the independent aftermarket. Valeo Service is a trusted partner that supports the development of aftermarket businesses on the vehicle maintenance, crash and repair markets for both passenger cars and trucks. (see Chapter 1 of the 2017 Registration Document, section 1.4.5 "Valeo Service", pages 60 to 61).

* As a % of total 2017 sales (the share of each Business Group's sales includes sales generated by the Valeo Service Activity).
** In global market share (based on Valeo estimates).

A stronger presence in Asia and among Asian customers

As a global partner for automaker customers and a local player in each of its markets, Valeo has made a strategic priority of expanding its market share, particularly in Asia. The Group aims to strengthen its foothold in this region, which accounted for 52% of global automotive production(1) in 2017.

Valeo's goal is to expand its market share by accompanying longstanding customers in high-growth potential regions, especially in China, while continuing to grow in mature regions such as Western Europe and North America. The Group also seeks to bolster its relations with new players such as Chinese automakers, pparticularly by opening up local plants and R&D centers.

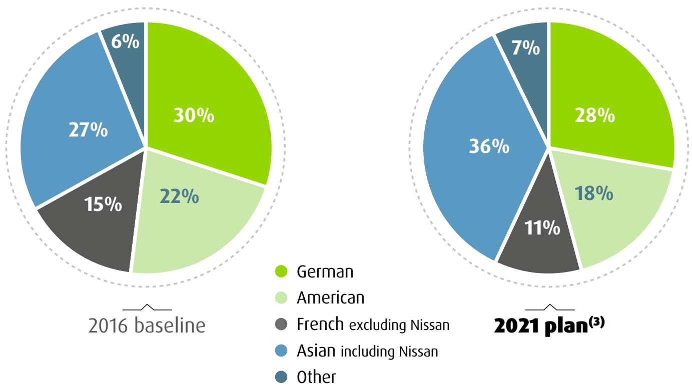
New production capacities are being built up locally to meet the surging sales growth expected in these markets. Where possible, these new production units are being set up on multi-activity sites in order to optimize profitability.

As an illustration of this strategy, China has become the Group's largest country in terms of order intake and headcount. China is already the world's biggest market, representing 29%(1) of global automotive production in 2017, and is expected to remain the fastest growing region for production until 2021. Valeo enjoys a strong foothold in China with 32 plants. It also has 7 Research and Development centers in the country, which employ some 3,000 engineers, including more than 100 technology experts. Thanks to this position, the Group has become a major local player not only for traditional international customers, but also for Chinese automakers, which accounted for 38% of the Group's order intake in the country in 2017. Another strategic market for Valeo is India, currently the world's sixth largest producer of passenger cars with the ambition of becoming the third by 2026. In this region, the Group is focusing on developing competitively priced technological solutions that foster cleaner mobility and enhanced safety.

This Asia-oriented strategy should enable the Group to increase the share of sales(2) generated in the region from 27% in 2016 to 37% in 2021. China will be the main driver behind this trend, with its contribution to total sales expected to rise by six percentage points(2) over the period to 20% in 2021.

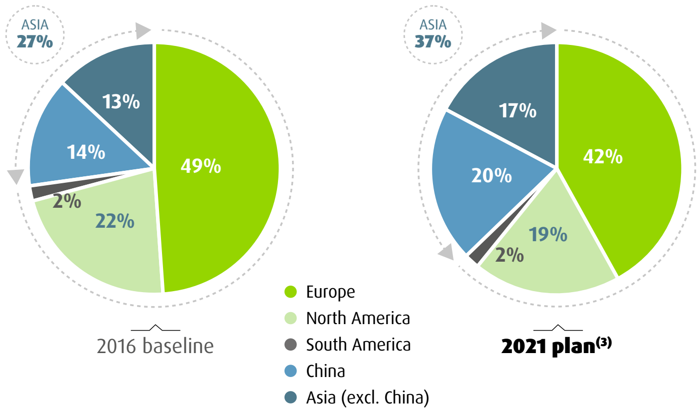
REBALANCING THE CUSTOMER PORTFOLIO...

As a % of original equipment sales



... AND GEOGRAPHIC POSITIONING

As a % of original equipment sales, by destination region



(1) Source: LMC.
(2) Original equipment sales by destination region.
(3) Based on the medium-term strategic plan presented on February 28, 2017.

A medium-term strategic plan based on innovation and organic growth

Valeo presented its 2021 financial objectives at the Investor Day in London on February 28, 2017.

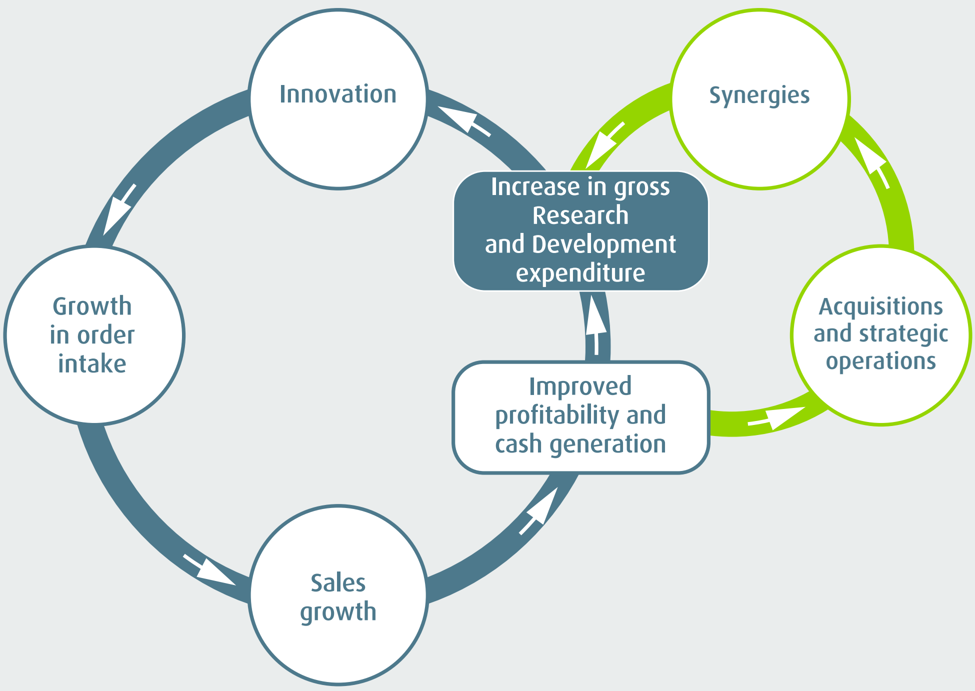
As the world leader in CO_2 emissions reduction and intuitive driving (particularly autonomous vehicles), Valeo is intent on continuing its R&D efforts in order to meet its customers' needs and leverage new growth opportunities for electrification, autonomous vehicles and new forms of mobility driven by digital technology.

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

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

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

THE VIRTUOUS CIRCLE OF VALUE CREATION



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(1) See Financial Glossary, page 36.
(2) Products and technologies in series production for less than three years.

SALES EXCEEDING
27 BILLION EUROS IN 2021

Accelerating growth[1] and boosting operational excellence

Leveraging the record level of its order intake[3] over the past few years, Valeo is aiming to outperform global automotive production by an average of 7 percentage points. Assuming that global automotive production increases by an annual average of 2.3%, sales would therefore exceed 27 billion euros in 2021, versus 16.5 billion euros in 2016.

Improving operating margin[1][2]

Valeo is aiming to leverage this sales growth to improve profitability, and has set a target for operating margin[2] (as a percentage of sales) of around 9% for 2021, versus 8.1% in 2016.

Doubling free cash flow[1][3] generation

Against a backdrop of strong sales growth and improved profitability, Valeo is aiming to double its free cash flow[3] generation to 3.7 billion euros over the 2017-2021 period, versus 2 billion euros over the 2012-2016 period.

Profitability indicators

Within the scope of its medium-term plan characterized by strong growth in production capacity, particularly in Asia, Valeo is aiming to achieve a return on capital employed (ROCE[3]) of around 30% and a return on assets (ROA[3]) of more than 20%.

MEDIUM-TERM GROWTH PLAN

	2016 (REPORTED)	2017 (REPORTED)	2021 PLAN
SALES *(in billions of euros)*	€16.5bn	€18.5bn	>€27bn
OPERATING MARGIN[2] *(as a % of sales)*	8.1%	8.0%	~9.0%[1]
FREE CASH FLOW[3] *(in billions of euros)*	€0.7bn	€0.3bn	€3.7bn[1] *between 2017 and 2021*
ROCE[3]	34%	30%	~30%
ROA[3]	21%	19%	>20%

(1) Including Ichikoh, Valeo-Kapec and FTE automotive and assuming that (i) global automotive production increases by an annual average of 2.3% between end-2016 and end-2021, and (ii) raw material prices remain at early-2017 levels.
(2) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 36.
(3) See Financial Glossary, page 36.

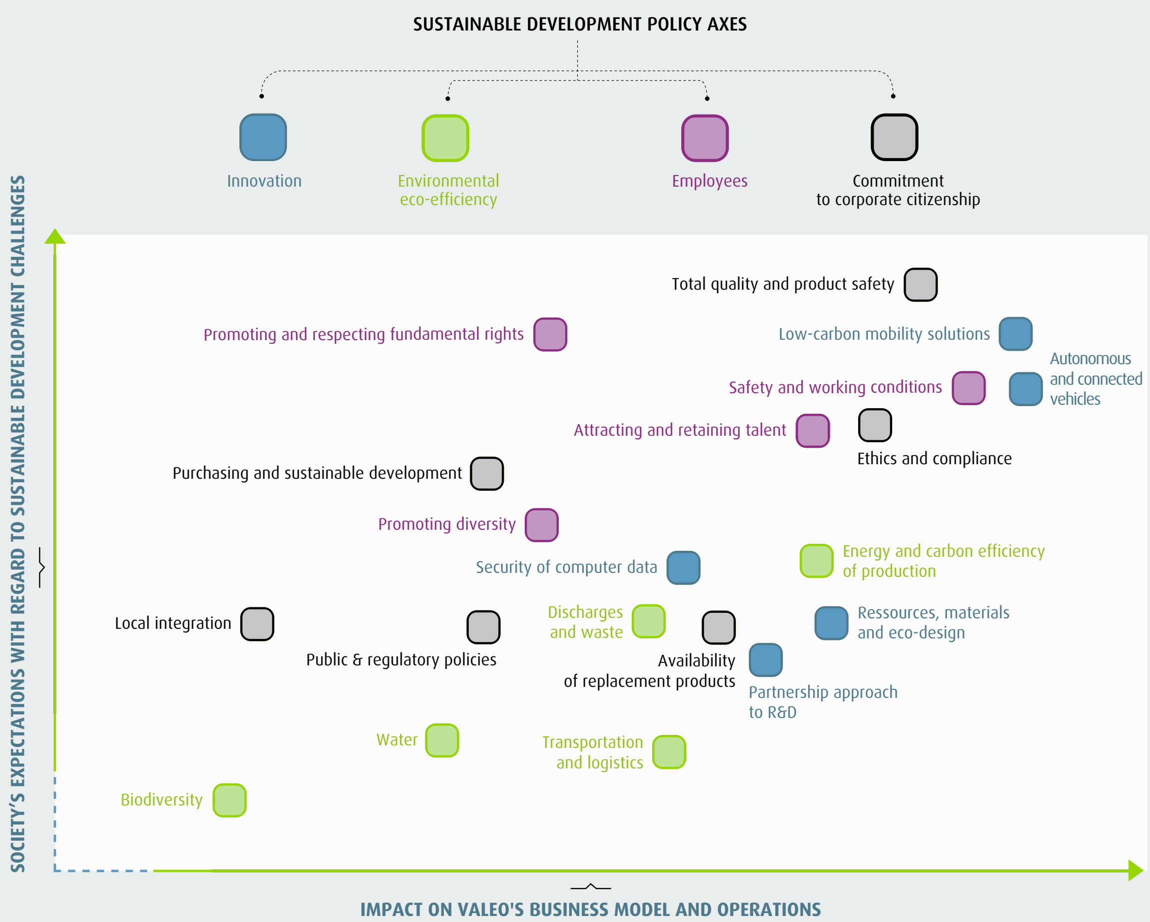
Sustainable growth

Valeo has made sustainable development an integral part of its innovation strategy and operations management, with a core focus on reducing CO_2 emissions from vehicles and promoting autonomous and connected mobility. This commitment was built together with stakeholders and is carefully tracked using performance indicators.

Identifying key sustainable development challenges through stakeholder dialog

Valeo pays special attention to understanding the expectations of employees, automaker customers, research partners, suppliers, the financial community and other stakeholders so that it can adapt and rise to the challenges of future mobility. In 2015, the key challenges identified by the Group and its stakeholders were analyzed to create a special diagram known as a materiality matrix. The aim was to identify and present the issues by relevance (or materiality) based on the Group's four sustainable development policy axes: innovation, environmental eco-efficiency, employees and commitment to corporate citizenship. Following discussions with certain relevant stakeholders, the issues in the "employees" axis were updated in 2017, resulting in the creation of a specific issue relating to promoting and respecting fundamental rights.

MATERIALITY MATRIX PLOTTING VALEO'S SUSTAINABLE DEVELOPMENT CHALLENGES



The Group closely monitors each challenge on a permanent basis using action plans and key indicators, which are set out throughout Chapter 4 "Sustainable Development" of the 2017 Registration Document, pages 167 to 270.

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. Given its host countries, Valeo has committed to quality education (SDG 4), gender equality (SDG 5), decent work and economic growth (SDG 8), industry, innovation and infrastructure (SDG 9) sustainable cities and communities (SDG 11), climate action (SDG 13) and life on land (SDG 15).
For more details on what Valeo is doing to achieve these goals, see Chapter 4 of the 2017 Registration Document, section 4.1.5 "Valeo and the United Nations Sustainable Development Goals", pages 179 to 180.

Continuously improving Valeo's sustainable development initiatives

GROUP NON-FINANCIAL PERFORMANCE CHART

AXES	CHALLENGES	KEY INDICATORS	UNIT	2015 RESULTS	2016 RESULTS	2017 RESULTS	TARGETS (2020)
INNOVATION	Low-carbon mobility solutions/ Autonomous and connected vehicles	▪ Share of innovative products in order intake[1] ▪ Share of products contributing to the reduction of CO_2 emissions (as a % of sales)	▪ % of order intake ▪ as a % of sales	37% N/A	50% 50%	50% 50%	>40% N/A
ENVIRONMENTAL ECO-EFFICIENCY	Energy and carbon efficiency of production	▪ Energy consumption (divided by sales) ▪ Direct (scope 1) and indirect (scope 2) emissions (divided by sales) ▪ ISO 50001 certification (energy management) of sites	▪ MWh/€m ▪ Mt CO_2/€m ▪ % of sites	143 56.3 8%	137 (-4%[2]) 56.6 (+0.5%[2]) 12%	134 (-6%[2]) 55.6 (-1%[2]) 13%	132 (-8%[2]) 51.8 (-8%[2]) 20%
	Discharges and waste	▪ Production of hazardous and non-hazardous waste (divided by sales)	Mt/€m	16.4	17.0 (+4%[2])	16.6 (+1%[2])	15.6 (-5%[2])
	Water	▪ Water consumption (divided by sales)	cu.m/€m	198	184 (-7%[2])	175 (-12%[2])	186 (-6%[2])
EMPLOYEES	Safety and working conditions	▪ Frequency rate of occupational accidents with lost time (FR1)	number of lost-time accidents/million hours worked	2.4	2.3	2.0	<2
	Attracting and retaining talent	▪ Voluntary turnover of managers and professionals	% of the M&P workforce	6.7%	7.0%	7.3%	≤7%
	Promoting and respecting fundamental rights	▪ Share of employees who acknowledged receipt of the Code of Ethics and who were trained on its content	% of total workforce	N/A	95.0%	95.0%[3]	100%
	Promoting diversity	▪ Share of women in new hires during the year	% of new hires during the year	32.4%	31.2%	32.0%	>33%
COMMITMENT TO CORPORATE CITIZENSHIP	Purchasing and sustainable development	▪ Share of production purchases for which the suppliers' sustainable development practices were assessed during the year	% of the amount of purchases	60%	63%	67%	80%
	Local integration	▪ Organization of initiatives and events by the Valeo sites with the elementary and secondary schools in the regions where they operate	% of sites	N/A	N/A	48%	80%

(1) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.
(2) Change compared with 2015.
(3) 100% not yet achieved, mainly due to the integration phase following recent external growth transactions.

Recognition of Valeo's commitment to sustainable development

Valeo has received recognition for its non-financial performance, rewarding its commitment to environmental, social, labor-related and governance issues and the continuous improvement of the related indicators.

Since 2016, Valeo has ranked first worldwide among automotive suppliers in the RobecoSAM survey, leading to its inclusion in the DJSI World and Europe indices.
In 2017, Valeo was also awarded the top prize covering all categories at the Grand Prix for Transparency, thereby ranking first among the 120 largest listed companies on the Paris stock market (SBF 120). In particular, this prize rewards the rigor, relevance, transparency and ease of access of financial and non-financial information presented in Valeo's 2016 Registration Document.

Valeo's value creation model

AUTOMOTIVE

- Organization of automotive production into global platforms
- Stringent regulations aimed at reducing air pollution
- A growing Asian market

RESOURCES

Human capital
111,600 employees spread across 33 countries(1)
24h of training per employee on average(2)
91% of sites have employee representative bodies(1)

Intellectual capital
17,900 Research and Development employees(1)
€1.9bn in gross Research and Development expenditure(2)

Industrial capital
184 plants(1) in 33 countries
€1.2bn in investment flows(2)(3)

Financial capital
A solid financial position recognized as investment grade by rating agencies Moody's and Standard & Poor's (net debt at **0.76**x EBITDA(1))

Social capital
1,069 suppliers representing **95%** of Valeo's direct manufacturing purchases(2)
A Code of Ethics and a Business Partner Code of Conduct(3)

Environmental capital
95% of sites certified ISO 14001(1)

OPERATIONAL EXCELLENCE

The 5 Axes, a culture of excellence and continuous improvement

Valeo

As automakers' preferred partner, Valeo must continue to offer innovative technology and ensure total customer satisfaction in terms of quality, cost and time. To this end, Valeo has developed the 5 Axes methodology, which is strictly applied by all sites.

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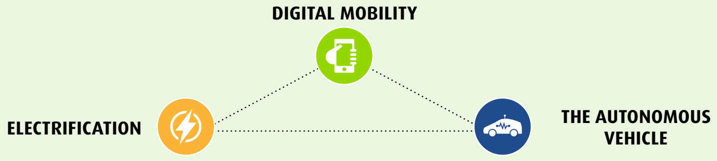
(1) At December 31, 2017.
(2) In 2017.
(3) Net payments for purchases of property, plant and equipment and intangible assets excluding capitalized development expenditure.
(4) Raising supplier awareness of compliance and ethics issues.
(5) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.

INDUSTRY TRENDS

The three technological revolutions:



A GROWTH STRATEGY BASED ON TWO DRIVERS

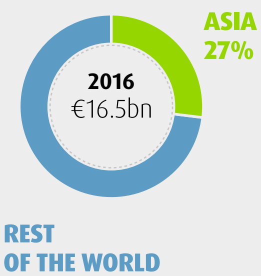
Innovation in the fields of CO_2 emissions reduction and intuitive driving

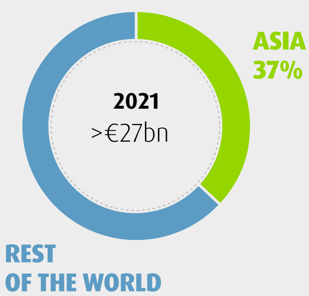
Estimated average annual sales growth by Business Group for the 2016-2021 period (including strategic transactions finalized in 2017)...

Comfort & Driving Assistance Systems **>10%**	Powertrain Systems **>14%**
Thermal Systems **>7%**	Visibility Systems **>10%**

... is driven by the increase in innovative content per vehicle.

Geographic expansion in high-growth potential regions, particularly in Asia





Medium-term plan: original equipment sales by destination region

VALUE CREATION

Human capital

6,000 additional employees per year until 2022

Valeo is recognized as a Top Employer in 24 countries[1]

Intellectual capital

50% of order intake[2] for innovative products[5]

2,053 patents filed[2]

Industrial capital

30% ROCE[1]

214% growth in order intake[6]: from €8.8bn in 2008[7] to **€27.6bn** in 2017

Customer return rate of **3 parts** per million products delivered

Financial capital

8.0% operating margin[2]

11% of EBITDA converted into free cash flow[2]

34% dividend payout ratio[8]

19% ROA[1]

Social capital

Plants' initiatives program

Inclusion in the DJSI World and Europe indices

ROBECOSAM Sustainability Award Bronze Class 2018

Environmental capital

More than 50% of Valeo's original equipment sales[2] are for products that contribute to reducing CO_2 emissions

(6) Valeo Group order intake (see Financial Glossary, page 36), excluding Valeo Siemens eAutomotive.

(7) The 2008 baseline corresponds to average order intake between 2005 and 2009.

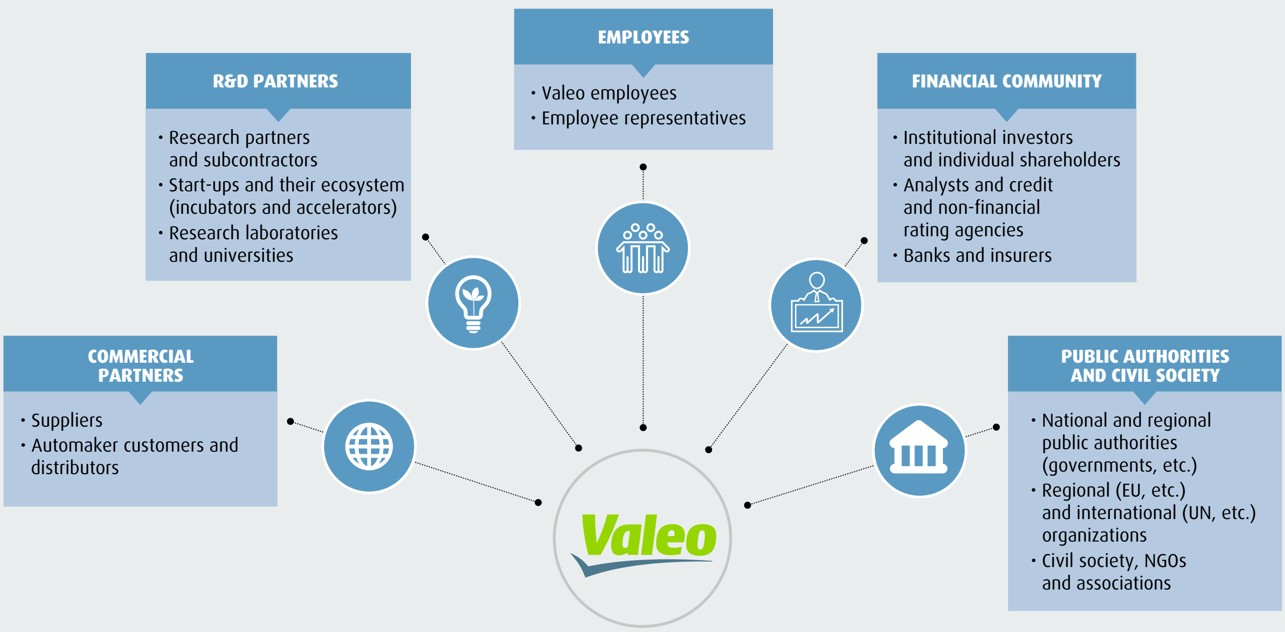
(8) At the 2018 Shareholders' Meeting, Valeo will recommend paying a dividend of 1.25 euros per share, representing a payout ratio of 34%, up by 2 percentage points.

Creating value shared with our stakeholders

Valeo has relationships with the different stakeholder groups throughout the process, from design, to production and product sales (see Chapter 4 of the 2017 Registration Document, section 4.1.5 "A sustainable development policy based on strong relationships with stakeholders", pages 178 to 180).

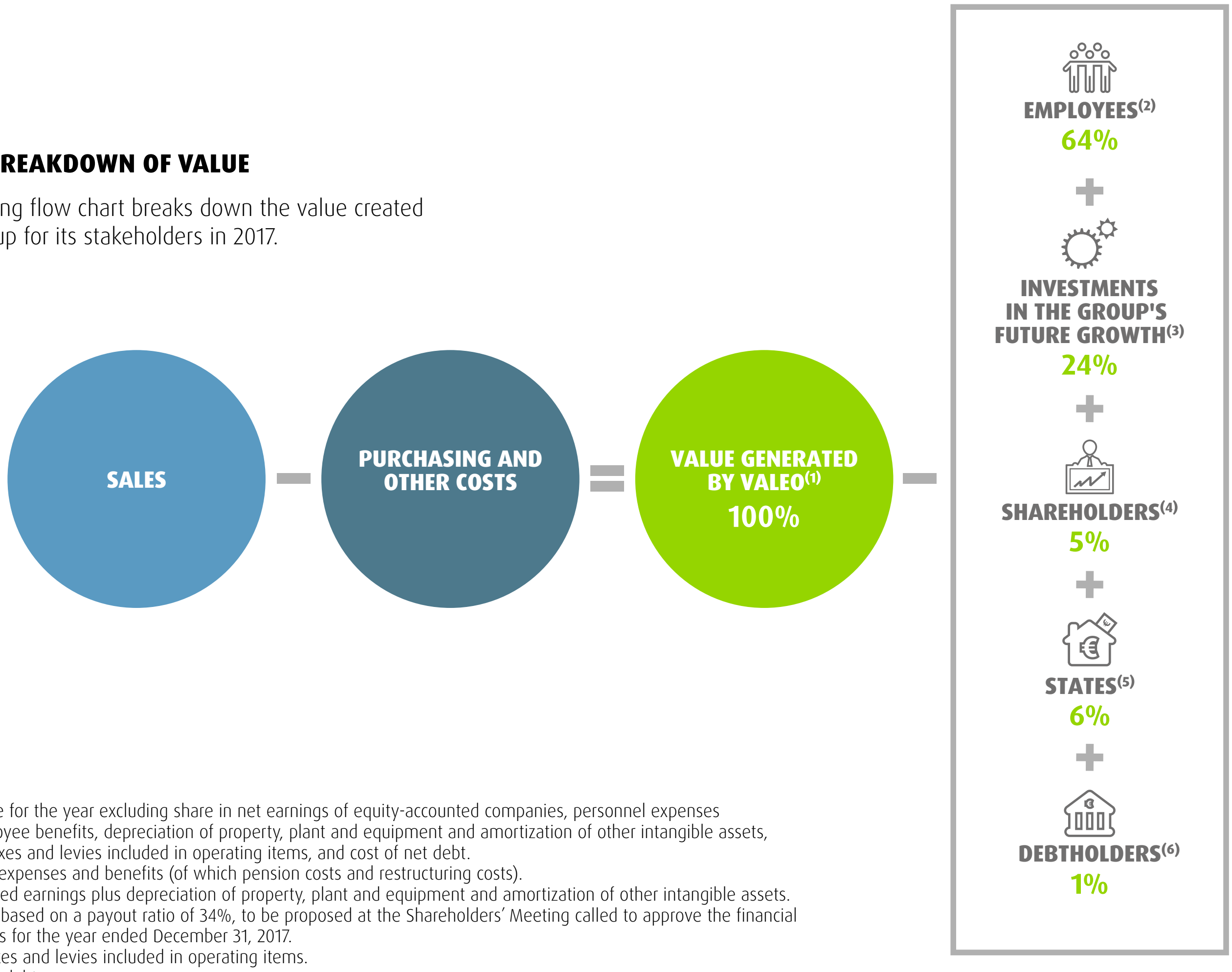
Valeo's relationships with stakeholders are based on a dual process of continuity and renewal. As an industrial and technology company, the Group has long placed relationships with employees at the core of the stakeholder consultation process. As a tier-one supplier, Valeo also enjoys a position in the value chain that helps it form special relationships with suppliers while remaining in direct contact with automakers. This longstanding automotive industry paradigm is starting to change. Valeo now liaises with members of a varied and diverse Research and Development ecosystem as well as with public authorities and civil society, which are increasingly aware of the Group's innovation potential. Lastly, the Group also nurtures close ties with the financial community due to its ownership structure.

VALEO STAKEHOLDERS



BREAKDOWN OF VALUE

The following flow chart breaks down the value created by the Group for its stakeholders in 2017.



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(1) Net income for the year excluding share in net earnings of equity-accounted companies, personnel expenses and employee benefits, depreciation of property, plant and equipment and amortization of other intangible assets, income taxes and levies included in operating items, and cost of net debt.
(2) Personnel expenses and benefits (of which pension costs and restructuring costs).
(3) 2017 retained earnings plus depreciation of property, plant and equipment and amortization of other intangible assets.
(4) Dividends, based on a payout ratio of 34%, to be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017.
(5) Income taxes and levies included in operating items.
(6) Cost of net debt.

Solid governance in support of strategy

The Group's growth model is based on a strong corporate governance structure, led by the Board of Directors, the Lead Director, the Board's committees, the Chairman and Chief Executive Officer, as well as the Operations Committee comprising the Chairman and Chief Executive Officer and the 14 Functional Directors and Operational Directors. Valeo's corporate governance structure[1] allows the Group to define and implement its strategy in line with sustainable development commitments, while adhering to the strictest principles of ethics and compliance. This structure helps the Group manage risks and identify opportunities to drive sustainable growth.

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

Operation of the Board of Directors

The principal role of the Board of Directors is to determine Valeo's business strategies and ensure that they are implemented effectively.

The Board of Directors, chaired by Jacques Aschenbroich, has set up four committees – the Audit & Risks Committee, the Compensation Committee, the Governance, Appointments & Corporate Social Responsibility Committee, and the Strategy Committee – to issue recommendations on key matters, improve its operating procedures and, ultimately, guarantee the Group's sustainable growth.

The Board of Directors' 13 members at December 31, 2017 have different backgrounds and enable the Group to benefit from their experience and skills in a variety of fields relating to economics, manufacturing and finance. Currently, 42%[2] of the Board's members are women. Seventy-seven percent of the Board's members are under 70 and, except for the Chairman and Chief Executive Officer and the director representing employees, all of them are considered independent according to the criteria set out in both the Internal Procedures and the AFEP-MEDEF Code to which Valeo refers. Georges Pauget, an independent director, is Lead Director and Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee, and a member of the Strategy Committee.

From left to right, front row: C. Maury Devine, Ulrike Steinhorst, Thierry Moulonguet, Daniel Camus, Noëlle Lenoir, Mari-Noëlle Jégo-Laveissière, Jacques Aschenbroich, Véronique Weill; second row: Pascal Colombani, Éric Chauvirey, Michel de Fabiani, Georges Pauget, Bruno Bézard.

In 2017, the Board of Directors' operation was assessed internally, between late 2017 and early 2018, by the Lead Director assisted by the Secretary of the Board of Directors. The assessment revealed that its members are unanimously satisfied with the Board of Directors' operation, and that the Board of Directors had adapted to take into account all the suggestions for improvement made during the previous assessment. The Board members emphasized the maturity, dynamism and quality of governance within the Company, and once again praised the role played by the Lead Director to ensure a sound balance among the governance bodies. The quality of discussions and genuine ability to listen within the Board of Directors ensures a continued high quality of debate.

The Board's annual strategy seminar was held in China in November 2017. As is the case each year, the seminar was considered a key moment for the Board of Directors, in view of the quality of its organization, the sites visited, the issues covered and the people in attendance.

(1) See Chapter 3 of the 2017 Registration Document, "Corporate Governance", pages 93 to 165.
(2) In accordance with decree no. 2017-1781 of December 27, 2017 on equal access for women and men to the Boards of Directors of companies and organizations, this percentage excludes the director representing employees.

COMPOSITION OF THE BOARD OF DIRECTORS AT DECEMBER 31, 2017

	Age	Gender	Nationality	Independent	Number of directorships held in listed companies other than Valeo	Audit & Risks Committee	Governance, Appointments & Corporate Social Responsibility Committee(1)	Compensation Committee(1)	Strategy Committee	Start of first term of office	End of current term of office	Number of years on the Board	Attendance(2)
Jacques Aschenbroich Chairman and Chief Executive Officer	63	M	French	No	2					2009	2019	9	100%
Bruno Bézard(3)	54	M	French	Yes	0					2017	2018	1	100%
Daniel Camus	65	M	French-Canadian	Yes	3	✓ (Chair)				2006	2018	12(4)	100%
Éric Chauvirey(5) Director representing employees	43	M	French	N/A(6)	0			✓		2017	2021	1	100%
Pascal Colombani	72	M	French	Yes	1		✓	✓	✓	2007	2019	11	100%
C. Maury Devine	66	F	American	Yes	3		✓	✓		2015	2021	3	86%
Michel de Fabiani	72	M	French	Yes	0	✓	✓	✓		2009	2019	9	100%
Mari-Noëlle Jégo-Laveissière	49	F	French	Yes	1	✓				2016	2021	2	86%
Noëlle Lenoir	69	F	French	Yes	1	✓				2010	2018	8	86%
Thierry Moulonguet	66	M	French	Yes	1	✓			✓	2011	2020	7	86%
Georges Pauget Lead Director	70	M	French	Yes	2		✓ (Chair)	✓ (Chair)	✓	2007	2020	11	100%
Ulrike Steinhorst	66	F	German	Yes	2		✓	✓	✓ (Chair)	2011	2020	7	100%
Véronique Weill	58	F	French	Yes	0				✓	2016	2021	2	86%
Number of meetings						6	6	7	4				7
Attendance rate(7)						**93%**	**93%**	**95%**	**88%**				**93%**

(1) The number of meetings and the rate of attendance of each member have been adjusted to take into account the Appointments, Compensation & Governance Committee meeting of January 26, 2017. As of this date, the committee was split into two separate committees – the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee.
(2) Rate of attendance at Board of Directors' meetings (director present).
(3) Since his cooptation on October 24, 2017 to replace Jérôme Contamine.
(4) Daniel Camus was first appointed as director on May 17, 2006 and will therefore have been in office for 12 years on May 17, 2018.
(5) Since his appointment by the Group Works Council on June 30, 2017.
(6) Director representing employees.
(7) The attendance rates mentioned in the above table also take into account the attendance of members whose terms of office expired in 2017 (Gérard Blanc, Jérôme Contamine and Sophie Dutordoir).

NATIONALITIES

: *French* – : *French-Canadian* – : *American* – : *German*

For further information on the Board's operation and composition, see Chapter 3 of the 2017 Registration Document, section 3.2 "Composition of the Board of Directors, and preparation and organization of its work", pages 94 to 141.

The Board of Directors' four committees

The Board of Directors has set up committees to enhance its operating procedures and provide assistance with preparing its decisions by issuing recommendations and opinions.

ROLES OF THE BOARD OF DIRECTORS' FOUR COMMITTEES AT DECEMBER 31, 2017

AUDIT & RISKS COMMITTEE	COMPENSATION COMMITTEE	GOVERNANCE, APPOINTMENTS & CORPORATE SOCIAL RESPONSIBILITY COMMITTEE	STRATEGY COMMITTEE
5 independent members out of 5 **6 meetings** **93% attendance rate**	**6 independent members out of 6** **7 meetings** **95% attendance rate**	**5 independent members out of 5** **6 meetings** **93% attendance rate**	**5 independent members out of 5** **4 meetings** **88% attendance rate**
▪ Review the parent company and consolidated financial statements, quarterly and half-yearly information, and half-year reports ▪ Regularly review the Group's risk map ▪ Monitor the Group's risk management and compliance mechanisms along with its internal control system to ensure their effectiveness ▪ Guarantee the independence of the Statutory Auditors ▪ Supervise the procedure for selecting or renewing statutory audit engagements ▪ Remain informed of the Group's financial position and of the main thrusts of the Group's financial strategy ▪ Review external communications prior to their publication	▪ Review and make recommendations concerning the compensation paid to executive corporate officers, including the variable portion of said compensation and any benefits in kind, performance shares and stock options from any Group companies, provisions relating to post-employment benefits, and any other benefits of any kind ▪ Make recommendations to the Board on the rules for allocating attendance fees and the individual amounts to be paid ▪ Recommend to the Board an aggregate amount of attendance fees to be proposed at the Shareholders' Meeting ▪ Give its opinion to the Board on general policy as well as stock option and free share or performance share plans set up by the Group's General Management ▪ Remain informed about the compensation policy for the main executive managers (excluding corporate officers) of the Company and of other Group companies ▪ Review any questions submitted to the committee by the Chairman about the above matters, as well as plans to issue shares exclusively for employees	▪ Analyze how the Board of Directors and its committees operate ▪ Assess and update corporate governance rules ▪ Prepare the composition of the governing bodies, by making recommendations regarding the appointment of executive corporate officers, directors and committee members ▪ Draw up a succession plan for executives in order to propose solutions in the event of an unforeseen vacancy ▪ Examine the independence of each Board member ▪ Select new Board members for appointment ▪ Review CSR and safety policy, determine CSR objectives and challenges, and ensure that previously defined objectives are met ▪ Take note of the risks related to corporate social responsibility challenges and stay informed regarding the resources available to the Group in pursuing its strategy in this area ▪ As required, issue opinions and recommendations to help the Board make informed decisions	▪ Issue opinions and recommendations on the Group's key strategies, market trend information, research developments, competition benchmarking and the resulting medium- and long-term outlook for the business ▪ Issue opinions and recommendations on the analysis of the Group's development projects, particularly external growth transactions, investments or borrowings representing more than 50 million euros per transaction
Pages 130 to 133	Pages 128 to 129	Pages 126 to 128	Pages 133 to 134

An Operations Committee to implement the Group's strategy

The Operations Committee coordinates the Group's management and operations

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

The Operations Committee (described in Chapter 3 of the 2017 Registration Document, section 3.1 "Corporate governance bodies", page 95) reflects the Group's organizational structure:

- based on the four Business Groups and Valeo Service (see Chapter 1 of the 2017 Registration Document, section 1.4 "Operational organization", pages 42 to 61);
- supported by the functional networks (see Chapter 1, section 1.6 "Functional structure", pages 63 to 70).

COMPOSITION OF THE OPERATIONS COMMITTEE AT DECEMBER 31, 2017

Name	Position	Position held since
Jacques Aschenbroich	Chairman and Chief Executive Officer	2009
Geoffrey Bouquot	Vice-President, Corporate Strategy and External Relations	2016
Fabienne de Brébisson	Vice-President, Communications	2011
Robert Charvier	Chief Financial Officer	2010
Catherine Delhaye	Chief Ethics and Compliance Officer	2012
Xavier Dupont	President, Powertrain Systems Business Group	2015
Eric Antoine Fredette	General Counsel	2015
Bruno Guillemet	Senior Vice-President, Human Resources	2015
Maurizio Martinelli	President, Visibility Systems Business Group	2014
Axel Maschka	Senior Vice-President, Sales & Business Development	2014
Francisco Moreno	President, Thermal Systems Business Group	2017
Christophe Périllat	Chief Operating Officer	2011
Eric Schuler	President, Valeo Service Activity	2016
Jean-François Tarabbia	Senior Vice-President, Research & Development and Product Marketing	2013
Marc Vrecko	President, Comfort & Driving Assistance Systems Business Group	2011

Balanced compensation to support short- and long-term value creation

The compensation policy for Valeo's executive managers is tied to the Group's performance as well as its short- and long-term value creation. The criteria used to calculate executive managers' compensation are aligned with the Group's financial objectives and take into account non-financial performance, relating in particular to certain corporate social responsibility criteria, in the case of the Chairman and Chief Executive Officer (see Chapter 3 of the 2017 Registration Document, section 3.3 "Compensation of corporate officers, Board members and other Group executive managers", pages 142 to 165).

COMPONENTS OF COMPENSATION OF EXECUTIVE MANAGERS AND CORPORATE OFFICERS

	FIXED PORTION	VARIABLE PORTION	PERFORMANCE SHARES	SUPPLEMENTARY PENSION	ATTENDANCE FEES
BENEFICIARIES	Chairman and CEO/members of the Operations Committee				Corporate officers other than the Chairman and CEO
FORM OF PAYMENT	Cash	Cash	Shares	Cash	Cash
PERFORMANCE TYPE	Short-term	Short-term	Long-term	Long-term	Short-term
PERFORMANCE PERIOD	Continuous	1 year	3 years	Continuous	Continuous
DECISION-MAKER	**Chairman and CEO:** Board of Directors on recommendation of the Compensation Committee **Members of the Operations Committee:** Chairman and CEO in liaison with the Compensation Committee and the Board of Directors	**Chairman and CEO**: Board of Directors on recommendation of the Compensation Committee **Members of the Operations Committee:** Chairman and CEO in liaison with the Compensation Committee and the Board of Directors	Board of Directors on recommendation of the Compensation Committee	Board of Directors on recommendation of the Compensation Committee, which sets the eligibility criteria	Board of Directors, based on the aggregate amount approved by the Shareholders' Meeting
PERFORMANCE METRIC	Not applicable	**Chairman and CEO(1)**: ■ 5 financial criteria (operating margin, ROCE, free cash flow, net income, order intake(2)) ■ Qualitative criteria (quality of financial communications, strategic vision, risk management) **Members of the Operations Committee:** financial and non-financial criteria	■ 3 financial criteria (ROA, operating margin, ROCE(2))	**Chairman and CEO:** additional retirement benefits allotted based on variable compensation **Members of the Operations Committee:** additional retirement benefits not subject to performance criteria	Attendance

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(1) Criteria applicable for 2017 compensation.
(2) See Financial Glossary, page 36.

COMPENSATION OF JACQUES ASCHENBROICH, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, IN 2017[1]

	Fixed portion €1,000,000	Excluding benefits in kind and supplementary pension
SHORT-TERM	**Variable portion €1,279,000** (127.9% of fixed compensation versus max. 170%)	**Quantitative criteria** (80.4% of fixed compensation versus max. 115%): • Operating margin[3] (17.9% of fixed compensation versus max. 23%) • Free cash flow[3] (16.5% of fixed compensation versus max. 23%) • Net income[3] (0% of fixed compensation versus max. 23%) • ROCE[3] (23% of fixed compensation versus max. 23%) • Consolidated order intake[3] (23% of fixed compensation versus max. 23%) **Qualitative criteria** (47.5% of fixed compensation versus max. 55%): • Financial communications (2.5% of fixed compensation versus max. 5%) • Strategic vision (25% of fixed compensation versus max. 25%) • Risk management (20% of fixed compensation versus max. 25%)
LONG-TERM	**Performance shares 51,030 shares** (€2,699,997[2] i.e., 270% of fixed compensation)	**Performance conditions over 3 years:** • ROA[3], operating margin[3] and ROCE[3]: average over 3 years (2017-2019) of the ratio between the actual return achieved and the target return set by the Board of Directors at the beginning of each reference year, which must be at least equal to the guidance for the year under review, equal to or greater than one **3-year vesting period:** • 3 criteria met: 100%, 2 criteria met: 60%, 1 criterion met: 30% and no criteria met: 0% **Mandatory 2-year holding period following the 3-year vesting period** **At the end of the holding period, at least 50% of the vested performance shares allotted must be held until the term of office expires**

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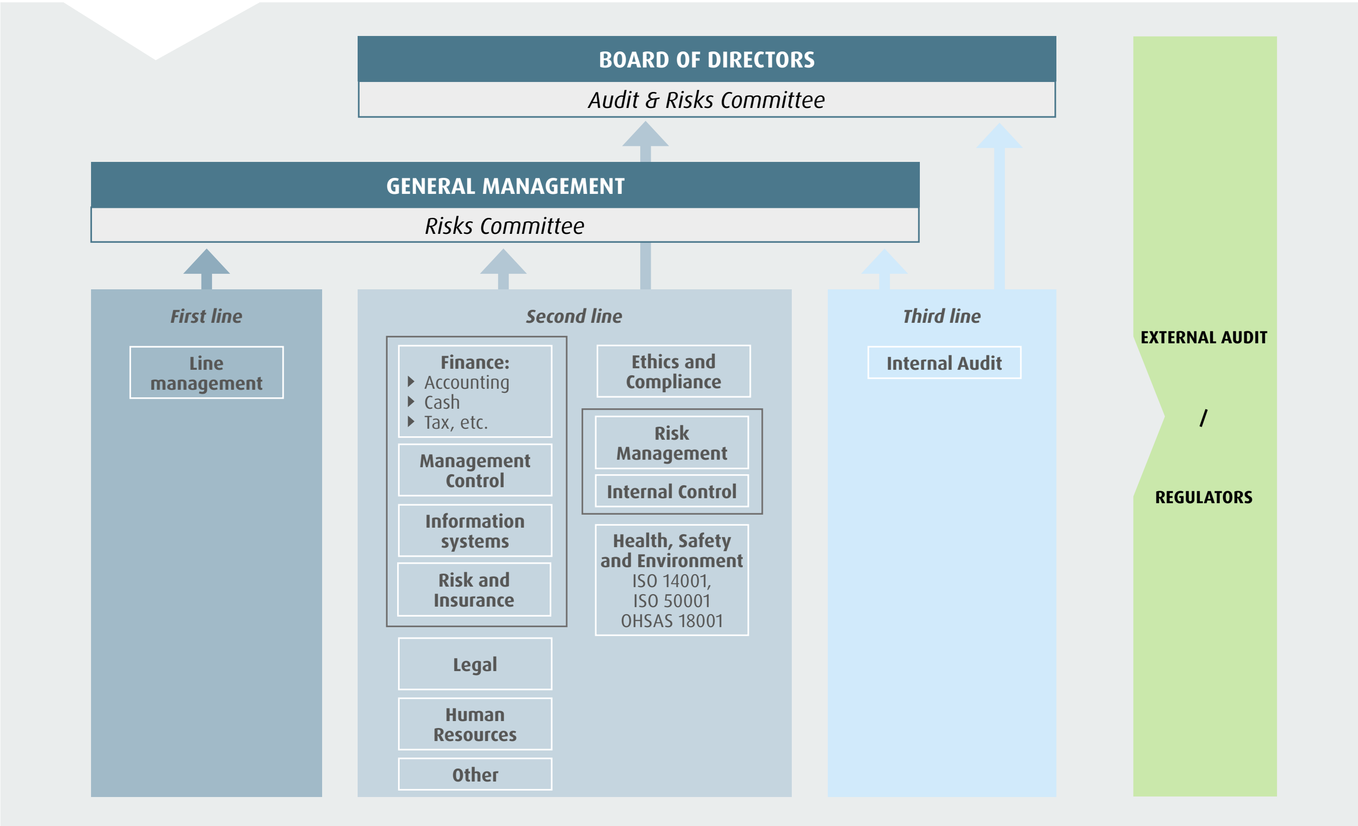
(1) Subject to ex post vote at the Shareholders' Meeting to be held on May 23, 2018.
(2) Performance shares measured in accordance with IFRS (unit value of 52.91 euros at the allotment date).
(3) See Financial Glossary, page 36.

Risk management, a key priority for Valeo

Organizational structure geared towards effective risk management

The Group's risk control system can be illustrated with the three lines of defense model.

For further information on risk management, see Chapter 2 of the 2017 Registration Document, section 2.3 "Internal control and risk management", pages 86 to 92.



Main risks identified

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

For further information on the Group's main risks, see Chapter 2 of the 2017 Registration Document, section 2.1 "Risk factors", pages 72 to 85.

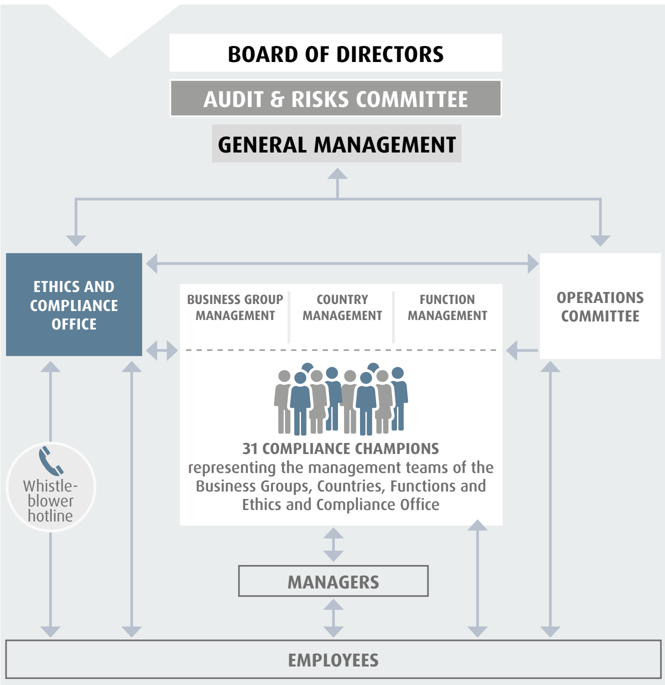
Operational risks	Legal risks	Financial risks
■ Risks related to the development and launch of new products CSR ■ Risks related to attracting and retaining talent CSR ■ Industrial risks related to growth ■ Cybersecurity and IT systems failure risk CSR ■ Supplier failure risk CSR ■ Risks related to the automotive equipment industry ■ Environmental or accident risks CSR ■ Geopolitical risks ■ Customer credit risk	■ Risks related to products and services sold CSR ■ Intellectual property risks (patents and trademarks) CSR ■ Risks of non-compliance with the Code of Ethics or the law CSR	■ Commodity risk ■ Foreign currency risk ■ Liquidity risk ■ Interest rate risk ■ Banking counterparty risk ■ Equity risk
Pages 73 to 79	Pages 80 to 83	Pages 84 to 85

CSR Non-financial risks (described in Chapter 4 of the 2017 Registration Document, "Sustainable Development", pages 167 to 270).

Strict adherence to ethics and compliance principles

Due to its global presence and its growing number of employees, Valeo has set up a specific and comprehensive Compliance Program to fight corruption and anti-competitive practices. The program has also been extended to cover risks relating to economic sanctions and non-compliance with export control policies. It is run by the Ethics and Compliance Office and is based on a comprehensive framework that comprises awareness-raising tools and a whistleblowing system aimed at prevention and continuous improvement.

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



A COMPREHENSIVE FRAMEWORK

- Commitment as well as roles and responsibilities for the entire management team in the area of ethics and compliance
- 31 Compliance Champions
- A Code of Ethics, a body of rules and compliance procedures
- Tools, practical guides
- A dedicated internal Ethics & Compliance portal

A PREVENTIVE APPROACH

- In-depth and targeted mandatory training on a continuous basis
- Regular internal control operations
- A team of internal auditors
- A whistleblower hotline and an alert processing system

A CONTINUOUS IMPROVEMENT APPROACH

- Regular assessment of the framework's effectiveness
- Corrective action plans
- Regular overhaul and improvement of rules and policies

The **Audit & Risks Committee** ensures, on behalf of the Board of Directors, that Valeo follows a full program that enables it to comply with the legislation and regulations applicable to the Group's activities, and do business in an ethical and responsible manner.

The Ethics and Compliance Office, set up by **General Management**, is responsible for defining and putting in place an organizational structure and a framework around a common set of values and rules that are applicable worldwide and adapted locally as necessary.

The **Operations Committee** is responsible for determining the focuses and priorities of the Compliance Program, allocating the funds and resources necessary and ensuring that its implementation is supervised and verified.

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

Compliance Champions promote the Group's ethics and compliance policy and rules on behalf of the management teams. In cooperation with the management team in the Business Group, country and function to which they belong as well as in the Ethics and Compliance Office, the Compliance Champions are tasked with implementing and promoting the policy based on the specific challenges of the scope in which they operate.

In broader terms, all **managers**, regardless of their country or job, are committed to playing a key role in ensuring that their teams adhere to the Compliance Program and incorporate it into their operations.

Valeo has a **whistleblower hotline** that is 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. 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, and an Alerts Committee set up specifically for the whistleblower hotline. The Alerts Committee follows a standard procedure to decide on the appropriate action and penalties to be applied.

For further information on the Group's ethics and compliance principles, see Chapter 4 of the 2017 Registration Document, section 4.5.2 "Ethics and compliance", pages 240 to 243.

FINANCIAL GLOSSARY

EBITDA	Corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin) and the impact of government subsidies and grants on non-current assets, and (ii) net dividends from equity-accounted companies.
Free cash flow	Net cash from operating activities (excluding the change in non-recurring sales of receivables) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.
Like for like (or LFL)	The currency impact is calculated by multiplying sales for the current period by the exchange rate for the previous period. The Group structure impact is calculated by (i) eliminating, for the current period, sales of companies acquired during the period, and (ii) adding to the previous period full-year sales of companies acquired in the previous period, and (iii) eliminating, for the current period and for the comparable period, sales of companies sold during the current or comparable period.
Net attributable income excluding non-recurring items	Net attributable income adjusted for "other income and expenses" net of tax and non-recurring income and expenses net of tax shown in operating margin including share in net earnings of equity-accounted companies.
Net cash flow	Free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities, relating to dividends paid, treasury share purchases and sales, interest paid and received, and acquisitions of equity interests without a change in control, and (iii) changes in non-recurring sales of receivables.
Net debt	Comprises all long-term debt, liabilities associated with put options granted to holders of non-controlling interests, short-term debt and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents and the fair value of derivative instruments hedging the foreign currency and interest rate risks associated with these items.
Order intake	Corresponds to business awarded by automakers during the period (including joint ventures accounted for based on Valeo's share in net equity) less any cancellations, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans.
Operating margin including share in net earnings of equity-accounted companies	Operating income before other income and expenses.
ROA	ROA, or return on assets, corresponds to operating income divided by capital employed (including investments in equity-accounted companies) including goodwill.
ROCE	ROCE, or return on capital employed, corresponds to operating margin (including share in net earnings of equity-accounted companies) divided by capital employed (including investments in equity-accounted companies) excluding goodwill.

1 —

PRESENTATION OF VALEO

1.1 History and development of the Group

1923 – 1990: The Group's beginnings

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

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

In 1980, the Company adopted the name Valeo, a Latin word meaning "I am well", with a view to uniting the various brands under a single name.

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

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

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

In 2001, the Company launched a new innovation program focusing on driver assistance features, powertrain system efficiency and enhanced comfort. This program is supported through a number of technology partnerships and acquisitions, such as that of Connaught Electronics Ltd. (onboard cameras).

Since 2009: An innovative, fast-growing tech company

In 2009, a new strategy was implemented around two main drivers: innovation, with technologies focused on reducing CO_2 emissions and developing intuitive driving; and geographic expansion in Asia and emerging countries. It involved putting in place a new organizational structure, to improve profitability and efficiency, incorporating four new Business Groups (Comfort & Driving Assistance Systems, Powertrain Systems, Thermal Systems and Visibility Systems) and Valeo Service.

Since then, Valeo's sales growth has accelerated, and order intake has reached record levels, driven by innovation that has cemented Valeo's positioning as a leading technology company.

Valeo's innovation strategy is underpinned by:

ACQUISITIONS AND JOINT VENTURES:

- **Niles** (2011) – interior controls;
- **The VTES (Variable Torque Enhancement System) activity of CPT** (2012) – electric superchargers;
- **Eltek Electric Vehicles** (2013) – onboard chargers for hybrid and electric vehicles;
- **Valeo Sylvania** (2014) – lighting systems (acquisition of the interest of Osram GmbH);
- **peiker** (2016) – onboard telematics and connectivity;
- **Spheros** (2016) – air conditioning systems for buses;
- **CloudMade** (2016) – development of intelligent and innovative solutions for mass data processing (stake acquired);
- **Valeo Siemens eAutomotive GmbH** (2016) – high-voltage powertrain systems (joint venture);
- **Ichikoh** (2017) – lighting systems (takeover);
- **gestigon** (2017) – cabin 3D image processing software;
- **FTE automotive** (2017) – hydraulic actuators;
- **Valeo-Kapec** (2017) – torque converters.

INVESTMENTS IN TECHNOLOGY START-UPS:

- **Aledia** (2015) – development of 3D LED technology;
- **Navya** (2016) – development of innovative and intelligent mobility solutions.

INVESTMENTS IN VENTURE CAPITAL FUNDS:

- **Cathay Innovation** (2015) – innovative companies, mainly French, American and Chinese;
- **Trucks Venture** (2016) – emerging transportation-sector companies, mainly American;
- **Iris Capital** (2017) – innovative French and German companies;
- **Maniv Mobility** (2017) – emerging transportation-sector companies, mainly Israeli;
- **Cathay CarTech** (2017) – innovative Chinese automotive-sector companies.

RESEARCH AND TECHNOLOGY PARTNERSHIPS WITH:

- **Safran (aerospace, defense, security)** (2013) – driving assistance and autonomous vehicles;
- **Fujitsu Ten** (2013) – active safety systems;
- **LeddarTech** (2014) – detection and ranging solutions for active safety;
- **Mobileye** (2015) – microprocessors, computer vision algorithms and laser scanner technology;
- **Gemalto** (2016) – security for the Valeo InBlue™ virtual key system;
- **Capgemini** (2016) – launch of Mov'InBlue™, an innovative intelligent mobility solution addressing company fleets and car hire companies;
- **Cisco** (2017) – smart parking service.

1.2 Awards

In 2017, the Group enjoyed widespread recognition from its customers and partners for innovation capability and product and service quality, attesting to its operational excellence.

1.2.1 Innovation rewarded

- The Visibility Systems Business Group's PeopleLED headlamps earned the VW Group Award 2017 – Technology.
- Motoring magazine *AutoMoto* awarded Valeo three prizes at its 2017 Innovation Awards. In the Automotive Supplier category, it was named best automotive supplier for its 48 V mild-hybrid system, and in the driving assistance and comfort category, it won two prizes for its Cyber Valet Services parking system (in partnership with Cisco) and its Park4U™ Home parking system.
- Valeo was awarded the L.E.A.D.E.R. (Leaders in European Automotive Development, Excellence and Research) prize at the Automotive News Europe Congress in Barcelona (Spain), in the Automotive Suppliers category for its commitment to active safety and autonomous driving, in particular through its Valeo Mobius™ solution.

1.2.2 Outstanding excellence

Customers continued to recognize the high standard of the Group's performance, particularly in the area of quality. Valeo received 114 distinctions in 2017 (44% more than in 2016), including:

European customers

- Valeo's Thermal Systems site in Guangzhou (China) won Daimler's Excellent Supplier Award, and its Comfort & Driving Assistance Systems site in Shenzhen (China) won Daimler's Best Supplier Award.
- At its 2017 Supplier Awards, Groupe PSA recognized Valeo Lighting Systems (Visibility Systems Business Group) in the Program Management category and Valeo Service in the Aftermarket Performance category. Valeo is also one of the ten main suppliers for the Peugeot 3008, which was voted 2017 Car of the Year.
- Groupe PSA awarded Best Supplier Plant 2017 trophies to Valeo's Visibility Systems sites in Mazamet and Issoire (France).
- Groupe PSA awarded QSB (Quality System Basics) certification to the following Valeo sites: Sablé-sur-Sarthe (Comfort & Driving Assistance Systems, France), Amiens (Powertrain Systems, France), Angers and Issoire (Visibility Systems, France), Reims (Thermal Systems, France), Tuam (Comfort & Driving Assistance Systems, Ireland), Campinas (Visibility Systems, Brazil) and Cordoba (Visibility Systems, Argentina). The Sablé-sur-Sarthe site also won a QSB Award.
- The Sainte-Florine site (Powertrain Systems, France) won a Nissan Europe Top Quality Award.
- The Étaples site (Powertrain Systems, France) earned a distinction from Toyota Europe for the quality of its deliveries to the Toyota site in Valenciennes (France).
- The Chrzanow site (Visibility Systems, Poland) was awarded Best Toyota Business Project of Core Group 6 and Best Toyota Business Project in Continental Europe.
- Toyota awarded Certificates of Recognition for Supply to Valeo Electrical Systems (Powertrain Systems, France) and to Valeo Lighting Poland and Valeo Lighting Europe (Visibility Systems).
- Toyota awarded a Certificate of Achievement in Value Improvement to the Valeo Bursa site (Thermal Systems, Turkey).
- Valeo Service was named Supplier of the Year (Marketing category) by GroupAuto International and Best Supplier (Commercial Vehicles category) by Temot International.
- Valeo Service UK received three Six Sigma Awards from Capella Associates.
- Valeo Service Turkey was named Best Supplier of the Year in the original equipment spares (OES) category by Tofas Turk Otomobil Fabrikalari A.S.

US customers

- Ford awarded Q1 Status to Valeo's Querétaro (Visibility Systems, Mexico), Rayong (Visibility Systems, Thailand), Bursa (Thermal Systems, Turkey), and Wenling (Visibility Systems, China) sites.
- General Motors gave Supplier Quality Excellence Awards to Valeo's Foshan FIV (Visibility Systems, China), Foshan SP (Thermal Systems, China), Wuhan (Visibility Systems, China), Wenling (Visibility Systems, China), Querétaro (Visibility Systems, Mexico), Itatiba (Thermal Systems, Brazil), and Czechowice (Powertrain Systems, Poland) sites.
- General Motors awarded its GM Flag to Valeo's Itatiba site (Thermal Systems, Brazil).
- Hyundai (Brazil) named Valeo's Campinas site (Visibility Systems, Brazil) Best Supplier for Localization.
- For the second year running, Nissan Group of North America awarded its Regional Supplier Initial Quality Certificate to Valeo's Rio Bravo site (Comfort & Driving Assistance Systems, Mexico), which also received the Nissan Certificate of Recognition for Supplier Best Practice.
- Toyota North America gave Region Contribution Awards to Valeo's San Luis Potosi (Powertrain Systems, Mexico), Juarez (Visibility Systems, Mexico), Querétaro (Visibility Systems, Mexico), and Seymour (Visibility Systems, United States) sites.
- Toyota awarded Excellent Value Improvement prizes to Valeo's Seymour (Visibility Systems, United States) and San Luis Potosi (Powertrain Systems, Mexico) sites.
- Toyota gave a Quality Alliance Gold Award to the Querétaro site (Valeo Service, Mexico).

Asian customers

- Valeo's Foshan site (Visibility Systems, China) earned Dongfeng Nissan recognition for excellence in project management and launch.
- Dongfeng PSA awarded QSB (Quality System Basics) certification to Valeo's Guangzhou (Comfort & Driving Assistance Systems, China), Wuhu (Visibility Systems, China) and Shashi (Thermal Systems, China) sites.
- Geely gave an Excellent Development Supplier Award to Valeo's Foshan site (Thermal Systems, China), Excellent Supplier Awards to the Foshan FIV (Visibility Systems, China) and Changchun (Thermal Systems, China) sites, and a Best Supplier Award to the Wuhan site (Visibility Systems, China).
- Chery awarded three prizes to the Wuhu site (Visibility Systems, China): Excellent Supplier Award, Excellent Recognition and bronze medal at the Chery Annual Supplier Quality Competition.
- Chery Jaguar Land Rover gave a Quality Award to the Foshan FIV/SP site (Visibility Systems, China).
- Great Wall awarded Quality and Excellent Quality Activity prizes to the Shenyang site (Powertrain Systems, China), an R&D Quality prize to the Foshan SP site (Visibility Systems, China) and a Best Reliability prize to the Wenling (Visibility Systems, China) site.
- Nissan awarded a Best Cost Reduction prize to the Lighting Products Group (Visibility Systems, India).
- Toyota India gave three awards to Valeo's Pune site (Powertrain Systems, India): Performance for Quality 0 PPM Award, Best Eco Kaizen Award, and a certificate for achievement of quality targets.
- GAC Toyota awarded Quality Collaboration Achievement prizes to the Foshan SP (Visibility Systems, China) and Shanghai (Powertrain Systems, China) sites.
- FAW-VW awarded prizes to several of Valeo's Chinese sites: Quality Excellence Award to the Foshan FIV site (Visibility Systems), Quality Improvement Excellent Supplier Letter to the Shenzhen site (Comfort & Driving Assistance Systems), Volkswagen Quality Performance Improvement Outstanding Supplier Award to the Shenyang site (Visibility Systems), Southern China Production Base Supplier Quality Excellence Award to the Foshan SP site (Visibility Systems) and A-rating Supplier Certificate to the Nanjing site (Powertrain Systems).
- The Wuxi site (Powertrain Systems, China) received a congratulatory letter from Shanghai VW for meeting quality targets.
- Volkswagen gave a Quality Performance Award to the Pune site (Powertrain Systems, India).
- Jacto gave a Best Quality Award to the Guangzhou site (Comfort & Driving Assistance Systems, China) and a Commitment and Achievement Award to the Atsugi site (Powertrain Systems, Japan).
- Valeo's Shanghai site (Powertrain Systems, China) received a Best Quality Award from Harbin Dongan and FAW Haima.
- The Nanjing site (Powertrain Systems, China) received an Excellent Supplier Award from SAGW.
- JAC gave Quality Contribution Awards to the Wuhu (Visibility Systems, China) site and the Shanghai (Powertrain Systems, China) site, which also received a Development Collaboration Award.
- Foton gave an Excellent Supplier Award to the Shenyang site (Powertrain Systems, China).
- Ashok Leyland gave a Best Genba Award to the Pune site (Thermal Systems, India).

Other distinctions attesting to the Group's operational excellence

- Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo,
  - was ranked fourth (and first among French company leaders) in the *Harvard Business Review*'s 2017 list of the world's best-performing CEOs;
  - was voted Strategist of the Year, an award promoted by French finance daily *Les Échos*, in recognition of industrial and financial strategy, and of Valeo's results and strategic orientations;
  - was named the highest-performing CEO of CAC 40 companies at the fourth Economy Summit organized by the economics monthly *Challenges*;
  - received the 2017 Digital Strategy Award from the BFM Business economics and finance television channel;
  - was awarded the 2017 Leadership Prize by the members of the *Cercle du Leadership*, in partnership with the *Cadremploi* job search website and *Le Figaro Économie* newspaper, for his leadership qualities and vision.
- For its non-financial performance, Valeo was rated Industry Leader by RobecoSAM for the second year running, ranking first in the auto components sector.
- Valeo topped the overall ranking in the French financial newspaper *Investir*'s Grand Prix CAC 40 list, for its three-, five- and ten-year stock market performance.

- After winning the Grand Prix CAC Large 60 award in 2016, Valeo received the highest distinction among the 120 largest companies listed on the Paris stock market, by picking up the top prize at the Grand Prix for Regulatory Information Transparency.
- The Valeo Siemens eAutomotive (VseA) joint venture came top in the Industrial Cooperation category at the fourth French-German Economy Awards Ceremony held by the French-German Chamber of Commerce and Industry and the German Embassy in France.
- For its contribution to the Chinese automotive industry, Valeo was awarded the 2017 Lingxuan Award – Annual Contribution Award of Global Supplier for the China Automotive Market by Chinese *Auto Business Review* magazine.
- Valeo North America won a General Motors IMPACT Gold Award in recognition of its efforts to promote supplier diversity.
- Valeo's San Luis Potosi site (Thermal Systems, Mexico) received a State Quality Award from the Mexican National Chamber of Industry Transformation (CANACINTRA).
- For the third year running, Valeo was certified as a Top Global Employer in 2017, one of only ten companies in the world to earn this distinction.
- Valeo ranked 25th in the Forbes Global 2000 World's Best Employers list, and number one in France.

1.3 Overview

1.3.1 Company profile

Valeo is an automotive supplier that partners all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO_2 emissions and to the development of intuitive driving.

In 2017, the Group generated sales of 18.6 billion euros and invested close to 12% of its original equipment sales in Research and Development. Valeo has 184 plants, 20 research centers, 35 development centers and 15 distribution platforms, and employs 111,600 people in 33 countries worldwide.

Valeo is a member of the CAC 40, Euronext Paris' benchmark index.

1.3.2 Legal structure

The Group's legal structure is based on three main holding companies interposed between the parent company, Valeo, and its operating subsidiaries:

- **Valeo Finance**, which holds shares in French companies and manages research projects;
- **Valeo Bayen**, which holds shares in non-French companies;
- **VIHBV**, registered in the Netherlands, which previously performed this function of investing in non-French companies, and which retains certain investments.

At an intermediate level, in some countries (Germany, Spain, Italy, Czech Republic, United Kingdom and Japan), holdings are organized around one or several companies established in the country itself, which also play the role of holding company and hold shares, directly or indirectly, in other operational companies, forming a local sub-group. This structure permits the centralization and optimization of the financial management of the sub-group and, where legally possible, the creation of a tax group.

Valeo has also formed jointly owned companies with industrial or technological partners in order to break into new markets, consolidate its systems offering for customers and develop new product offerings.

1.3.3 Valeo's tax policy

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

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

Giving priority to operations

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

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

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

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

Applying tax regulations fairly

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

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

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

Ensuring tax costs are correctly calculated

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

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

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

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

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

1.4 Operational organization

The **Group** determines the strategic direction and also reviews and oversees the Business Groups. It defines internal standards and policies and ensures their implementation, with the support of the functional networks. It allocates resources between the Business Groups, and monitors the consistency of sales and industrial policies. The Group's operational structure is based on four Business Groups, Valeo Service and the National Directorates.

The **Business Groups** (Comfort & Driving Assistance Systems, Powertrain Systems, Thermal Systems, Visibility Systems) operate under the responsibility of the Group Operations Department and are responsible for the business growth and operating performance of the Product Groups and Product Lines they manage, across the globe. They propose technology roadmaps to the Group. They coordinate between Product Groups and Product Lines, with support from the National Directorates, in particular concerning the pooling of resources, the allocation of Research and Development efforts and the optimization of production resources at the plants.

Each of the Business Groups is structured to reinforce cooperation and stimulate business growth worldwide. The **Product Groups and Product Lines** manage their activities and can draw on all the development, production and marketing resources needed to fulfill their objectives. The **Regional Operations** manage the operations of a Business Group in a given region.

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

The **National Directorates** are tasked with ensuring the Group's growth in their respective countries and act as the interface with local customers. They also manage all the services that support operational activities in the country (see section 1.6.2 of this chapter, "Strategy and organization", page 64).

Operational principles and rules, with an appropriate delegation of authority, have been established at all levels, with a precise definition of areas and decision-making thresholds.

1.4.1 Comfort & Driving Assistance Systems

KEY FIGURES IN 2017

€3.6bn
Sales
19%
of Group sales

6%
growth in original equipment sales
on a like-for-like basis(1)

€412m
Research and Development expenditure, net
11.5%
of the Business Group's sales

€522m
EBITDA
14.5%
of the Business Group's sales

22,900
employees

27 plants

10 development centers
&
8 research centers

2017 HIGHLIGHTS

- Digital mobility services: cooperation agreement between Valeo and Cisco.
- Valeo SCALA™: first mass-produced automotive LiDAR on the market.
- Human-machine interface development strategy: acquisition of gestigon.

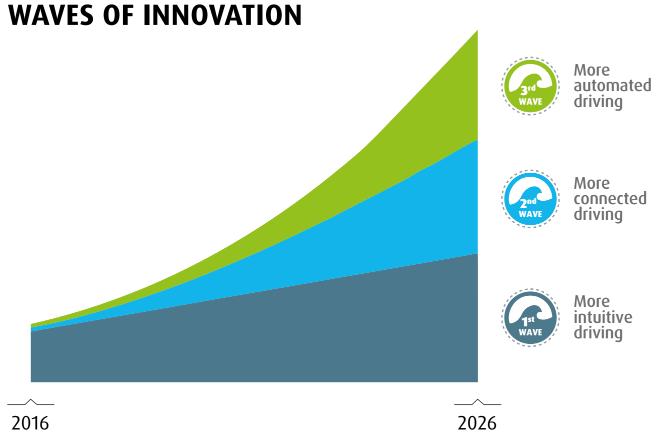
2021 OUTLOOK

≈€5.5bn
Sales

>10%
Average annual growth
in sales between 2016 and 2021

≈17%
EBITDA margin

WAVES OF INNOVATION



Description of the Business Group

Tomorrow's cars will be automated and connected. Innovative, intuitive interfaces will be needed to support this functional enhancement. The Comfort & Driving Assistance Systems Business Group focuses on driver experience, developing solutions to make mobility safer, more intuitive and more connected.

Comfort & Driving Assistance Systems has three Product Groups:

- Driving Assistance;
- Connected Vehicles;
- Intuitive Interior Controls.

(1) See Financial Glossary, page 36.

Driving Assistance

In 2017, Valeo successfully launched its Valeo SCALA™ laser scanner, the world's first LiDAR (light detection and ranging) device certified for mass automotive production. With its unrivaled combination of long detection range, wide field of vision and high resolution and precision, this unique sensor is the perfect addition to the Business Group's existing range of environment perception technologies (ultrasonic sensors, cameras, radars, etc.).

With more than 25 years' expertise in this field, Valeo offers a wide range of driving assistance solutions:

- active safety systems such as emergency braking, lane departure warning and blind spot detection;
- parking assistance and automated parking (360Vue™ and Park4U™ ranges);
- autonomous driving solutions for individual drivers (levels 2 to 4 in the SAE International[1] classification, which comprises five autonomous driving levels, from "driver assistance" [level 1] to "full automation" [level 5]), and for fleet management services (levels 4 and 5).

All these systems feature sensors (of which Valeo boasts the automotive industry's largest portfolio), scalable control unit architecture and a modular software approach using artificial intelligence and deep learning.

Connected vehicles

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

- short-range connectivity, including hands-free access and start systems (remote controls, sensors, receivers and immobilizers), which are experiencing strong growth on all markets;
- long-range connectivity that uses telematics units to connect to mobile phone networks.

It also develops innovative systems that enable the integration of new smartphone applications such as car-sharing services and remote parking systems.

Intuitive Interior Controls

The Intuitive Interior Controls Product Group is one of the world's leading players in human-machine interfaces. Building on extensive experience and in-depth knowledge of vehicle architecture, this Product Group develops high-perceived-quality, innovative, attractively designed solutions both for premium markets and emerging and mass markets.

Solutions include:

- driver and passenger (human-machine) interfaces, ranging from simple switches to touch screens. These interfaces manage air conditioning systems and multimedia applications, and are ergonomically designed for ease of use and safety;
- head-up displays, which show information within the driver's field of vision;
- top column modules, which represent the electronic communication hub between the safety features and the central electronics system of the cabin;
- intelligent steering-wheel controls, for intuitive interaction especially adapted to manual and automated driving phases, and transitions between them;
- steering sensors (angle and torque sensors);
- interior cameras, rapid development of which is driven by the need for driver and passenger monitoring under automated driving conditions, and by user customization expectations related to connected vehicles.

2017 highlights

- **Product launches**
  - Valeo SCALA™, the first mass-produced automotive laser scanner, was launched on the Audi A8. Valeo also won other production orders, including one for a Valeo SCALA™ cocoon (with several sensors per car) and another for the next generation of SCALA™.
- **Awards**
  - Valeo SCALA™ is a finalist for the 2018 PACE (Premier Automotive Suppliers' Contribution to Excellence) Awards.
  - Valeo Park4U™ Home and Cyber Valet Services won the innovation prize awarded by monthly motoring magazine *AutoMoto*, attesting to Valeo's know-how in connected and automated vehicles.
- **Partnerships and acquisitions**
  - Valeo and Cisco signed a cooperation agreement to develop strategic innovations in digital mobility services. Cyber Valet Services, the result of this collaboration, was unveiled at this year's Viva Technology event in Paris.
  - Valeo and Capgemini launched Mov'InBlue™, the industry's first secure vehicle reservation and fleet management solution based on Valeo's InBlue™ smart key technology, with Parcours on the French market and Goldcar in Spain. With new team member, Berlin-based start-up Smexx, the system is now set for rollout in Germany and northern Europe. In 2017, the solution was installed on more than 1,100 vehicles across Europe, and Valeo is currently preparing a second-generation system.
  - Valeo acquired a stake in Kuantic, the leading European player in machine-to-machine solutions for connected vehicle fleet management.
  - Valeo acquired gestigon, a German start-up specializing in vehicle cabin 3D image processing software, a further step in its strategy on developing human-machine interfaces capable of integrating the complexity of autonomous driving and connected vehicle functions.
- **Commercial successes**
  - Valeo's active safety systems enjoyed growing success thanks to new orders for SCALA™ laser scanners, front cameras and radars (with a fourth customer since the start of the technology partnership with Mobileye in 2015) in Europe and Asia.

(1) See Sustainable Development Glossary, page 267.

- Valeo enjoyed further success in 360° cameras in North America and Valeo is now the leading supplier to the top three US automakers.
- Following the launch of its smartphone-controlled remote parking system in 2016, Valeo won two major parking automation orders from two major automakers (European and American), underscoring its unique know-how in merging data from ultrasonic sensors and new-generation cameras. One of these systems will integrate artificial Intelligence to achieve unparalleled performance.
- Synergies were strengthened following the acquisition of peiker in 2016. Major orders came in Asia for telematics systems featuring high-speed connectivity and cybersecurity functions.
- Following initial contracts with US and German automakers, Valeo's driver monitoring camera and gesture recognition system completed the proof-of-concept stage with more than ten automakers worldwide.
- Order intake reached record levels in China in 2017, with close to 70% coming from local automakers. Through close involvement in the rapid development of Chinese automakers, Valeo looks ahead to the emergence of new leaders in the world automotive industry.
- Valeo confirmed its global leadership in steering sensors (angle and torque). A contract was signed with new customers in Japan and China.

Shows

- The Business Group's latest innovations, and CloudMade technologies, were exhibited at major motor and technology shows across the world: Consumer Electronics Show (CES) in Las Vegas (United States), Consumer Electronics Show Asia in Shanghai (China), and IAA Show in Frankfurt (Germany). Valeo systems on show included the Park4U™ Home personal valet parking service, My Mobius, a human-machine interface that learns drivers' habits to anticipate their needs and suggest custom routes, and Valeo XtraVue™, a set of interconnected computer-vision cameras that show drivers what is happening on the road ahead.

Miscellaneous

- Valeo launched Valeo.ai, the first global research center specializing in artificial intelligence and deep learning for automotive applications.
- Valeo opened a new R&D center in Wuhan (China).
- Development continued at the new Valeo Mobility Tech Center (VMTC) in San Francisco, which now includes other Business Groups too. This has enabled the Business Group to gain significant market share with new urban mobility players, with the Valeo SCALA™ laser scanner, cameras, driver monitoring cameras, ultrasonic systems, and dome modules that integrate peiker microphones.

Market trends and outlook

Autonomous driving, powertrain electrification and new mobility services are changing the way people use their cars. All three trends involve digitalization of products and services, and lead to the development of disruptive offerings focused on the end customer. To develop these offerings, traditional players must integrate new communication and data processing technologies, propose new services aligned with use value, and set up new business models including new partners from varied horizons, operating with great agility and rolling out offerings very rapidly across all markets. New ecosystems are emerging around these disruptive offerings, capable of generating and managing substantial value relating to mobility, data use and the modernization of traditional industrial processes.

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

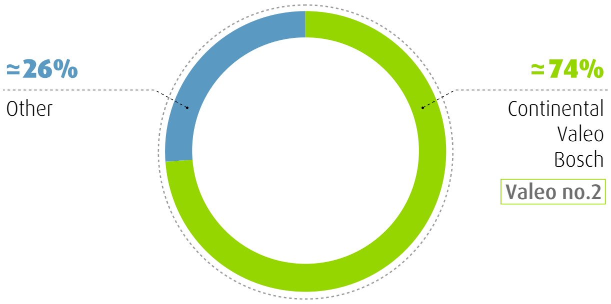
- **more automated driving:**
  - developments in automated parking and autonomous driving cover a broad field, ranging from partial to full automation. As active safety devices become standard on many markets, the proportion of vehicles fitted with them is expected to triple or quadruple in the next five years[(1)]. The underlying architecture enables automakers to offer drivers attractive optional automation features,
  - the first conditional, highly automated driving systems (SAE[(2)] levels 3 and 4), announced for around 2020, require triple redundancy when it comes to perception (sensors), and this will bring an average three-fold increase in content per car compared with level 2 (based on technology prices known in 2016)[(1)],
  - mobility services using fully automated vehicles (SAE[(2)] levels 4 and 5) are expected by 2025 for private cars and are already in the testing phase for taxi fleets. These systems, operating in complex urban environments, will need multiple-redundancy detection cocoons (sensors) and highly sophisticated data processing, which means a very substantial increase in content value per vehicle[(1)],
  - more and more vehicles are being fitted with front cameras, in part because of the active safety demands of the Euro NCAP tests. In Europe, most vehicles from the B segment upwards will be fitted with front cameras, and this brings additional opportunities for Valeo;
- **more connected driving:**
  - the connected vehicle increasingly interacts with the digital world and with (incoming and outgoing) cloud data in particular, opening prospects for new features and new economic models with the vehicles of the future offering innovative mobility solutions. This market is characterized by the rollout of eCall standards, the definition of vehicle-to-vehicle and vehicle-to-infrastructure communication standards, and the emergence of digital platforms offering high-added-value services for drivers, fleet managers, automakers and automotive suppliers,

(1) Based on Valeo estimates.
(2) See Sustainable Development Glossary, page 267.

- telematics are a central feature of this transformation. The rollout of 5G already factored into automakers' development programs offers new growth prospects;
- **more intuitive driving:**
  - human-machine interfaces simplify the task of driving and offer new features consistent with the shift toward mobility that is more intuitive, intelligent, connected and efficient for passengers and driver. Customization of and improvement in human-machine interfaces, a field in which the Business Group holds a leading position, requires technological innovation and creativity in design, plus expertise in ergonomics, for smooth, seamless usability. The real challenge therefore involves finding a balance between the new features offered and how they are used, while ensuring the safety of the driver, passengers and other road users,
  - certification institutes and authorities, in all regions, are working on tighter safety measures for new vehicles. Driver monitoring systems can integrate new technologies such as proximity sensors as well as gesture recognition and eye tracking, which may also be extended to the cabin as a whole. Valeo has anticipated this trend, which extends to all vehicle ranges, and is developing, in the United States and Japan, a warning system that detects when there is someone in a stationary car, this being a requirement under the Self Drive Act to come into force in the United States.

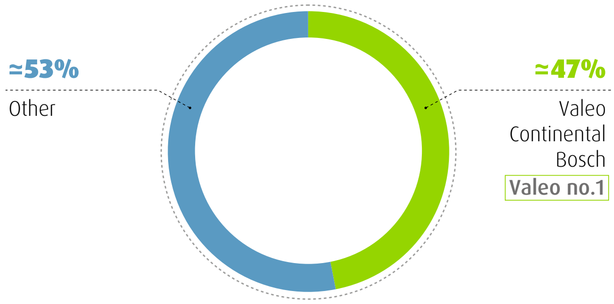
Main competitors on the driving assistance systems and interior controls market(1)

▶ Comfort & Driving Assistance Systems



Market share of the three leaders steady compared to 2016.

▶ Driving Assistance Systems



Market share of the three leaders down slightly compared to 2016.

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

1.4.2 Powertrain Systems

KEY FIGURES IN 2017

€4.3bn
Sales
23%
of Group sales

4%
growth in original equipment sales
on a like-for-like basis(1)

€212m
Research and Development expenditure, net
4.9%
of the Business Group's sales

€566m
EBITDA
13.2%
of the Business Group's sales

25,000 employees

55 plants

15 development centers
&
7 research centers

2017 HIGHLIGHTS

- Valeo Siemens eAutomotive GmbH joint venture: substantial order intake.
- Creation of Valeo-Kapec: world no. 1 in torque converters.
- Acquisition of FTE: technology leader in actuators.

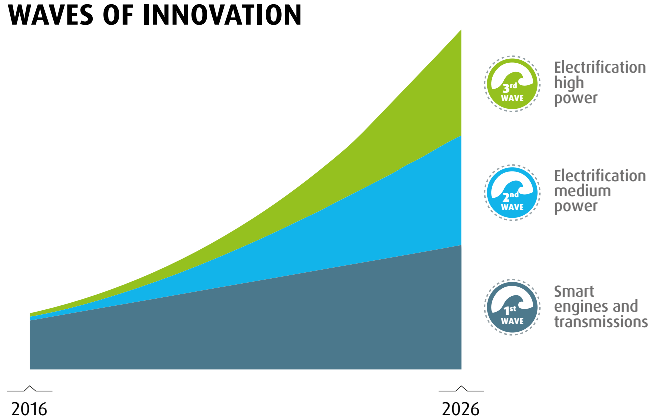
2021 OUTLOOK

≈€8.0bn
Sales

>14%
Average annual growth
in sales between 2016 and 2021(2)

≈15%
EBITDA margin

WAVES OF INNOVATION



Description of the Business Group

The Powertrain Systems Business Group develops innovative powertrain solutions to reduce CO_2 emissions and fuel consumption without compromising driving performance or pleasure.

It has five Product Groups – Electrical Systems, Electronic Systems, Transmission Systems, Combustion Engine Systems, Active Hydraulic Actuator Systems – and covers three main areas:

- electrification;
- transmission automation;
- clean engines.

(1) See Financial Glossary, page 36.
(2) Including sales generated by the acquisition of FTE automotive and the creation of Valeo-Kapec.

Electrification

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

- affordable 12 V mild-hybrid solutions: aimed at volume production segments, entry-level hybrid solutions are designed for urban vehicles with a 12 V battery. Valeo supplies the 12 V electric supercharger (which enables the automaker to downsize the engine), and the belt-driven 12 V starter-alternator that handles the stop-start function. The system also recovers braking energy, affording greater comfort and lower CO_2 emissions. This is a cost-competitive solution suited to everyday vehicle use;
- affordable 48 V mild-hybrid solutions for vehicles with a 48 V battery in addition to the standard 12 V battery. These solutions are designed for multi-use vehicles, offering wider technical capabilities and thereby more possible usages. Depending on the vehicle architecture, Valeo supplies a 48 V electric supercharger, a DC/DC converter, and a 48 V electric machine on the engine belt (starter-alternator), before/in/after the transmission, and/or on the rear vehicle axle. This combination of products offers highly efficient regenerative braking, which can be supplemented with a four-wheel-drive hybrid mode for rough road surfaces and a zero-emissions mode for low-speed maneuvers. It makes an affordable solution for family motoring, with advantages on both short and long journeys including greater comfort and lower fuel consumption and CO_2 emissions;
- high-power solutions (above 60 V) developed by the Valeo Siemens eAutomotive GmbH joint venture for plug-in hybrid vehicle segments. Valeo contributes to progress in plug-in hybrid systems (that combine the benefits of an internal combustion engine and an electric drivetrain) by developing high-power components such as the inverter, battery charger, DC/DC converter, and the electric machine on the engine shaft, before/in/after the transmission and/or on the rear axle, with a transmission system if needed. Objectives are to achieve higher performance, lower fuel consumption and greater comfort for the driver. This kind of vehicle has an electric-power driving range of up to 50 km (depending on battery capacity) and brings significant reductions in CO_2 emissions, which is one of Valeo's strategic focuses. This solution is suited to multi-use vehicle usage;
- zero-emissions solutions for electric vehicles (from entry-level to top-end). Since electricity is the vehicle's sole power source, a high-capacity battery is essential. Objectives here are to achieve higher performance, longer battery life and greater comfort for the driver. This kind of drivechain electrification can be achieved through high-voltage solutions developed by the Valeo Siemens eAutomotive GmbH joint venture, and by the 48 V solutions developed by Valeo for urban applications. In 2017, in partnership with the Chinese automaker Zhidou and Shanghai's Jiao Tong University, Valeo developed the first 48 V full electric small urban car.

High-voltage and 48 V architectures need to be coupled with the transmission system. Valeo has all the expertise needed for offering hybrid transmission systems located between the internal combustion engine and the gear box, integrating the electric machine with its inverter plus the clutch and torque converter system.

Transmission automation

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

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

- range of clutches for all types of automatic transmission:
  - the Valeo torque converter reduces CO_2 emissions and improves the performance of automatic transmissions, thanks to its compact size, good hydraulic performance (absorption capacity optimized for each application, and for lower CO_2 emissions) and its high degree of standardization (same turbine and pump wheels across a broad range of absorption capacity values),
  - Valeo dry dual-clutch technology provides an optimal response to consumer expectations and CO_2 reduction targets. It offers a smooth acceleration response, similar to that of an automatic transmission, with no torque jolt. It brings down fuel consumption and harmful emission levels by reducing friction interference by means of a pressure reduction system around the clutch disks. The transmission, highly efficient as regards rapid response and effective control strategies, contributes to driving pleasure. And the specific cooling oil routing ensures perfect control over gearwheel temperature,
  - like the dry dual clutch, the wet dual clutch offers a smooth acceleration response, similar to that of an automatic transmission, with no torque jolt, and its rapid response and effective control strategies contribute to driving pleasure. Torque control is performed by pressure release devices around the pistons, and flow design ensures a high cooling capacity;
- range of actuators:
  - actuators are devices for moving or controlling a mechanism or system. Valeo offers a range of electro-mechanical and electro-hydraulic actuators. Valeo actuators (e-clutch, clutch master cylinder, clutch slave cylinder) reduce mechanical and thermal losses, while drawing a very low rest-state current;

- range of noise, vibration and jolt damping systems for all types of transmission:
  - the dual-mass flywheel improves driving comfort by offering excellent low-rotation filtering at low engine speeds. This makes it ideal for new turbocharged gasoline and diesel engines,
  - the blade damper is a new solution that reduces vibration by varying stiffness, the advantage being that there is no speed or torque hysteresis.

Clean engines

Valeo offers components enabling automakers to design and make clean, efficient, simple and powerful engines that meet their customers' demands while complying with ever-stricter standards and regulations worldwide:

- mechatronic actuators combine mechanical actuation and electronics to provide real-time control of the engine air circuit, from intake to exhaust. This ensures optimum engine performance under all operating conditions for reduced fuel consumption and, therefore, lower pollutant emissions. For more than 15 years, Valeo has been manufacturing:
  - throttle valves for regulating engine intake airflow,
  - exhaust gas recirculation (EGR) valves, which recycle part of the exhaust gases to reduce fuel consumption and pollutant emission levels;
- sensors, for continually monitoring engine operation and determining optimum operating range, again to reduce fuel consumption and pollutant emissions. Temperature, pressure and position sensors monitor the condition of critical engine subsystems by measuring turbocharger temperature, oil pressure, coolant temperature, etc.;
- electric superchargers, a Valeo world first launched in 2016, are a major innovation in terms of reducing emissions of CO_2 and other pollutant gases without compromising engine performance. The electric supercharger, driven by an electric motor, cuts out turbo lag to improve low-end torque without affecting fuel consumption. The system enables automakers to considerably downsize their internal combustion engines, bringing reductions in fuel consumption. It is suitable for both gasoline and diesel hybrid vehicles.

2017 highlights

Valeo received very positive overall feedback from all automakers in 2017 on the Business Group's product roadmaps, at various events organized by the Group.

Electrification

- Start of series production for 48 V electric architectures. Valeo leads the field in belt-driven electric machines and 48 V DC/DC converters.
- First series production release for electronic control units for transmissions and electric power steering.
- Substantial initial order intake (approaching 6 billion euros) for inverters and high-power electric vehicle motors produced by the Valeo Siemens eAutomotive GmbH joint venture.
- Strong growth for battery chargers, especially on the Chinese market, and first series production release for high-power chargers.

Transmission automation

- World number-one ranking for the Business Group in torque converters, following the creation of Valeo-Kapec.
- Acquisition of FTE automotive (which becomes a new, separate entity within the Business Group), as a result of which Valeo now ranks in first place for actuator technology.

Clean engines

- Start of two new projects on throttle valves for gasoline engines in China.
- Boost to the Business Group's customer portfolio, for sensor developments with two new premium automakers.
- Boost to the Business Group's customer portfolio, for sensor developments with a leading truck manufacturer.
- Pooling of projects relating to diesel EGR valves for gasoline applications.

Market trends and outlook

Growth in the Powertrain Systems Business Group is driven by three continuous waves of innovation geared toward reducing CO_2 emissions and optimizing vehicle energy efficiency while ensuring unparalleled driving pleasure:

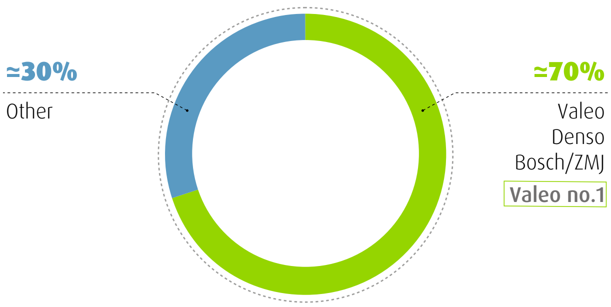
- **smart engines and transmissions:** in 2017, internal combustion engines powered over 98% of vehicles made in the world, or 93 million units. The number of vehicles manufactured with an internal combustion engine will continue to grow over the term of Valeo's 2021 plan. In addition, more and more drivers are beginning to appreciate the comfort of automatic transmissions. Driving automation, another major market trend, calls for automatic transmissions. These two trends are generating sustained growth in the transmissions field.

With its strong position on this market (number two worldwide) and its growing product range (to include actuators for dual-clutch transmissions, for example), the Group is reaping the full benefit of this wave of innovation, with a two-fold increase in content per car versus manual transmissions (based on prices and technologies available in 2016)(1);

- **electrification medium power:** under mounting pressure to reduce fuel consumption and thereby vehicle CO_2 emissions, automakers are increasingly turning to powertrain electrification solutions. Because medium-power solutions offer a very attractive cost/performance trade-off, market take-up will continue to grow. Valeo is the world's leading player in this field, and has developed new technological solutions that anticipate automakers' future needs. It is therefore ideally placed to benefit from this situation, with content per vehicle up to three times higher than in vehicles with a traditional internal combustion engine (based on prices and technologies available in 2016)(1);
- **electrification high power (> 60 V):** the market for electric and plug-in hybrid vehicles continues to grow. Increasingly stringent measures are being brought in to reduce urban pollution, which has become a major global concern. High-power electric powertrain systems thus hold great promise in this respect, by enabling vehicles to run in zero-emissions mode in urban environments. The Valeo Siemens eAutomotive GmbH joint venture will offer a full range of products that meet expectations for this wave of innovation, resulting in up to nine times higher content per vehicle than with a traditional internal combustion engine (based on prices and technologies available in 2016)(1).

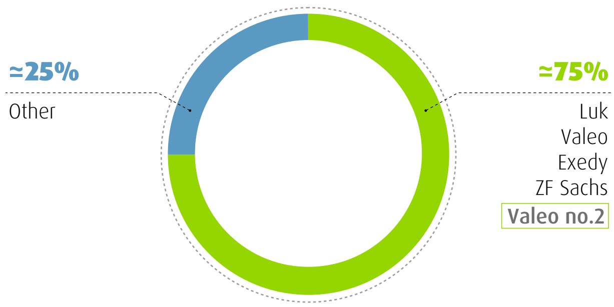
Main competitors on the transmission systems and electrical systems markets(2)

▶ Electrical Systems



Market share of the three leaders down slightly compared to 2016.

▶ Transmission Systems



Market share of the four leaders up significantly compared to 2016.

(1) *Based on Valeo estimates.*
(2) *In global market share, based on Valeo estimates.*

1.4.3 Thermal Systems

KEY FIGURES IN 2017

€5.0bn
Sales
27% of Group sales

9%
growth in original equipment sales
on a like-for-like basis(1)

€204m
Research and Development expenditure, net
4.1% of the Business Group's sales

€539m
EBITDA
10.8% of the Business Group's sales

24,200 employees

62 plants

10 development centers
&
3 research centers

2017 HIGHLIGHTS

- New all-time record order intake.
- Significant contracts for air conditioning systems, in particular with several German automakers.
- First orders in air quality systems.

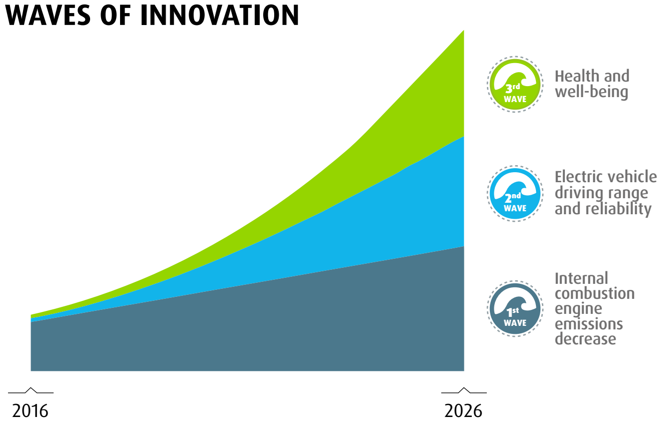
2021 OUTLOOK

≈€6.5bn
Sales

>7%
Average annual growth
in sales between 2016 and 2021

≈13%
EBITDA margin

WAVES OF INNOVATION



Description of the Business Group

To address the new challenges facing the automotive industry, the strategic objectives of the Thermal Systems Business Group are three-fold: reduce harmful emissions from vehicles with internal combustion engines, increase driving range and battery life for hybrid and electric vehicles, and promote passenger health and well-being.

To help reduce fuel consumption and emissions of CO_2, pollutant gases and toxic particles that are generated by internal combustion engines, the Business Group develops and makes innovative systems for optimal engine cooling management, energy efficient climate control and lighter and more aerodynamic front-end modules.

(1) *See Financial Glossary, page 36.*

Vehicle electrification calls for new thermal management solutions capable of ensuring a comfortable cabin temperature and keeping the batteries of hybrid and electric vehicles at optimum operating temperature, without reducing driving range. The Thermal Systems Business Group offers a full portfolio of optimized cooling systems for all types of electric powertrain systems (plug-in hybrid and full electric vehicles).

To anticipate new mobility trends, the Thermal Systems Business Group harnesses its extensive expertise through an approach focused on passenger health and well-being. For stress-free travel, all aspects of comfort are factored in: protection, adaptability, customization, reassurance and stimulation. Keeping pace with the development of car-pooling and shared vehicle fleets, the Business Group offers intelligent systems whose comfort settings will eventually be configurable based on each user profile via the cloud and using artificial intelligence, regardless of the type of vehicle used.

Thermal Systems has five Product Groups:

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

Thermal Climate Control

The Thermal Climate Control Product Group mainly develops the systems and components required for providing all-season thermal comfort on all kinds of cars (with internal combustion, hybrid or electric powertrains) and trucks. These systems are designed to optimize in-vehicle comfort and thereby passenger well-being. As well as heating and air conditioning modules, the Product Group also offers a range of solutions for improving air quality in the cabin. One focus of design is also to reduce the weight, size and energy consumption of modules and components and thereby significantly reduce the vehicle's CO_2 emissions.

Traditional heating and air conditioning (HVAC) units

Traditional HVAC units, ranging from simple manually-controlled heating units through to premium electronically-controlled solutions, are adaptable to all types of vehicle. The most sophisticated systems come with an additional electric heating module and a multi-zone function, for adjustment to individual passenger comfort, even under extreme conditions.

The Business Group also develops new compact and lightweight HVAC architectures addressing the need to optimize cabin space and dashboard design.

Refrigerants used in air conditioning systems comply with the latest environmental standards. In addition to units using R-1234yf, Valeo has extended its range of air conditioning systems to include units using R-744, a natural refrigerant.

Protection and well-being

The Thermal Climate Control Product Group offers active solutions addressing growing concerns on air quality (protection against fine particles, allergens, gases, etc.), and for personalizing the cabin with fragrance diffusion.

To provide passengers with active protection, by trapping particles and neutralizing harmful gases before they enter the cabin, this Product Group offers:

- pollution sensors for detecting outdoor and in-car pollution;
- an extended range of cabin filters, including a very-high-performance model able to eliminate more than 98% of very fine (PM2.5) particles, and a filter with anti-allergenic properties.

To enhance in-car comfort and well-being, there is also a fragrance diffuser offering a customizable sensory experience for driver and passengers.

Heating and air conditioning (HVAC) systems for hybrid and electric vehicles

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

- a full range of PTC (positive temperature coefficient) heaters with various degrees of control electronics integration, addressing all heating requirements, including those for additional heating capacity at cold start in winter. This range covers all electrification voltages (12 V, 48 V and high voltage);
- a range of energy-storage evaporators for mild-hybrid vehicles or vehicles with a stop-start system, for uninterrupted thermal comfort when the engine is switched off;
- thermodynamic heating systems based on heat-pump principles, for full electric vehicles. These systems, which absorb heat from the air and thereby reduce the need for power from the batteries, provide passenger thermal comfort without affecting vehicle driving range. The heat pump, which uses natural refrigerant (R-744), is one of the innovations nominated for a 2018 PACE (Premier Automotive Suppliers' Contribution to Excellence) award.

Thermal Powertrain

This Product Group develops systems for effectively managing thermal energy, an essential factor in optimizing powertrain performance for reduced fuel consumption and emissions of CO_2, pollutant gases and toxic particles.

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

They can include exchangers, a fan/motor unit placed in the front end of the vehicle, distribution valves and pumps.

The various circuits include:

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

The Thermal Powertrain Product Group covers the following:

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

This continuous search for efficiency creates a need for innovative components, which underpins the Product Group's growth. Advanced systems designed to recover heat losses from the powertrain for storage or conversion into usable energy create even more potential for growth.

Thermal Compressor

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

Valeo offers a complete range of compressors matched to every type of powertrain and all vehicle categories:

- economical, fixed or variable displacement, mechanically driven (with pistons or rotary vanes) compressors;
- external-control variable displacement compressors, specially designed for reducing fuel consumption and CO_2 emissions;
- robust universal compressors for trucks, buses and industrial vehicles;
- electric scroll technology compressors for hybrid and electric drivetrains.

These compressors are compatible with all refrigerants used in the auto industry.

Thermal Front End

The Thermal Front End Product Group designs, manufactures and delivers (in just-in-time mode) front-end modules forming an integral part of the vehicle structure. One of the features of this entity is the flexibility of its industrial footprint, close to automaker assembly lines.

The modules comprise a front-end technical frame fitted on the chassis to accommodate all the vehicle's front-end components, including the engine cooling unit, headlamps, energy-absorbing pedestrian protection features, bumper, bolster, air-grille shutters, radar, etc.

In particular, the Product Group develops front-end technical frames as well as bumpers and energy-absorbing features that meet customer expectations and crash and pedestrian safety regulations.

The specific focus of this Product Group's work in 2017 included:

- lighter component design to reduce the pollutant emissions from internal combustion engines. Composite materials are used to bring significant weight reductions without compromising strength. World-first series production of the Product Group's composite bolster will begin in 2018, for a German automaker. Further developments will continue with composite-material protective energy absorbers, bumper beams and battery packs;
- front-end aerodynamics, to optimize the drag coefficient and thereby help to reduce fuel consumption and CO_2 emissions. The air-grille shutters developed by the Product Group, which regulate airflow through the front-end exchangers, have been in series production since 2016. The Product Group is also innovating with electronically controlled shutters integrated in the module structure.

Thermal Bus

The Thermal Bus Product Group develops and produces made-to-measure solutions for intelligent air control in all types of bus, aimed at major manufacturers and operators of large vehicle fleets. It offers heating and air conditioning systems, roof hatches and climate control systems for customers worldwide, adapted to widely differing local weather conditions.

This Product Group develops and manufactures:

- roof-mounted air conditioning units and split air conditioners, and heating systems such as heat pumps and PTC (positive temperature coefficient) additional heaters;
- high-efficiency, low-cost heating systems using alternative energy sources;
- simple, robust roof hatches and ventilation systems.

With its Valeo Entelligence system, the Product Group is working on a global approach for improved management of climate control components, factoring in driving profile and available energy. This approach contributes to optimized use of energy resources, bringing a significant increase in the driving range of hybrid and electro buses.

2017 highlights

The Thermal Systems Business Group's consolidated sales for 2017 rose by 7.8% compared with 2016 (on a like-for-like basis), outpacing global automotive production by around 6 percentage points. Growth in 2017 was driven primarily by sales in Europe and Asia (China in particular), with performance especially pronounced in the Thermal Climate Control and Thermal Powertrain Product Groups.

New contracts with major German automakers took the order book to an all-time high for the second year running, most significantly with substantial orders in China and Europe.

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

- order for a full climate control system including heat pump, with a new Chinese manufacturer of electric vehicles;
- order for a fan unit with the first brushless motor 100% designed and made by Valeo;
- several orders for cabin air quality solutions, strengthening the Business Group's credibility in this field;
- initial order for a high-voltage PTC additional heating system used for heating long-range electric vehicles;
- consolidation of the electric compressors market, with new contracts with two Chinese automakers;
- intensive development plans with many customers on future generations of electric vehicles, to optimize the size, performance and cost of future solutions;
- initial order with a German automaker for a composite-material lead battery housing, a technological innovation designed by the Business Group that affords significant weight reductions without compromising shock resistance.

Building on its locations close to customers, strong capacity for innovation, and its growing number of platforms worldwide, Valeo Thermal Systems won new contracts with automakers in Asia, the United States and Europe.

Market trends and outlook

The value of the Thermal Systems Business Group's addressable market is expected to grow by around 4.3%[(1)] per year through to 2027.

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

- **internal combustion engine emissions decrease and improved energy efficiency:** in 2017, internal combustion engines powered over 98% of vehicles made in the world, or 93 million units. The number of vehicles manufactured with an internal combustion engine will continue to grow over the term of Valeo's 2021 plan.

  In response to regulations on vehicle emission reductions, Valeo Thermal Systems develops products and systems offering lower weight, improved aerodynamics and higher energy efficiency. Significant developments here include:

  - the composite-material bolster – a world first – which provides a significant reduction in vehicle front-end weight, for lower fuel consumption,
  - brushless fan unit, reducing the electricity consumption of the engine cooling function and lengthening the product's service life,
  - air conditioning system using R-744 natural refrigerant, offering a better overall energy performance thanks to exchangers with a higher power density;
- **improved electric vehicle driving range and reliability** (vehicle electrification systems): the market for electric and plug-in hybrid vehicles continues to grow. Valeo Thermal Systems offers a full range of products and systems aimed at this segment. To ensure passengers' thermal comfort under all circumstances, it has developed R-1234 and R-744 heat pump systems with high energy efficiency that preserves the electric vehicle's driving range.

  The Business Group offers cooling systems meeting the battery reliability and service life needs of plug-in hybrid and full electric vehicles, and derivative applications for stationary batteries. Another market trend is towards ultra fast-charging electric vehicles that need just a few minutes to add driving range of several hundred kilometers). The introduction of this technology could potentially replace the need for internal combustion engines in the future. Valeo Thermal Systems is anticipating this demand by developing:

  - more powerful cooling systems for battery cells,
  - more powerful and more efficient front-end cooling modules, for noise-free release of the heat produced,
  - specially adapted air conditioning circuits ensuring passengers' thermal comfort even during ultra-fast charging.

  For thermal systems overall, the average content per vehicle proposed by Valeo in value terms for plug-in hybrid and full electric vehicles is currently around twice as high as for internal combustion-engine vehicles (based on 2017 prices and technologies)[(1)], meaning this market holds major growth opportunities;
- **in-vehicle health and well-being:** as new forms of mobility emerge (car-pooling, vehicle fleets, autonomous vehicles), the car interior is increasingly becoming a living space in its own right, meaning comfort is no longer seen as a simple matter of ergonomics and climate control. In electric vehicles with their quiet-running motors, knocks and squeaks in the cabin interior become more noticeable to vehicle occupants. Engineers therefore need to pay more attention to passengers' heightened awareness of distracting noise.

(1) Based on Valeo estimates.

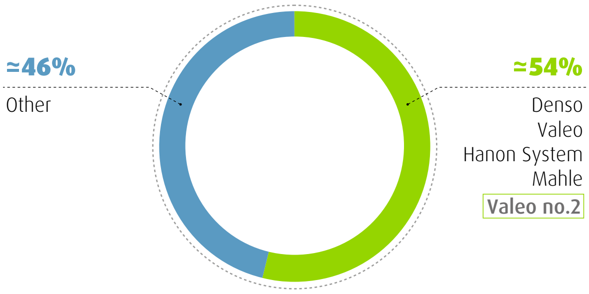
At the same time, growing public concern over the pollution generated by internal combustion-engine vehicles, in Asia (especially China) and Europe, will create increasing demand for systems capable of improving air quality. The vehicle cabin will increasingly be considered a safe zone, and over time, with developments in artificial intelligence, the onboard computer will be able to analyze usages to adapt and customize thermal comfort to individual passengers, and even offer further health and well-being features. To address these emerging demands, the Thermal Systems Business Group offers a range of air quality products, comprising a high-efficiency particle filter, an interior-exterior fine particle (PM2.5) sensor communicating with the vehicle's human-machine interface, a multi-fragrance diffuser, an ionizer to remove unpleasant smells, the AquAIRius™ refreshing mist diffuser for rear-seat passengers, and a smartphone-controlled module for purifying the cabin air before entering the vehicle.

The Thermal Systems Business Group is also anticipating demand shifts through the Health and Well-Being by Valeo concept, which integrates a silent, all-round, rapid heating mode using radiant panels, coupled with adaptive, customizable digital control of passenger thermal comfort using biometric sensors, infrared cameras and machine-learning capability.

Growth in the in-vehicle health and well-being market is estimated at 27% per year through 2027, which will offer Valeo an opportunity to increase its average content per vehicle[1].

To sum up, the Thermal Systems Business Group will continue to grow in all regions, by developing in strategic and innovative areas, in particular through its offerings for electric vehicles (thermal management for drive batteries and heat pumps) and for cabin air quality and onboard well-being.

Main competitors on the thermal systems market[2]



Market share of the four leaders steady compared to 2016.

(1) *Based on Valeo estimates.*
(2) *In global market share, based on Valeo estimates.*

1.4.4 Visibility Systems

KEY FIGURES IN 2017

€5.8bn
Sales
31%
of Group sales

7%
growth in original equipment sales
on a like-for-like basis(1)

€279m
Research and Development expenditure, net
4.8%
of the Business Group's sales

€767m
EBITDA
13.2%
of the Business Group's sales

37,200 employees

49 plants

15 development centers & **5** research centers

2017 HIGHLIGHTS

- Takeover of Ichikoh: Valeo no. 1 in automotive lighting.
- Series production launch for the first BiLED™ Access Matrix module on a mass-market vehicle.
- Success of electronic wiper systems in China.

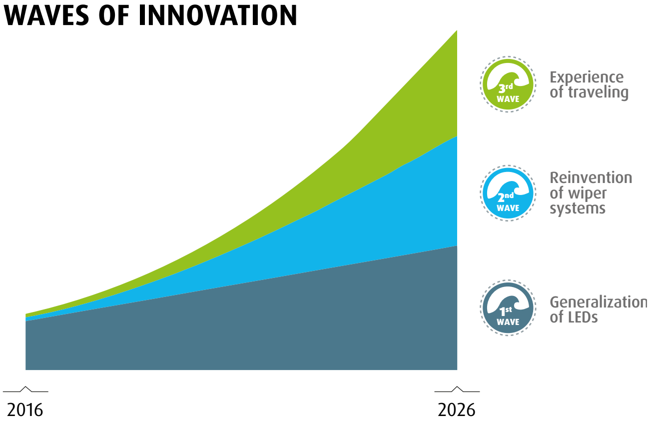
2021 OUTLOOK

≈€7.7bn
Sales

>10%
Average annual growth
in sales between 2016 and 2021(2)

≈14%
EBITDA margin

WAVES OF INNOVATION



Description of the Business Group

The Visibility Systems Business Group designs and produces efficient and innovative lighting and wiper systems which support the driver and passengers in all weather, day and night, and in their various onboard activities.

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

- lighting and wiper systems allow drivers to see the road clearly, and be seen;
- lighting and wiper systems improve safety by ensuring information is intuitively transmitted to the driver and other road users, and by making sure cameras and optical sensors are kept clean;
- innovative interior lighting and remote wiper and washing systems enhance driver and passenger comfort.

(1) *See Financial Glossary, page 36.*
(2) *Including sales generated by the takeover of Ichikoh.*

The systems are optimized in terms of weight, size and energy consumption, and thus help reduce the vehicle's CO_2 emissions and increase electric vehicle driving range.

Visibility Systems has two Product Groups:

- Exterior and Interior Lighting Systems;
- Wiper Systems.

Lighting Systems

Valeo develops exterior and interior lighting solutions tailored to specific automaker requirements, ranging from high-tech solutions for enhanced comfort and improved safety, thanks to its sophisticated systems as well as more cost effective innovations affordable to all:

- **high-performance dynamic lighting systems:** the Business Group is innovating every day to offer a wide and constantly upgraded range of innovative products providing vehicles of all kinds with the latest lighting technologies on the market, ensuring safety, comfort and ever greater performance at increasingly affordable prices. In a market first, its BiLED™ Access Matrix module now features on a mass-market vehicle. This compact module combines high- and low-beam functions, with Matrix Beam glare-free capability ensuring other road users are not inconvenienced.

  Valeo Visibility Systems also develops signaling solutions that improve communication with the environment and provide information to other road users, including pedestrians. This is an increasingly important function with the emergence of autonomous and electric vehicles;
- **appealing lighting solutions:** exterior lighting plays a dominant role in vehicle design. LED daytime running lights already enable automakers to give their cars a daytime identity, and the Business Group's new LED low- and high-beam lighting solutions allow designers to give them a night-time identity too. It is also enhancing its offering of LED technology rear lighting solutions with an even stronger style emphasis, and developing OLED (organic light-emitting diode) solutions, for a surface light source giving unparalleled regularity. Valeo is also working on interior and ambient lighting that adapts to driving modes: in manual mode, the interior lighting informs the driver about his or her surroundings, while in autonomous driving mode it offers ambient lighting adapted to passenger activity;
- **economical lighting solutions:** Valeo always strives to make its innovations widely affordable, offering comfort, safety and style on all types of vehicle. The Business Group offers solutions for replacing halogen lamps with affordable LED modules that improve driver visibility, with light quality closer to daylight, have a longer service life, and consume less energy. Its PeopLED™ solutions, available at the premium end of the market since 2012, offer a much higher performance than halogen lighting, and are now featured on mass-market models such as the Chevrolet Silverado, a good illustration of the increasing take-up of LED lighting on this kind of vehicle.

Wiper Systems

An unobstructed view of the road for the driver, and very soon for vehicles' optical sensors is essential for road safety. With the development of automated cars and advanced driving assistance, cameras and LiDARs (laser detection systems) also need to be cleaned.

The Wiper Systems Product Group develops technologies that clean the windshield, the rear window and optical sensors, combining enhanced visibility and reduced weight in order to keep CO_2 emissions down. The smart input from the use of electronic solutions helps improve safety and reduce weight as well as paving the way for new features, such as:

- electronic wiper systems using direct drive or mechanical blades. These systems are based on a line of wiper motors marketed worldwide, offering a range of solutions adapted to the latest vehicle architectures;
- latest-generation flat, hybrid or traditional arm and blade sets tailored to all local variations;
- remote control windshield washing and de-icing systems (from a smartphone for example);
- rear wiper systems with integrated washing based on a new line of motors designed to simplify integration into the vehicle;
- AquaBlade™ with camera cleaning: the wiper system for under-windshield cameras. Using AquaBlade™ technology, which is already series-produced on several types of vehicle, this system ensures a clear and unobstructed view for automated vehicles. Thanks to the enhanced precision and positioning of the cleaning nozzles, AquaBlade™ technology makes it possible to reduce wiper fluid consumption as well as the size of the fluid tank. This contributes to keeping down overall vehicle weight;
- systems for cleaning optical sensors (cameras, infrared cameras, LiDARs, etc.) to ensure an uninterrupted video flow, for safety and comfort. These systems consume very little wiper fluid, minimizing the amount of fluid carried and thereby keeping vehicle weight to a minimum.

2017 highlights

Lighting Systems

Significant events for the Lighting Systems Product Group in 2017 include:

- the takeover of Ichikoh: by taking a majority stake in the capital of Japan's leading automotive lighting company, Valeo is now world number 1;
- series production launch for the first BiLED Access Matrix module on the latest Mini Cooper, illustrating the increasing take-up of intelligent lighting systems;
- highly successful take-up for the new range of Thin Lens lighting modules, featured on the latest Range Rover Velar and Avalon models and the Jaguar F-Type. This success owes much to the low height of these rectangular modules: just 31mm for the high- and low-beam modules and the Matrix Beam;
- supply of full intelligent lighting system architecture comprising cameras, headlamps, control units and embedded software, to a major mass-market automaker;
- supply of interior lighting systems for several premium models, including the Audi Q5, and the Volvo XC40 and XC60;
- the Business Group's growth in the electronics market advanced thanks to its expertise in drivers and control units.

Wiper Systems

Numerous systems were brought to market in 2017, including:

- the AquaBlade™ embedded washing system for vehicles on Volvo's 60 and Alpine A110 platform;
- the electronic wiper system for the Geely CX11 in China;
- production start-up of wiper systems for the Freightliner, Cascadia in the United States.

These systems confirm the trend toward blade-integrated nozzles and electronics in wiper motors.

Market trends and outlook

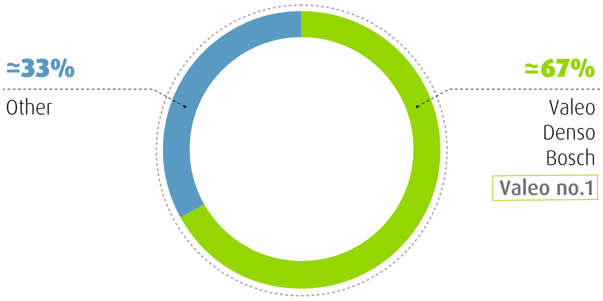
Growth in the Visibility Systems Business Group is driven by three successive waves of innovation, aimed at reduced CO_2 emissions and the development of intuitive driving and autonomous vehicles:

- **generalization of LEDs:** speeding up the replacement of halogen and xenon lamps by LED lighting across all vehicle segments. Second-generation, higher-performance BiLED™ systems have been launched, and selected by eight automaker brands to date. PeopLED™ 2G, which efficiently couples LED technology with intelligent thermal management, has been rapidly taken up by 11 customers on all continents. Some 4 million vehicles will be using this technology by 2021[(1)]. In response to the increasing use of electronics, since 2015 the Lighting Systems Product Group has a Product Line dedicated to the design and manufacture of electronic modules for its lighting systems. Advanced features, such as the Lighting Systems Product Group's glare-free high-beam headlamps, are becoming more widespread in use, and are now available as an option on many models in Europe and China. Likely changes in US regulations should enable the rapid take-up of this technology on that market. These two factors will bring about an increase in average content per vehicle for Valeo;
- **reinvented wiper systems:** wiper systems are being reinvented, with new-generation wiper motors. The Wiper Systems Product Group is positioned in the field of electronic wiper system motors. These are lighter, which makes for lower CO_2 emissions, and quieter, an important factor for electric vehicles. The need for lighter vehicles and smaller washer fluid tanks, and for lower costs, is pushing more and more automakers toward systems that clean the windshield using systems located on the wiper system rather than a mechanism located on or under the engine hood. The Wiper Systems Product Group portfolio contains solutions that are perfectly matched to such needs. The new wiper motors also take up less space and are less noisy. Following the successful release of the AquaBlade™ wiper system on the original equipment market, this technology is also gaining momentum on the aftermarket;
- **experience of traveling:** this trend will accompany the rise of autonomous vehicles. Vehicle cameras and other optical sensors are becoming increasingly commonplace with the rapid development of advanced driving assistance systems and the emergence of automated cars. These devices need to be cleaned properly to ensure video flow quality and thereby passenger safety. This new type of cleaning requirement is a major growth opportunity for the Wiper Systems Product Group. By letting the car take care of driving tasks, the driver can sit back and enjoy the ride as a passenger. The ambient lighting then adapts to the environment by changing to softer colors for a cocoon-like cabin effect. The Business Group is designing advanced, intuitive interior lighting solutions to improve passenger well-being and enhance the ride experience in autonomous vehicles.

(1) Based on Valeo estimates.

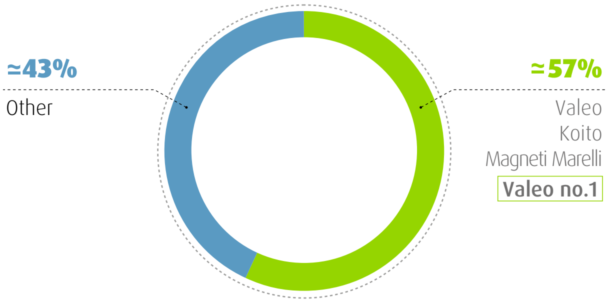
Main competitors on the lighting systems and wiper systems market[1]

▶ Wiper Systems



Market share of the three leaders steady compared to 2016.

▶ Lighting Systems



Market share of the three leaders steady compared to 2016.

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

1.4.5 Valeo Service, products and services for the aftermarket

- **320** product categories
- **13** product lines for passenger cars
- **10** product lines for industrial vehicles
- More than **7,700** new products launched in 2017, an increase of **60%** on 2016
- **15** distribution platforms
- A footprint in **150** countries

2017 HIGHLIGHTS

- Faster digitalization of Valeo Service
- Worldwide expansion of Valeo Service
- Recognition of Valeo Service excellence

Presentation of Valeo Service

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

Valeo Service is a trusted partner that supports the development of aftermarket businesses on the vehicle maintenance, crash and repair markets:

- coverage of cars and trucks;
- coverage of all usual needs for vehicles on the road in more than 150 countries;
- support for the in-depth changes under way in the automotive industry, building on Valeo's original equipment expertise, and developing innovative solutions for the independent aftermarket.

Through its "We Care 4 You – Trust the Specialist" promise, Valeo Service commits to providing dedicated professional solutions to all players in the value chain:

- traditional and online retailers, key partners of Valeo Service;
- mechanics, who play a decisive role in the choice of replacement parts, advise motorists, and carry out the vehicle servicing or repair operation;
- for drivers, of both individual and fleet vehicles, the end users of Valeo Service products.

This Valeo Service promise is delivered through:

- products with price/performance/quality ratios perfectly matched to the needs of automotive aftermarket;
- technical support to help retailers and repair centers develop their skills in all technologies, including the most innovative;
- custom supply solutions to meet the needs and demands of aftermarket professionals;
- a digital ecosystem and operational marketing program to support the growth of aftermarket businesses.

Valeo Service covers more than 150 countries in four regions (Europe, Asia, the Americas and MEAO [Middle East, Africa and French Overseas territories]) with 18 sales divisions. The product offering revolves around the vehicle maintenance, crash and repair markets, with 13 product lines for passenger cars and 10 for commercial vehicles, trucks and agricultural vehicles. Product ranges include wiper systems, transmissions, lighting and signals, interior climate control, engine cooling systems, rotating machines, electrical accessories, cabin safety, switching systems, braking systems, engine management systems, filtration systems, and driving and parking assistance systems.

2017 highlights

In 2017, Valeo Service continued to roll out its "We Care 4 You – Trust the Specialist" strategy,

- through a further expanded product portfolio;
- through innovative digital solutions for each of its customers;
- through an increased footprint for closer contact with its partners.

This earned it further recognition for its various initiatives.

Faster digitalization

- **International rollout of online technical training:** Valeo Service rolled out its offering of online training courses to support aftermarket professionals and facilitate access to technical information. The on-demand courses are accessible worldwide as live 30-minute webcasts round the clock, seven days a week. In 2017, Valeo Service trained 2,500 mechanics via this digital channel, thereby developing a new aspect in its relationship with these professionals.
- **Launch of Valeo Connected Assistance:** in addition to its conventional support hotline, Valeo Service has set up a connected assistance program. Using a free smartphone application, a Valeo technician can see what the repair agent is doing and provide live advice as if he or she were there in the workshop. This innovative system provides rapid, effective assistance for all complex assembly situations, and in the use of air conditioning refill stations, for example. It also enhances productivity and improves diagnosis accuracy, key issues that Valeo Service addresses to make life easier for its repair center partners.

- **Launch of the MyValeoParts application:** Valeo Service offers its customers greater efficiency with the MyValeoParts application, which helps them find the right part in just a few clicks. The application is designed to meet users' needs and make their day-to-day work easier. Information can be quickly accessed at any time from any location. Users can locate parts by vehicle type or reference number, or by taking a photo of a product barcode. Content including vehicle applications, technical data, photos, drawings, fitting instructions and original part information is accessible in a couple of clicks from a smartphone.
- **Launch of a partnership with WhoCanFixMyCar.com in the UK**: to offer drivers the best possible garage experience and help repair centers improve their efficiency, Valeo Service has launched a partnership with WhoCanFixMyCar.com, the UK's leading platform for drivers looking for the garage that best meets their needs. Valeo Service brings real added value to this online platform through its Clutch Specialist Network by Valeo certification program. Valeo Service issues this certification to garages that are registered on the platform and have tested and approved performance and expertise in clutch operations. Valeo Service therefore increases WhoCanFixMyCar.com's potential with genuine added value for end users and credibility validation for garages.

Worldwide expansion of Valeo Service

- **Expansion of the Valeo Service Africa and Overseas Sales Division:** Valeo Service stepped up its international expansion under the "We Care 4 You – Trust the Specialist strategy", which aims to achieve increasingly closer customer contact. The Africa and Overseas Sales Division opened two new offices, in Johannesburg (South Africa) and Melbourne (Australia). This extends the division's scope to more than 70 countries.
- **Opening of the Valeo Service Middle East Sales Division (Dubai):** Valeo Service's new Dubai-based division, opened in October 2017, is a perfect example of the "We Care 4 You – Trust the Specialist" strategy, one of the aims of which is to achieve closer ties with its customers. This division will play an essential role in cementing Valeo Service's operations in the Middle East. It strengthens the Group's already solid presence in 14 countries in the region (Saudi Arabia, Qatar, Oman, Kuwait, Bahrain, Jordan, Syria, Lebanon, Egypt, Cyprus, Azerbaijan, Georgia, Iran and Iraq).

Another year of awards for Valeo Service

- **Best Supplier in GroupAuto International's marketing category:** throughout 2017, Valeo Service demonstrated its capacity for supporting the strategy of GroupAuto International, which covers 1,417 retailers, 3,985 points of sale, 5,828 passenger car garages and 1,345 commercial vehicle garages in nearly 52 countries. Valeo Service provided the most appropriate solutions and made a major contribution to fueling and developing the network's sales drive program.
- **Temot International Best Supplier for industrial vehicles:** with 2017 sales growth approaching 11%, the industrial vehicle market holds considerable opportunity for Temot International, whose network numbers close to 20,000 garages. Valeo Service, which offers a wide range spanning ten product lines for industrial vehicles, has proven its worth as a trusted partner of Temot International, which awarded it a Best Supplier Award in the industrial vehicles category.
- **Groupe PSA Best Aftermarket Performance Award:** this award attests to the effectiveness of Valeo Service's strategy on the automaker aftermarket.

Market trends and outlook

As in 2017, the independent aftermarket is expected to grow at around 4% over the next five to seven years, to reach 654 billion euros for parts themselves and 628 billion euros for the replacement operations[1] by 2025.

With its extensive product portfolio and global geographic footprint, Valeo Service's independent aftermarket activity outperformed the market by 5% during the year.

More than ever, Valeo Service harnesses the Group's capacity for innovation in its ongoing commitment to providing ever closer support for automotive repair and maintenance professionals, delivering:

- a comprehensive product offering that covers vehicles on the road today, as well as vehicles fitted with the latest technologies;
- strengthened technical support;
- dedicated, agile and effective digital systems to support their growth.

(1) Frost & Sullivan estimates (2018).

1.5 Geographic and industrial footprint

Geographic footprint at December 31, 2017

	Plants	Research centers	Development centers	Distribution platforms	Number of employees
WESTERN EUROPE					
Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, United Kingdom	48	15	9	5	32,895
CENTRAL AND EASTERN EUROPE					
Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Turkey	18	-	6	3	17,526
AFRICA					
Egypt, Morocco, South Africa, Tunisia	7	-	1	-	4,066
NORTH AMERICA					
Canada, Mexico, United States	24	1	5	2	16,433
SOUTH AMERICA					
Argentina, Brazil	7	-	3	2	3,023
ASIA & MIDDLE EAST/OCEANIA					
China, India, Indonesia, Japan, Malaysia, South Korea, Thailand	80	4	11	3	37,657
TOTAL	**184**	**20**	**35**	**15**	**111,600**

At December 31, 2017, the net carrying amount of the Group's real estate portfolio (land and buildings) was 857 million euros (see Chapter 5, section 5.4.6, Note 6.3 "Property, plant and equipment" to the consolidated financial statements, page 334). The portfolio is largely composed of plants, the majority of which are wholly owned.

The net carrying amount of the Group's equipment, which is largely made up of technical facilities, machinery and tools was 2,058 million euros at December 31, 2017, excluding property, plant and equipment in progress and other property, plant and equipment (see Chapter 5, section 5.4.6, Note 6.3 "Property, plant and equipment" to the consolidated financial statements, page 334).

Environmental constraints liable to have an impact on the use of fixed assets and real estate result from the regulations applicable in this area to all Group establishments (see Chapter 2, section 2.1.1 "Environmental or accident risks", page 78 and Chapter 4, section 4.3 "Environmental management and performance of Valeo's sites", pages 198 to 219).

1.6 Functional structure

The Group's functional structure is as follows:

- the **Internal Audit and Control Department** performs financial and operational audits on all of the Group's entities in order to ensure that procedures are carried out correctly and to establish coherent and consistent internal control practices, which are deployed across all operational entities through the functional networks (see Chapter 2, section 2.3 "Internal control and risk management", pages 86 to 92);
- the **Sales and Business Development Department** consists of a Sales Department and an International Development Department for each Business Group, Customer Directors dedicated to each major automaker and National Directorates for each geographic area. It partners Group customers across all their markets and all continents;
- the **Communications Department** is responsible for setting out and sharing the Group's vision and strategy, both externally (with customers, journalists, civil society and the general public) and internally, in order to promote the Group's image, highlight its performance and unite employees;
- the **Ethics and Compliance Department** is tasked with putting in place, managing, and coordinating the Compliance program, as decided by the Operations Committee, of which it is a member, on global, national, local, and plant levels (see Chapter 4, section 4.5.2 "Ethics and compliance", pages 240 to 243);
- the **Finance Department** oversees management control, accounting, financial reporting, financing activities and cash management, taxation, investor relations, strategic operations, information systems and risk and insurance;
- the **Legal Department** ensures compliance with Group procedures and with legal regulations and strives to defend the Group's interests;
- the **Group Operations Department** is responsible for the four operational Business Groups and Valeo Service, and also oversees the Industrial, Purchasing and Quality functions;
- the **Research & Development and Product Marketing Department** directs the Group's innovation policy as well as product development methods and tools;
- the **Human Resources Department** tackles the many challenges Valeo encounters worldwide in developing and managing human resources, from engaging in the war for talent to building and sharpening advanced skills and sustaining employability. The Group aims to add 6,000 employees to its global workforce each year over the next five years;
- the **Strategy and External Relations Department** which, in collaboration with all the functional departments, the Business Groups and Valeo Service, coordinates the Group's strategic planning efforts, notably with a view to preparing the medium-term plan and defining the main thrusts of the Group's organic and external growth and profitability strategies. It coordinates the Sustainable Development and External Affairs Department, which is responsible for implementing and monitoring the Group's sustainable development policy and for relations with external stakeholders.

1.6.1 Research and Development and Product Marketing

Valeo's Research and Development function covers Innovation, Research, Development, Product Marketing and Intellectual Property. Its main purpose is to position Valeo among the most innovative automotive suppliers, significantly contributing to progress in autonomous vehicles, intuitive vehicle usage, new forms of mobility and emission reductions.

The Product Marketing teams carry out surveys to develop a fuller understanding of users' mobility expectations with regard to electric, autonomous and connected vehicles. The findings along with benchmarking results provide valuable input for drawing up Valeo's technical roadmaps.

To cover a broad technology spectrum, Valeo practices an open innovation approach based on international partnerships with start-ups, universities and leading players in a number of non-automotive industries.

Partnerships with universities, laboratories and start-ups have intensified and become more international in scope, especially in Asia and the United States. Collaborative projects with leaders in other industries have been stepped up to share experience, best practices and research efforts in a spirit of collaborative innovation.

Gross Research and Development spend totaled 1.9 billion euros in 2017, representing more than 12% of original equipment sales, and was up by 22% in absolute terms on 2016. In 2017, a total of 17,900 employees were working at 20 research centers and 35 development centers worldwide. Innovation is central to the organization, and the Group's innovative products accounted for 50%[1] of order intake in 2017. Protecting innovations is a priority for Valeo, and is achieved by filing patents. Initial patent filings totaled 2,053 in 2017, an 11.6% increase on 2016. The Group manages a portfolio of more than 42,000 titles.

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

Valeo's Research and Development process is detailed in Chapter 4, section 4.2 "Research and Development at Valeo: from megatrends to innovation", pages 181 to 197.

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

1.6.2 Sales & Business Development

Valeo partners practically all of the world's automakers and truck manufacturers in developing, producing and marketing innovative products, systems and modules for both the original equipment market and the aftermarket.

Valeo helps its customers to grow their markets on all continents.

Automaker customers

Asian automakers (including NIssan) have become the Group's biggest customers, accounting for 33% of original equipment sales in 2017, in line with Valeo's strategy of pursuing growth in Asia, especially in China, where Valeo continues to make inroads with local automakers, in Japan, with the takeover of Ichikoh, and in Korea, with Valeo-Kapec. German customers accounted for 28% of the Group's original equipment sales. US customers (including Chrysler) accounted for 19% of original equipment sales. The proportion of original equipment sales to French customers (excluding Nissan) stood at 14%.

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

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

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

Strategy and organization

Total order intake for 2017 was 27.6 billion euros or 1.7 times original equipment sales for the period.

This record level of business reflects Valeo's continued dual focus on selling innovative products relating to CO_2 emissions reduction and intuitive driving, as well as on developing sales in high-growth potential markets.

The Sales and Business Development function is organized around:

- the **Sales network**, consisting of four Sales Directors reporting to each of the four Business Groups' General Management teams. These Sales Directors head up a network comprising the Sales Directors for each Product Group. The network is responsible for defining Group sales strategy and handling day-to-day customer relations. Its global structure is organized by customer both for the Business Groups and for each Product Group;
- the **Group Customer Directors**, the 20 Sales Directors responsible for the key automaker customers. Each represents Valeo in its dealings with a given automaker and coordinates relations with this customer across all of the Group's Business Groups;
- the **National Directorates**, whose aim is to promote the Valeo brand and establish close relationships with key customers in their geographic area and, if necessary, resolve any legal or labor-related issues at a local level. There are 13 National Directorates, based in China, Germany, North America, India, Italy, Japan, Poland, Russia, South America, South Korea, Spain, Thailand for ASEAN (Association of Southeast Asian Nations), and Turkey;
- an **International Development network**, which consists of one International Development Director in each of the Group's four Business Groups. It identifies market opportunities in high-growth countries, defines and implements the external growth strategy for the Business Groups and manages relations with external partners.

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

1.6.3 Human Resources

Valeo owes its success to the men and women who work for it.

The Human Resources function's challenge is therefore to build a common corporate culture that is rooted in sound values and geared towards the Group's industrial and commercial objectives.

The Human Resources function (see Chapter 4, section 4.4 "Valeo and its employees", pages 220 to 238) therefore plays a multi-faceted role, which involves:

- attracting top talent to strengthen market share and support business growth;
- overseeing skills development and employee engagement;
- ensuring employee health, safety and well-being;
- working with labor organizations to provide a working environment that is conducive to the development of the Company and its employees;
- guaranteeing respect for personal dignity and fundamental labor rights under a universal framework of international commitments;
- promoting diversity at all levels in the organization and in all areas of the business, as a key performance lever.

Attracting talent

Recruiting the best talent throughout the world, and particularly in areas relating to CO_2 emissions reduction and the development of intuitive driving, is key to the Group's success. Skilled teams ensure that Valeo can add value for its customers around the world in terms of innovation, total quality and competitive solutions and services.

To support its ambitious recruitment policy, Valeo maintains an active presence on social media, communicating clearly and regularly on the latest technological innovations, job vacancies and events. The Group's LinkedIn audience continued to grow in 2017, reaching 379,411 followers, twice as many as two years previously, and more than 1,290 managers and professionals were recruited via social networks.

Developing skills and employee engagement

The Group's employees benefit from a program that monitors their progress and development and is conducted during interviews with their managers. To encourage internal mobility, further procedures are implemented in addition to these interviews to identify any opportunities for medium-term employee professional development.

The Group constantly monitors the employment market and maintains its competitive edge so that it can motivate and retain talent. It also adapts practices by offering appropriate compensation packages to employees throughout the world.

In a highly competitive environment, training is an essential means of improving employee skills. The training policy and system are designed to meet the needs of the operational activities and functional networks, as well as the career development aspirations expressed during employees' annual appraisals.

Ensuring safety and security

Enabling employees at its plants, research centers, development centers and offices to work under optimal safety conditions is the top priority of the Group's Human Resources policy and a core part of the Group's values and its strategy.

This responsibility is shared by all managers, Health, Safety, Environment (HSE) specialists and the Human Resources teams.

Promoting labor relations

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

Upholding human rights

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

Valeo has participated in the UN Global Compact since 2004, and confirms its compliance with the International Labour Organization (ILO) fundamental conventions on labor rights.

Promoting diversity

For many years, Valeo has been committed to strengthening diversity in every dimension.

Planning and actions are coordinated by a committee chaired by the Group Senior Vice-President, Human Resources, with each diversity topic (disability, age, gender, culture) placed under the responsibility of a Director or member of the Human Resources Department, which coordinates a global working group to define priority actions as well as initiatives to raise employee awareness and share best practices.

1.6.4 Operations

Purchasing

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

The Group's Purchasing Department is based on two major priorities:

- a **commodity/segment priority**, focusing on the specific purchasing strategy for these commodities. This involves a global approach that makes it possible to consolidate purchasing, giving the Group significant negotiating power, to coordinate communication with suppliers between the various Product Groups and implement a consistent supplier selection policy, in particular with business selection and allocation committees.

  The six commodities, divided into segments, are:

  - steel and processing,
  - plastics and processing,
  - non-ferrous metals and processing,
  - electromechanical components,
  - electronic components and systems,
  - lighting and other components.

  A seventh commodity concerns indirect purchasing of products, equipment and services used in the design of Valeo products or in manufacturing processes;

- **projects and product life**, focusing on day-to-day operations. This priority permits the initiation of projects using cost-effective parts and the implementation of technical efficiencies, as well as ensuring the re-sourcing needed to maintain the Group's competitiveness, particularly as regards the productivity gains that it must grant customers during the product life cycle.

Furthermore, the Purchasing network is in place across all of the Group's sites. The network's global reach allows Valeo to develop its sourcing from cost-competitive regions while remaining close to customers.

Valeo is particularly vigilant that suppliers comply with its Code of Ethics, focusing special attention on labor rights, human dignity and environmental protection. Any supplier that fails to respect these rules of conduct may be sanctioned.

In 2017, Valeo stepped up its efforts to raise supplier awareness on compliance and ethics, by continuing to roll out the Valeo Business Partner Code of Conduct. This document sets out Valeo's expectations of its business partners and offers advice on CSR (corporate social responsibility) conduct in all operating areas. Requirements are issued through a self-assessment questionnaire and audits.

Valeo continues to roll out tools designed to improve the quality systems implemented by its suppliers, especially for suppliers of companies that joined the Group recently. Its SRM (Supplier Relationship Management) system performs an essential function in the interface between Valeo and its suppliers. Modules such as the Incident Management System and Product Quality Assurance can be accessed on a secure extranet. These enable Valeo and its suppliers to work closely together and use standardized processes, for example to share project schedules and exchange and approve component qualification documents.

By awarding new contracts to the Group's most high-performing suppliers, in terms of quality, technology and productivity, Valeo confirms its strategy of integration and loyalty towards its partners. The team set up in 2012 to partner the Group's suppliers in emerging countries, especially India, China, ASEAN (Association of Southeast Asian Nations) and Russia, continued to deploy concrete initiatives during the year in favor of about 30 suppliers. This reflects Valeo's commitment to supporting its suppliers in their own quality initiatives, and to integrating them into Group projects.

Thanks to these resources, Valeo is able to integrate a growing number of its suppliers at the earliest stages of new projects.

In its efforts to reduce the cost of raw materials and components, Valeo has devised several measures to improve productivity:

- product and supplier base comparative assessments at Group level;
- joint productivity workshops between Valeo and suppliers;
- dynamic management of multiple supply sources and the allocation of new business.

Led by the Supplier Risks Committee under the authority of the Group Purchasing Department, a supplier risk plan aimed at anticipating the consequences of a sourcing crisis has been rolled out to every Product Group. Valeo carefully observed and assessed all suppliers in order to anticipate and respond as quickly as possible to potentially critical situations that could have an impact on future sourcing. In 2017, special attention was given to aspects concerning supplier financial risk, product civil liability and capacity risk management, and specific measures were taken accordingly. The effectiveness of this plan allows Valeo to protect its customers from possible supplier default. There were no significant production stoppages at Valeo plants or at those of its customers in 2017.

Industrial

The Industrial Department defines the Group's industrial strategy and ensures that its implementation generates the industrial performance improvements needed to meet Valeo's objectives. Improvements in product and customer service are sought along with reductions in production costs and fixed assets by optimizing industrial plant and applying Valeo standards on industrial processes, production systems and logistics.

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

- controlling strong growth;
- improving industrial performance;
- implementing the plant of the future (see "Automation and digitization" below).

Controlling strong growth in Group operations first involves strictly applying standardized industrial and logistics methodologies and tools. These are based on a set of robust and cost-effective standards that enable the Group to steer its industrial projects and operations. They are taught through local training and individual development programs provided by expert teams, in which 12,000 people took part in 2017. Additionally, each plant has set up an internal training center for operators where they receive the instruction necessary for them to carry out their work while respecting Valeo's standards, especially as regards safety, quality and performance.

The Industrial function of each Product Group is responsible for defining standards for industrial processes and making sure they are strictly applied at each plant. Synergies are developed between sites to ensure that standards are being adopted effectively. For example a support program was set up in which "Mother Plants" partner new activities or existing activities facing growth-related challenges, known as "Daughter Plants". The Industrial function of each Product Group also applies a lean model to managing industrial capacity to support growth while limiting investment expenditure.

The continuous improvement of industrial performance helps to boost the Group's profitability. The application of the Valeo Production System tools and methodologies generated more than 35 million euros in savings in 2017, while the ongoing efforts to optimize and centralize storage and transportation logistics costs saved the Group an additional 25 million euros. The Logistics function continues to develop and strictly apply just-in-time production and supply principles in order to manage stocks and guarantee customer satisfaction.

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

Automation and digitization

Valeo is setting up innovative automation and digitization processes.

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

At the same time, in the field of digitalization, Valeo has launched its "Plant of the Future" initiative taking into account the current possibilities offered by process digitization and automation. The aim is for Valeo to make progress through digital tools available to everyone without compromising the reliability and effectiveness of existing standard processes.

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

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

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

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

Quality

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

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

The Quality network's specific roles are to:

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

The Quality network is organized by customer, supplier, region and Product Line:

- every customer is represented in the Group by a "Champion" who continuously summarizes and reports on Valeo's global performance in line with the customer's measurement method, coordinates progress plans and provides Valeo employees with training modules on each customer's individual work methods, also known as the Customer Way. The Group has a network of resident engineers who continually analyze the performance of products delivered by Valeo on assembly lines or under warranty;
- partner suppliers are selected in close cooperation with the Group Purchasing Department. At site level, supplier quality assurance teams handle incidents and capitalize on the lessons learned;
- within a given region, the Quality Department fully integrates local requirements while ensuring consistent Group performance worldwide and recruiting the best local talent;
- at Product-Line level, the Quality Department is responsible for the robustness of product and process development.

In 2017, Valeo received a record number of nearly 114 awards from customers, i.e., 44% more than in 2016. Quality improved, with a customer returns rate of 3 parts per million products delivered, an improvement of 18% on 2016. Given the current context of strong growth and innovation, this performance reflects the Group's ability to control its expansion.

Valeo strengthened its systems and software quality organization to respond to the new challenges arising from autonomous driving developments. It also initiated advanced analysis of warranty data across its automaker customer network in order to constantly improve product reliability and durability.

For details of the Group's quality policy, see Chapter 4, section 4.5.1 "Total quality and product safety", pages 239 to 240.

1.6.5 Finance

The Finance Department comprises the following departments: Management Control, Reporting, Accounting, Financing, Cash Management, Tax, Investor Relations (see Chapter 6, section 6.2 "Investor relations", pages 415 to 416), Strategic Operations, Information Systems and Risk and Insurance. Operating either on a Group-wide network basis or centrally from headquarters, these functions carry out Valeo's financial strategy. In particular, they are tasked with:

- providing the tools and procedures necessary to supervise and monitor the performance of the Group's activities;
- producing tools to support decision-making;
- ensuring that the Group controls its financial risks;
- presenting detailed, up-to-date and relevant information on the Group's financial situation, the performance of its activities and its economic environment;
- ensuring the Group's financing;
- providing information systems units to meet their needs.

Management Control

The management controller acts as a co-pilot, assisting the operational managers with the management of the Group's activities as well as with the preparation and approval of documentation used in responding to tenders launched by automakers. He assists with the monthly accounts closing and provides analyses of performance, risks and opportunities using both key financial and operating indicators. He draws up three-month forecasts on a monthly basis and sets out the budget and the medium-term plan.

The management controller is present at all levels of the organization (sites, Product Lines, Product Groups, Regional Operations, Business Groups and Group). He works together with the accounting and cash management departments to provide relevant and reliable information. The management controller has a number of effective tools to enable him to carry out his duties, including standardized enterprise resource planning and reporting systems.

Accounting

The Group Accounting Department is responsible for preparing the consolidated financial statements for the Group and the individual financial statements for Valeo. Its mission is to supervise and control all the Group's accounting activities.

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

- the **Technical Standards Department** is responsible for the implementation and application of International Financial Reporting Standards (IFRS). In 2017, work mainly concerned IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments), which become mandatory on January 1, 2018, and IFRS 16 (Leases), which Valeo will apply from January 1, 2019. This department also prepares and organizes training sessions for the Group's finance teams with a view to improving reporting quality and promoting better knowledge of the standards;
- the **Consolidation Department** prepares the Group's consolidated financial statements; each member of the team, under its director's supervision, reviews the financial statements of subsidiaries within a specific region (Europe, America, Asia, etc.) and follows up on broader issues that also concern their region;

- the **Holding Companies Accounting and Valeo Internal Bank Department** prepares the financial statements of the Group's main holding companies and oversees the operations of the Group's Internal Bank (back office and middle office).

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

The Group Accounting Department guarantees the quality of the consolidated financial statements and their consistency with International Financial Reporting Standards (IFRS), as well as ensuring that the statutory financial statements of the subsidiaries are compliant with local accounting standards.

The notes to the consolidated financial statements were revised for the 2013 Registration Document. This work has continued in recent years, resulting in improved transparency, relevance and readability for the financial information reported by the Group. At the eighth annual Regulatory Information Transparency awards held in Paris in 2017, Valeo received the highest distinction among the 120 largest listed companies on the Paris stock market by picking up the top prize at the Grand Prix for Regulatory Information Transparency.

Financing and Treasury

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

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

- the **Cash Management Department**, which is responsible for means of payment and secure cash management, cash reporting, optimization of working capital and the management of customer credit risk. To do this, it leads a team of corporate treasurers operating across the Group. Working within the Shared Services Centers, which are organized by country, the treasurers work closely with the accounting services to produce standardized reporting. Secure applications are in place to control payment and collection flows;
- the front office of the **Valeo Internal Bank**, which oversees financing, banking relations and banking activities, identifies and centralizes the management of market risks (essentially liquidity, commodity, foreign currency and interest rate risk). The financing, investment and risk hedging strategies are reviewed monthly by the Group's Finance Department.

Tax

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

The Tax Department is divided into three functions:

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

Information Systems

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

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

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

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

Risk and Insurance

The two main responsibilities of the Risk and Insurance Department are to (i) help draw up the management policy for insurable risks and oversee its application, and (ii) take out global insurance covering the risks relating to Valeo's businesses.

The Risk and Insurance Department contributes to updating the Group's risk map within the Risks Committee.

It specifies and implements the policy relating to the transfer of the Group's residual risks to the insurance and reinsurance markets by taking out insurance coverage and rolling it out globally. It ensures that coverage is constantly adapted to changes in the Group's situation.

Risks that could impact Valeo's business are set out in Chapter 2, section 2.1.1 "Operational risks", pages 73 to 79. Details on insurance and risk coverage are given in Chapter 2, section 2.2 "Insurance and risk coverage", page 86.

1.6.6 Legal

The Legal Department ensures that Valeo's operations are carried out in compliance with Group procedures and with legal regulations and strives to defend the Group's interests.

The Group's General Counsel is a member of the Operations Committee. He is the Secretary of Valeo's Board of Directors and the Group's general secretary.

He leads a team based at the headquarters in Paris, as well as in the main countries and regions where Valeo operates. The Business Groups and Valeo Service each have their own General Counsel, who supervises their legal matters worldwide. Outside France, the General Counsels report to the respective National Directorates and are dedicated in particular to operations in their country or region, in coordination with the General Counsels of the Business Groups and Valeo Service. They advise operational managers and ensure that transactions within their remit are carried out in line with the ethics and compliance rules and the approval procedures implemented by General Management, and with the interests of the Group.

The legal team works alongside the other functions, from the product design stage through to marketing and sales and beyond. It assists the Research and Development Department in forming research and development partnerships, the Industrial Department in setting up new industrial facilities, the Purchasing Department in its relations with suppliers, and the Sales and Business Development Department in contracts with both old and new customers, as well as in managing product warranties.

The General Counsels of the Business Groups and Valeo Service are supported by and collaborate with the other functional departments to ensure maximum overall business security.

They also oversee legal matters at Group entities.

The team also has a Deputy Group General Counsel who is mainly responsible for handling due diligence and negotiating and drafting contracts for mergers and acquisitions.

1.6.7 Communications

The Communications Department is tasked with defining and implementing the Group's communications strategy and with strengthening Valeo's image and reputation across the world and with all stakeholders (employees, customers, journalists, suppliers, partners and the general public).

It is structured around five units:

- **Media Relations**, which manages all relations with journalists worldwide and in all media formats. This unit handles all queries and requests from journalists as well as proactively offering news topics, interview themes and events designed to highlight the Group's activities and image;
- **Internal Communications**, whose role is to unite the Group's teams and make each employee an ambassador for the Valeo brand and business, to ensure internal buy-in for the Group's strategy, strengthen commitment across the Group and assist the Group in successfully carrying out its major projects;
- **Managerial Communications**, responsible for encouraging swift and effective communications, and for facilitating discussion, interaction and cooperation throughout the Group. It aims to do this using three main drivers: digitalizing internal communications, leading a global network of communicators, and getting employees involved through the Group's Employee Advocacy program;
- **Brand and Image**, responsible for ensuring the consistency of brand expression worldwide, for creating and producing written documents, the Group's website and video material promoting the Group's image, and for safeguarding the brand's integrity, durability and strength;
- **Events**, which is tasked with organizing trade shows, product launches and customer site visits, for example, and with producing any other events organized by the Group's various departments.

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

2 — RISKS AND RISK MANAGEMENT

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

The environment in which the Group conducts its business is constantly changing. Valeo is therefore exposed to risks which, if they materialized, could have a negative impact on its operations, earnings, financial position, image and outlook. This chapter sets out the main risks to which Valeo considers it is exposed, including operational risks inherent to its business, legal and financial risks. The procedure for communications and crisis management is regularly updated in order to adapt it to every situation or event and limit the consequences for the Group. Other risks which the Group is not aware of at the reporting date, or which are not considered material at the date of this Registration Document, could also affect its operations.

However, these procedures do not provide absolute assurance that the Group's objectives will be achieved and that risks will be avoided. The purpose of the internal control system implemented by General Management and by Valeo teams is to identify and classify risks and to reduce the probability of risks materializing along with their potential impact on the Group.

2.1 Risk factors AFR

Note: CSR Non-financial risks (described in Chapter 4, "Sustainable Development", pages 167 to 270).

2.1.1 Operational risks

RISKS RELATED TO THE DEVELOPMENT AND LAUNCH OF NEW PRODUCTS CSR

Risk factor	Management of risk
Valeo's sales and earnings growth depends on the ability of the Group to anticipate technological and regulatory changes and to adapt to major changes and shifts in the market. The Group is exposed to the risks inherent in developing and manufacturing new products. Problems encountered in connection with project management, from design through to industrialization and including management of changes to orders already made, can impact the Group's image or reputation in terms of its ability to deliver innovative solutions to customers on time, and this in turn can impact the Group's financial position.	The Group employs every means necessary to remain at the cutting edge of technology, notably maintaining an in-depth, ongoing technology watch and conducting a systematic review of the ten-year technological development plan jointly prepared by the Research and Development and Product Marketing Departments. Valeo's Research and Development policy consists in effectively meeting market demand, designing the automobile of tomorrow, and anticipating and stimulating users' future needs, thanks to innovation and mastery of technologies. The Group has adopted a partnership approach with various stakeholders, working with manufacturers on economic and industrial collaborations, on "open innovation" projects, and with start-ups on still other projects. Several strategic acquisitions were recently made to support Valeo's value creation model based on innovation (see Chapter 5, section 5.2.2 "Changes in the scope of consolidation", pages 298 to 305). To ensure that products are developed in compliance with deadlines and duly meet customer expectations, Valeo sets up project teams and assigns a specific schedule and objective to each team. The Group also offers training to members of project teams so that they can develop the skills they need, and performs reviews to ensure that this policy is duly applied. Valeo provides ongoing operating and financial supervision based on a structured approach defined by the Group. This approach defines key issues in terms of product development and processes, including principles applicable to Product Groups, organizational and governance guidelines, business descriptions, forms and best practices that can be adopted by Valeo's teams in their daily work. In order to identify and properly understand the regulations applicable to its products in each of the countries where it operates, Research and Development teams have been strengthened by the appointment of a Regulatory Officer for each Product Group. Each regulation is translated into a standard to ensure that products developed and manufactured by the Group comply with applicable regulations. Meanwhile, in 2016 a Product Development Integrity Charter in the form of online training was rolled out to General Management and to R&D, Project, Purchasing, Quality, Industrial, Sales and Business Development networks, representing some 20,000 people in 2017. This charter is based on five core pillars: regulation, transparency, compliance, quality assurance and management reporting. In 2017, in order to guarantee the independence of its laboratories, Valeo set up a special training program for all employees of the Research and Development and Production Quality laboratories. Valeo systematically incorporates an environmental approach into each stage in the life of its products and processes, from design and production to utilization and end-of-life management. Experts in environmental matters and in R&D work together to reduce the environmental impacts of processes and products over their entire lifecycle and to ensure that they comply with applicable regulations. The Group constantly looks to anticipate changes in technology and in the regulatory landscape. However, it cannot be sure to anticipate all such changes. For more on Valeo's Research and Development policy, see Chapter 4, section 4.2 "Research and Development at Valeo: from megatrends to innovation", pages 181 to 197.

RISKS RELATED TO ATTRACTING AND RETAINING TALENT CSR

Risk factor	Management of risk
The Group operates in a fast-changing competitive environment against a backdrop of robust growth. This requires a sustained increase in human resources as well as a broad spectrum of skills to ensure that it can adapt to changes in the automotive industry. Valeo may therefore face difficulties in attracting and retaining talent and in adapting and taking on the necessary qualifications and skill sets to develop and manufacture its systems and products. The Group's massive investments in innovation mean that it hires a growing number of managers and professionals. In addition, the scarcity of labor in certain employment areas makes it difficult to hire the employees needed to increase production.	The Group's growth as a result of its high order intake will require it to add 6,000 employees to its global workforce each year over the next five years. This ambitious recruitment strategy will enable the Group to meet the different challenges it is facing, such as the war for talent and the ability to capture and boost specialist skills. The strategy draws particularly on a strong employer brand, with increased Group visibility and renown, more visible external communications and an enhanced presence on social media. The development of initiatives and partnerships with selected schools and universities is also part of this strategy. The HR network has undergone several changes in order to meet these challenges. New recruitment units are being set up for each country or region, with the aim of building specific recruitment expertise. To date, Valeo has 17 recruitment centers in place so that the Group can develop a countrywide or regional approach and improve hiring efficiency. Valeo continues to develop the means for identifying and hiring the right employees and for fostering employee loyalty. The Group's international scope enables it to offer its employees the opportunity to move between sites, countries, Product Groups and networks. Improved Technical Institutes and a network of Experts help develop in-house training and skills building in order to meet the need for new competences. In addition, Valeo works closely with schools and universities to train new engineers and to ensure that it will be able to meet the needs created by the challenges that await it in terms of innovation. Valeo is also attentive to its employees' opinion of the Group and its strategy, but also their view of the quality of work life. Worldwide surveys are conducted among all employees and targeted action plans developed which are then communicated to all staff. Valeo also has a Well-Being at Work program designed to guarantee a good work-life balance for its employees. For more on Valeo's talent management policy, see Chapter 4, section 4.4.2 "Attracting and retaining talent", pages 225 to 232.

INDUSTRIAL RISKS RELATED TO GROWTH

Risk factor	Management of risk
For several years, the Group's growth has come from a sharp rise in its order intake as a result of its successful innovations. The Group's fast-paced growth implies managing the risks of failing to anticipate growth trends or to adapt its production processes and supply chain accordingly, or even that its suppliers cannot provide the capacity it needs, which could have operational, reputational and financial consequences.	The Group's industrial strategy is rolled out in a strong growth environment and is aimed at preserving that environment. The key aspects of this strategy are based on: ▪ managing capacity, in terms of plants, investments or human resources, as part of the yearly preparation and review of the medium-term business plan; ▪ setting up multidisciplinary sites in order to generate synergies between sites and businesses, with "daughter plants" undergoing development or change assisted by more mature, "mother plants"; ▪ benchmarking of processes, using industrial indicators such as the duration of the cycle and the costs generated by quality defects; ▪ standardizing procedures for Product Groups and for production systems and the supply chain; ▪ selecting and supervising blue collar workers, supervisors and managers; ▪ setting up a crisis management unit where necessary. The Group's Industrial function is described in Chapter 1, section 1.6 "Industrial", page 67.

CYBERSECURITY AND IT SYSTEMS FAILURE RISK CSR

Risk factor	Management of risk
The Group depends on infrastructure and IT applications common to all of its businesses. These include procurement, production, distribution, billing, reporting and consolidation software, as well as new product design and development. Cybersecurity risks can include breach of confidentiality, loss of integrity and/or availability of the data and/or transactions processed by the information systems (system malfunction, data theft, data destruction and loss of data integrity) owing to external (denial of service, hacking, malware[(1)]) or internal (tampering, breach of data confidentiality) threats. Valeo also faces other indirect social engineering-type threats such as "fake chairman" or "fake treasurer" fraud, blackmail, ransomware[(2)], etc. In addition, the Group faces threats in relation to onboard systems and products, in their design phase and also in their operational and service phases, as the case may be. These threats are increasing with the rise of autonomous and connected cars. All of these risks and threats could impact the Group's operations and its profitability.	To address these risks and threats, the Group stepped up information system security by recruiting a Group Chief Information Security Officer in 2016 who reports to the Chief Financial Officer and heads the Information Systems Department. The Chief Information Security Officer is responsible for the governance and continuous improvement of information system security policy, and particularly: ▪ preventing risk by raising employee awareness, emphasizing a security "by design"[(3)] and "by default"[(4)] mindset and by stepping up audits of critical system components; ▪ continuing the security program in order to bolster access control for persons and equipment, protect sensitive data and identify potential system weaknesses; ▪ improving the detection of security incidents and the response model in accordance with the type of threat or its potential impact. Cybersecurity risks are managed in every region by a cybersecurity officer at each site. The program for vetting suppliers and, more generally, for verifying external systems interfacing with the Group's information systems, has been stepped up to better take into account the needs of Valeo's customers, current and future legal and regulatory requirements, and the recommendations issued by various government information system security organizations. All information system security rules are formally documented in an Information Systems Security Policy (ISSP), set out in an Information and Communications Technologies User Charter put in place by the Group and applied by all users. This charter is explained and illustrated in a practical guide that aims to raise users' awareness of the importance of safeguarding the Group's assets on a daily basis through the responsible use of available IT resources. An additional program to raise employee awareness of emerging IT threats was rolled out in 2017. Embedded cybersecurity was enhanced in 2017 when the Group recruited a product cybersecurity officer to work in the Group Electronics Expertise and Development Services (GEEDS) center. The cybersecurity officer, who works closely with the Product Groups, and reports to the Group Chief Information Security Officer, is responsible for: ▪ governance and continuous improvement of embedded cybersecurity, including its organizational structure; ▪ representing Valeo with international standard-setting groups such as ISO, Autosar, etc. in the area of automotive cybersecurity, and developing state-of-the-art internal methodology and standards that comply with the standards; ▪ verifying that the various Product Groups develop their projects in compliance with the internal methodology and international standards; ▪ capitalizing on the new developments by creating reusable software components to increase efficiency and robustness; ▪ improving the Group's embedded cybersecurity expertise by rolling out an internal training plan and developing external joint projects with higher education and research institutions. The Group's shared expertise center (GEEDS) is described in Chapter 4.5, section 4.5.1 "Total quality and product safety", pages 239 to 240. For more on our information systems protection policy, see Chapter 4, section 4.2.5 "Security and use of computer data", page 197.

(1) Malicious software used to contaminate information systems.
(2) Malicious software taking data hostage. Ransomware encrypts and locks files saved on computers and demands a ransom in exchange for a key allowing them to be decrypted.
(3) "Security by Design" (SbD) is a strategy to mitigate risk of cybersecurity with processes "that build security into IT systems from the beginning using sound design principles, rather than trying to tack it on at the end," (NIST definition - National Institute of Standards and Technology).
(4) "Security by default" means processes are always applied whenever necessary, as for example in privacy scope, as required by GDPR.

SUPPLIER FAILURE RISK CSR

Risk factor	Management of risk
In purchasing primarily specific products, Valeo is exposed to the risk that one of its suppliers fails to deliver on schedule the quantities required and that the products supplied fail to meet the requisite quality standards. This could cause interruptions to supplies and prevent the Group from delivering to its customers.	Valeo's growth results in increased business and more contracts with its most efficient suppliers. The size of its supplier base remains relatively stable on a like-for-like basis. Nevertheless, after several strategic acquisitions Valeo approved some new suppliers who had a long history with the recently consolidated entities, using a solid risk identification and monitoring process. In order to maintain its relations with suppliers, Valeo continuously monitors the supplier base in accordance with the supplier risk assessment procedures put in place by the Group. These procedures are based on multiple criteria including financial and management criteria, dependence on Valeo, integration and quality, as set out in IATF standard 16949(1). Each supplier undergoes a risk analysis, with each new contract and each time business is awarded. In addition, the Group maintains a management-approved watch list of any high-risk suppliers, who are monitored monthly by the Group Purchasing Committee. Emergency stockpiles are built up where necessary and/or additional production facilities launched (see Chapter 4, section 4.5.3 "Becoming a Valeo Supplier", page 245). In 2016, the Group launched a worldwide product civil liability insurance program with its partners allowing each supplier to subscribe and thereby meet the Group's coverage standards in terms of product defect risks. As a result, they are covered against any harm they may cause Valeo as a result of the products they supply. It should be noted that Valeo is highly integrated with its suppliers, in particular to continually improve the quality of the products it delivers to automakers. This does not mean, however, that there are ownership links between Valeo and its suppliers. The Group seeks to diversify its supply streams in order to mitigate supplier risk as far as possible while maintaining acceptable economic conditions. Since the supply capacity of certain businesses is limited, particularly electronic components, Valeo may be exposed to capacity allocation issues. To address this, production purchases are made with a broad range of suppliers, with several suppliers for each business and in each region where necessary and where possible. Ninety-five percent of Valeo's needs are handled by 1,069 suppliers. The Group's biggest supplier represents 4% of its purchases, the five biggest suppliers account for 12% and the ten biggest, 18%.

(1) International Automotive Task Force (IATF) standard 16949 has replaced by ISO TS 16949.

RISKS RELATED TO THE AUTOMOTIVE EQUIPMENT INDUSTRY

Risk factor	Management of risk
The Group's sales are directly dependent on the level of automotive production, which itself depends on car registrations and automakers' sales and production policies. In turn, these are influenced by a number of contextual factors, including changes in the geopolitical and macroeconomic landscape, inflation, consumer confidence, employment trends, disposable income, interest rates, consumers' access to credit, trade agreements, and regulatory changes and government initiatives, especially vehicle purchase and scrap incentives and corporate tax rates and employer contributions. A deterioration in the automotive market or a change in regulations, customs, taxes or other challenges to doing business in the regions in which the Group and its customers are present, particularly Europe, Asia or North America, could lead to a decline in the Group's earnings and/or to the default of some of its customers or suppliers, and could thereby affect Valeo's financial position. It should be pointed out that supply contracts with automakers take the form of open orders for all or part of a vehicle model's equipment needs, with no minimum volume guarantee. Similarly, the automotive industry is highly competitive and the Group may not be chosen to supply future generations of a model which it previously supplied, which could impact its earnings. Valeo's earnings could be affected by a model's commercial failure or as a result of a delisting, and this risk would be more pronounced given that vehicle platforms nowadays are worldwide.	Valeo has the appropriate expertise and resources to undertake the necessary restructuring measures should the automotive market experience a downturn or a geographic shift in automotive production. The Group maintains a tight rein on fixed costs, particularly by ensuring good workforce flexibility. The diversity of the Group's sales in terms of region, customer, brand and vehicle model makes it less vulnerable to negative trends in one of its markets. In line with its development strategy, Valeo seeks to ensure that its original equipment sales are well balanced. The Group's two largest customers accounted for 31% of its original equipment sales, its five largest customers 54%, and its ten biggest customers 84%. Valeo also derives 10% of its sales from the aftermarket, which is less vulnerable to fluctuations in the economic climate. The balanced geographic alignment of Valeo's businesses and its diversified customer portfolio are described in Chapter 5, section 5.1.1 "Balanced customer portfolio", page 275.

ENVIRONMENTAL OR ACCIDENT RISKS CSR

Risk factor	Management of risk
In the various countries in which Valeo operates, its business is subject to diverse and evolving environmental regulations that require compliance with increasingly strict environmental protection standards, and is exposed to the risk of failing to comply with such regulations. Depending on their geographic location, Valeo's sites may be exposed to risks relating to climate change, natural events such as earthquakes or extreme weather events including hurricanes, cyclones and floods. When choosing where to locate new plants or the measures to be taken to protect existing sites in vulnerable areas, Valeo takes into account the frequency and intensity of weather events caused by global warming. Lastly, Valeo's production facilities may be exposed to accident risks resulting from their activities including fire, explosions and/or machine breakages, which could affect plant availability.	The Group has always had a policy of providing the highest level of protection for its sites against natural events and technological or environmental risks (see Chapter 4, section 4.1.3 "Risks and opportunities related to the impacts of climate change", pages 172 to 173). Valeo's Health, Safety, and Environment (HSE) Department, which manages environmental and accident risks, is described in Chapter 4, section 4.3.1 "Valeo's environmental management organization", pages 200 to 201. In order to protect itself effectively against such risks, Valeo has put in place various standards: ▪ before it builds or acquires a site, Valeo performs an audit to identify the potential existence of an environmental liability, hazardous surroundings, as well as sensitivity to potential natural hazards such as earthquakes, floods, strong winds, etc.; ▪ the Valeo Risk Management Manual contains operating guidelines regarding water, atmospheric emissions and management, etc. and a special chapter on damage limitation in crisis situations. All these standards are described in Chapter 4, section 4.3.1 "Resources devoted to the prevention of environmental risks and pollution", pages 200 to 207. As decided by the Risk and Insurance Department, supervised by the Group's Operations Department via the Health, Safety and Environment Department, Valeo has put in place a program to ensure implementation of and compliance with these standards (see Chapter 4, section 4.3.1 "Evaluation and certification processes", pages 202 to 204). The Group has banned the use of asbestos in products and processes at all production plants for many years now, even in countries that still allow it to be used. Some Group companies are, however, involved in lawsuits for asbestos-related damages. Proceedings have been brought mainly in France by former employees (see section 2.1.3 "Claims, litigation, and governmental, legal and arbitration proceedings", pages 82 to 83). Valeo has also taken specific organizational measures in order to minimize the financial impact of these environmental or accident risks by: ▪ taking out insurance policies with leading insurers for the amounts needed to cover any claims that could result from these risks (see section 2.2 of this Chapter, "Insurance and risk coverage", page 86); ▪ maintaining environmental and accident-related risk provisions (primarily for site restoration) amounting to 16 million euros at December 31, 2017 (see Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the consolidated financial statements, pages 340 to 341).

GEOPOLITICAL RISKS

Risk factor	Management of risk
The Group's activities in certain countries can be affected by various risks relating to instability such as war, terrorism, armed conflict and labor unrest, and these could impact the Group's operations and profitability.	In order to protect itself effectively against such risks, Valeo has put in place various alerts and safety and security measures. Alert measures consist of actions to permanently monitor the political and social situation and safety risk in all countries, not only those where Valeo operates, but also those to which its employees might have to travel. Safety measures include rolling out initiatives such as: ▪ guides and information circulated among employees aimed at raising awareness of safety risks; ▪ employee training on safety issues; ▪ enhanced measures at sites that are regularly audited for safety; ▪ evacuation of expatriates; ▪ bans on travel to countries deemed high risk; ▪ informing travelers about risk in the country they are visiting (health, safety and security); ▪ special recommendations to complement the Group's operational directives when current events change the security outlook; ▪ a list of acceptable airlines for employee travel, selected based on safety and security criteria. Valeo has also taken out insurance policies to limit the financial impacts that could result from these risks.

CUSTOMER CREDIT RISK

Risk factor	Management of risk
The automotive sector is by nature fairly concentrated around several large international automakers. Valeo is exposed to credit risk and, more specifically, to the risk of default by its manufacturing or distribution customers.	Valeo works with all automakers in the automotive sector and endeavors to balance its customer portfolio as far as possible, in particular by including the new Asian players (see Chapter 5, section 5.1.1 "Balanced customer portfolio", page 275). The customer base of independent dealer networks (3% of the Group's accounts and notes receivable at December 31, 2017) is by nature highly diversified and is constantly monitored. Credit insurance policies have been taken out to protect the Group against the risk of payment default. The average days' sales outstanding, after the sale of trade receivables, stood at 51 days at December 31, 2017, compared to 47 days at December 31, 2016. For more information on the aging of trade receivables and impairment of doubtful receivables, see Chapter 5, section 5.4.6, Note 4.2 "Accounts and notes receivable", to the consolidated financial statements, page 310.

2.1.2 Legal risks

RISKS RELATED TO PRODUCTS AND SERVICES SOLD CSR

Risk factor	Management of risk
Valeo is exposed to warranty claims from customers due to faulty products sold, non-compliance with specific product regulations or compatibility issues (particularly if the products are complex systems) with regard to regulatory provisions. Regulations seeking to protect car users and/or defend the public interest, particularly in terms of the environment, are increasingly strict and checks that such regulations have been complied with are ever more frequent and thorough. Even though Valeo pursues a policy aimed at achieving quality excellence, the Group may at times be confronted by defective volume production that in some cases may impact safety or regulatory compliance resulting in a large-scale recall campaign for a given production period. If such a quality problem were to trigger a major recall, it could have a substantial impact on the Group's financial position and image. In addition to the risk of fines, Valeo is also exposed to the risk of individual or group liability claims in the event that defective products sold are said to have caused damage to users and/or third parties. Valeo is also exposed to the risk of liability claims by its customers for failure to comply with highly demanding contractual commitments imposed by these customers, which reflect the excellence they expect from their suppliers in terms of operational performance. This requires complete control over development and industrialization projects run in connection with new vehicle model or equipment launches. It also requires Valeo to be able to meet demand in terms of volumes at all times, as well as full compliance with delivery deadlines and reliable logistics operations.	During the product design and development phase, the Research and Development and Quality Departments are in charge of managing these risks. These departments ensure that the product has a robust design and complies with customer specifications, standards and regulations. During volume production, the Purchasing, Industrial and Quality functions (see Chapter 1, section 1.6.4 "Operations", pages 66 to 67), driven by the same total quality approach, look to ensure that components and materials purchased meet the requisite quality standards and are regularly supplied, and also make sure that production processes are stable. Sales of products and services are covered by statistical provisions that are regularly reviewed to reflect past return rates. These provisions cover the cost of replacing products under contractual warranty. To protect itself against the risk of recalls, the Group has an insurance policy that covers recall costs above the deductible amount and within a certain limit, i.e., the cost of returning vehicles to the garage, removing the faulty part, fitting the replacement part, and (to a limited extent) the cost of the replacement part itself. To protect itself against the risk of liability claims, Valeo has taken out an insurance policy to cover the financial impact (above the deductible amount and within a certain limit) of claims resulting from damage caused. However, it is uncertain whether the insurance policy would be adequate to cover the full financial consequences of any such claims. In any case, criminal liability risk cannot be insured and certain coverage exclusions can be applied. The Group's insurance policy is presented in section 2.2 "Insurance and risk coverage" of this Chapter, page 86. Provisions for product warranties amounted to 276 million euros at December 31, 2017 (see Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the consolidated financial statements, pages 340 to 341).

INTELLECTUAL PROPERTY RISKS (PATENTS AND TRADEMARKS) CSR

Risk factor	Management of risk
The major intellectual property risk that Valeo faces is counterfeiting by third parties or involuntary counterfeiting. Counterfeiting can result from actions by third parties against Valeo's patented products or manufacturing processes. These actions have an immediate adverse impact on Group sales and earnings and can harm the reputation and quality image of the products concerned. Valeo may also involuntarily be involved in counterfeiting, due mainly to the risk associated with the period during which patent applications are not published. Patent applications filed by third parties and known only on publication could impact current product developments or even products recently launched onto the market due to an increasingly short product development period. This situation would require Valeo to modify the product, leading to an increase in the project's Research and Development expenditure, or to negotiate rights of use to the patented item. In either of these cases, the profitability of the project would be affected. Claims may also be filed against Valeo by patent trolls, especially in the United States and in the field of new technologies. Valeo is also confronted with the risk of counterfeiting by third parties of its trademarks, the impact of which could be very significant on the aftermarket. Valeo's growing visibility is a key factor in the increasing counterfeit risk, particularly in Asia and the Middle East.	As far as possible and where warranted, Valeo's industrial expertise and the innovations generated by the Group's research are covered by patents to protect its intellectual property. Valeo is therefore an important patent filer in its business sector, with 2,053 patents filed in 2017. These patents, covering the major automotive markets, provide the Group with an effective weapon against counterfeiting and also help to guarantee its technological independence. To identify infringements of its patented rights and trademarks, the Group set up procedures several years ago in order to identify the various possible instances of counterfeiting: ■ in terms of trademarks, customs surveillance has been set up in various countries including China, so that the Group can be alerted to questionable imported and/or exported products. If the counterfeit is confirmed, Valeo refers the matter to administrative or litigation courts in order to have the courts put an end to the practice and sanction the infringement of its intellectual property rights; ■ in terms of patents, the Group systematically monitors potential counterfeits in its four Business Groups and in Valeo Service, as regards products for both the original equipment and spare parts markets. This system draws on third party product launch supervision at trade shows across the globe and particularly in Europe, the United States and China. Valeo vigorously defends its rights against any such infringements and takes action as needed, including before the courts, in order to have the courts put an end to the practice and sanction the infringement of its intellectual property rights. Regarding activities related to autonomous vehicles and connectivity, particularly in terms of software, Valeo is building up its teams of intellectual property engineers in order to bolster protection and oversight in these fields. Intellectual property risks are managed by the Research and Development Department's Intellectual Property unit. To ensure close links with project development teams, there is an Intellectual Property unit in each Business Group. Its aim is to put into practice the principle set out in the Group's ethical rules and to only offer customers products that are freely marketable according to Valeo's best knowledge as drawn from regular reviews of competitors' patents while new products are being developed. Provisions for employee-related and other disputes totaled 139 million euros at December 31, 2017 and cover intellectual property disputes in particular. Details of these provisions are provided in Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the consolidated financial statements, pages 340 to 341.

RISKS OF NON-COMPLIANCE WITH THE CODE OF ETHICS OR THE LAW CSR

Risk factor	Management of risk
Ethics and integrity are core values for Valeo. Like any international group, Valeo may be exposed to legal risks resulting from breaches of its Code of Ethics or from a failure of its employees or stakeholders to comply with applicable laws and regulations. These shortcomings may expose the Group or its employees to criminal or administrative sanctions and could adversely impact its reputation and results. They could also lead to customers bringing legal proceedings against the Group. This calls for firm preventive measures based on the highest ethical standards, stringent rules of conduct and in-depth training and awareness initiatives.	For more information on the work of the Ethics and Compliance Office, see the "Governance" section of the Integrated Report "Strict adherence to ethics and compliance principles" page 35, and Chapter 4, section 4.5.2 "Ethics and compliance", pages 240 to 243.

Claims, litigation, and governmental, legal and arbitration proceedings

Proceedings arising within the ordinary course of business

In the ordinary course of the Group's operations, certain entities may be involved in legal proceedings. Lawsuits have been brought by certain current or former employees for asbestos-related damages or on the grounds of previous asbestos exposure. Almost exclusively in France, former employees exposed to asbestos in the Group's plants could have developed an illness as a result of this exposure. If such illnesses were considered as occupational illnesses by health insurance funds, the employees concerned could bring a claim against Valeo (as their former employer) for inexcusable misconduct (*faute inexcusable*). If the inexcusable misconduct claim were upheld and enforceable against the former employer, Valeo would have to pay additional compensation to its former employees or their beneficiaries.

In 1999, French law introduced an early retirement scheme for workers having been employed at sites officially recognized by decree as having contained asbestos. Under certain conditions, the workers concerned are entitled to early retirement. Pursuant to rulings previously handed down by the Supreme Court (*Cour de cassation*), many former employees entitled to early retirement on these grounds have brought claims against Valeo before the French Labor Court (*Conseils de prud'hommes*) seeking damages for anxiety regarding an asbestos-related illness. These claims have been time-barred since June 2013.

Other claims may be filed against Group companies, for example by their employees or by the tax authorities.

Each of the known cases involving Valeo or a Group company is examined at the end of the reporting period and the provisions deemed necessary based on the advice of legal counsel are set aside to cover the estimated risks.

Provisions for employee-related and other disputes, totaling 139 million euros, notably cover risks relating to former employees, particularly in connection with asbestos. A provision for 54 million euros had been set aside for tax disputes at December 31, 2017. Details of these provisions are provided in Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the consolidated financial statements, pages 340 to 341.

Even though the outcome of outstanding lawsuits cannot be foreseen, at the date of this report Valeo considers that they will not have a further material impact on the Group's financial position.

Antitrust investigations and resulting proceedings

At the end of July 2011, antitrust investigations were initiated against numerous automotive suppliers, including Valeo, by the US and European antitrust authorities in the area of components and systems supplied to the automotive industry (see Chapter 5, section 5.6, Note 7.2 "Antitrust investigations" to the consolidated financial statements, page 340).

A settlement was reached in 2013 which terminated the proceedings with the US federal authorities.

On March 8, 2017, the European Commission handed down its decision and fined the automotive air conditioning and engine cooling suppliers under investigation, including Valeo.

Three class actions were filed against Valeo Group companies for alleged antitrust violations in the climate control industry, with the United States District Court for the Eastern District of Michigan, which Valeo has settled. Two class actions were settled following court approval on November 30, 2016 and April 19, 2017. The third class action, which was brought by direct purchasers, was settled on February 14, 2017, subject to definitive court approval in 2018. Separately, two class actions remain ongoing in Canada.

Other proceedings

To the best of Valeo's knowledge, and excluding the above-mentioned antitrust proceedings and any resulting claims for damages, there are no governmental, legal or arbitration proceedings, including proceedings in progress, pending or expected, that may have, or have had, in the past 12 months, a significant impact on the financial position or profitability of the Company or the Group.

However, Valeo cannot rule out new lawsuits resulting from facts or circumstances that are unknown at present, or where the associated risk cannot as yet be determined and/or quantified. Such lawsuits could have a significant adverse impact on the Group's net earnings or image.

2.1.3 Financial risks

Valeo's Financing and Treasury Department (part of the Finance Department) proposes and implements rules on managing liquidity risks, market risks (commodity, foreign currency, interest rate and equity) and the associated banking counterparty risks. These risks are generally managed centrally by the parent company. Financing, investment, risk identification and hedging strategies are reviewed each month by the Group's Finance Department.

The Financing and Treasury Department is supported by, among other things, a treasury management system that constantly monitors the main liquidity indicators and all of the financial derivatives used at central level to hedge commodity, currency and interest rate risks. Valeo's Finance Department receives periodic reports about market trends and the liquidity, commodity, currency, interest rate and counterparty risks incurred by the Group, as well as hedging operations implemented and their valuation.

COMMODITY RISK

Risk factor	Management of risk
The Group uses a variety of raw materials for its industrial operations, including non-ferrous metals, steel, plastics and rare-earth metals. These represented purchases of 2.6 billion euros in 2017, of which 38% non-ferrous metals, 35% steel, 26% plastics and 1% rare-earth metals. Valeo is exposed to increases in the price of these commodities. In such an event, the Group may not always be in a position to pass on the full extent of the rise to its customers, which may have a negative impact on its earnings.	See Chapter 5, section 5.4.6, Note 8.1.4.2 "Fair value of commodity (non-ferrous metals) derivatives" to the consolidated financial statements, pages 354 to 355.

FOREIGN CURRENCY RISK

Risk factor	Management of risk
As the Group conducts its business in an international environment, Group entities may be exposed to operational currency risk, resulting from transaction risks with respect to purchases or sales of products or services transacted in currencies other than their functional currency. The financing needs, met by intra-Group borrowings, of foreign subsidiaries outside the eurozone expose some entities of the Group to financial currency risk. This risk corresponds to the risk of changes in the value of financial receivables or payables denominated in currencies other than the functional currency of the borrowing or lending entity.	See Chapter 5, section 5.4.6, Note 8.1.4.1 "Fair value of currency derivatives" to the consolidated financial statements, pages 353 to 354.

LIQUIDITY RISK

Risk factor	Management of risk
The Group looks to maintain very broad access to liquidity in order to meet its commitments and investment requirements, for which it must maintain a certain level of liquidity. To do this, it borrows from banks and on capital markets, which exposes it to liquidity risk in the event that these markets partly or wholly dry up.	See Chapter 5, section 5.4.6, Note 8.1.2 "Gross debt" to the consolidated financial statements, pages 344 to 349, and Note 8.1.3 "Net debt" to the consolidated financial statements, page 349.

INTEREST RATE RISK

Risk factor	Management of risk
Interest rate risk depends on the Group's debt and financial investments and on financial conditions (i.e., the fixed/variable interest rate mix).	See Chapter 5, section 5.4.6, Note 8.1.4.3 "Fair value of interest rate derivatives" to the consolidated financial statements, pages 356 to 357.

BANKING COUNTERPARTY RISK

Risk factor	Management of risk
The Group is exposed to counterparty risk on financial market transactions carried out for the purposes of managing risks and cash flows – essentially on cash and securities deposited with financial institutions, which are recognized at fair value in the consolidated statement of financial position.	See Chapter 5, section 5.4.6, Note 8.1.1 "Fair value of financial assets and liabilities" to the consolidated financial statements, page 343, Note 8.1.3.2 "Cash and cash equivalents" to the consolidated financial statements, page 350, and Note 8.1.4 "Derivative financial instruments" to the consolidated financial statements, page 351.

EQUITY RISK

Risk factor	Management of risk
Equity risk for the Group consists mainly of two elements: ▪ risk on treasury shares, or the risk of changes in equity when it is adjusted to reflect the fair value of treasury shares purchased or sold; ▪ risk on equity investments for pension funds, and their returns.	A detailed presentation of movements in treasury shares held in respect of the liquidity agreement or to cover stock option and free share plans, is provided in Chapter 6, section 6.5.2 "Treasury shares", pages 425 to 426. A detailed presentation of plan assets is provided in Chapter 5, section 5.4.6, Note 5.3.5 "Breakdown and movements in plan assets" to the consolidated financial statements, pages 325 to 327.

2.2 Insurance and risk coverage

The Group's insurance strategy is combined with a strong risk prevention and protection approach and coverage includes major claims.

With the aim of optimizing insurance costs, the Group self-insures risks likely to recur and whose amounts are not significant.

The Group pools and thereby reduces its risks, in worldwide insurance plans taken out in each country in accordance with local rules, guaranteeing uniform quality and coverage level for the Group's risks throughout the world. This strategy also contributes to reducing volatility of costs and coverage.

All Group companies are insured by first-rate insurance companies for all major risks that could have a material impact on their business, earnings, assets and liabilities.

The risks covered include:

- property damage: insured events relate to technological risks (in particular fire, explosion, machine breakage and electrical damage) as well as natural events (in particular wind, floods and earthquakes). Property is insured on the basis of the replacement cost of buildings, equipment and inventories;
- business interruption: this covers any cases where activity is interrupted or reduced following an event insured under property damage coverage or, by extension, one of the following events: physical impossibility of accessing a site, client or supplier deficiencies and loss of energy supply. Business interruption is insured on the basis of loss of gross margin;
- liability for all kinds of damage towards customers and third parties. The Group also takes out insurance to cover the financial consequences of any liability it incurs due to damage of any nature caused by its products, as well as the financial consequences of product recall campaigns that may be carried out by automakers;
- goods and equipment transportation and business interruption following transportation incidents;
- liability towards employees for occupational illnesses and accidents;
- liability for workplace risks;
- IT system security infringements.

Property damage and business interruption events are insured for 1 billion euros per claim. Valeo endeavors to optimize the part of its insurance coverage which is subject to sublimits by current practice and restrictions common to the insurance and reinsurance markets. In particular, special attention is given to coverage of natural events.

The general liability insurance policy provides coverage of up to 300 million euros per claim per year. The recall policy covers claims in full without sublimits. Valeo pays 8 million euros per claim per year through its reinsurance subsidiary, above and beyond the applicable deductibles.

The Group paid a total of 18 million euros in premiums for its insurance coverage in 2017.

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

2.3 Internal control and risk management AFR

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

The Group's risk management system can be illustrated in accordance with the three lines of defense model. This entails acknowledging the responsibilities of the governing bodies and distinguishing between three functional teams involved in risk management, as follows:

- the teams that assume and manage risks;
- the teams that monitor risks;
- the teams that provide independent assurance.

BOARD OF DIRECTORS

The Board of Directors defines the composition of the Board, the responsibilities of the Audit & Risks Committee and its modus operandi, and approves the Management Report, which discusses the internal control and risk management procedures put in place by the Group.

AUDIT & RISKS COMMITTEE

The Audit & Risks Committee oversees the effectiveness of the risk management and internal control systems within the Group. It regularly reviews the risk mapping of the main risks identified by General Management, the results of the operation of the risk management and internal control systems and the relevance of the risk monitoring procedure.
It also ensures that appropriate action plans have been implemented to mitigate the problems and weaknesses identified.

GENERAL MANAGEMENT

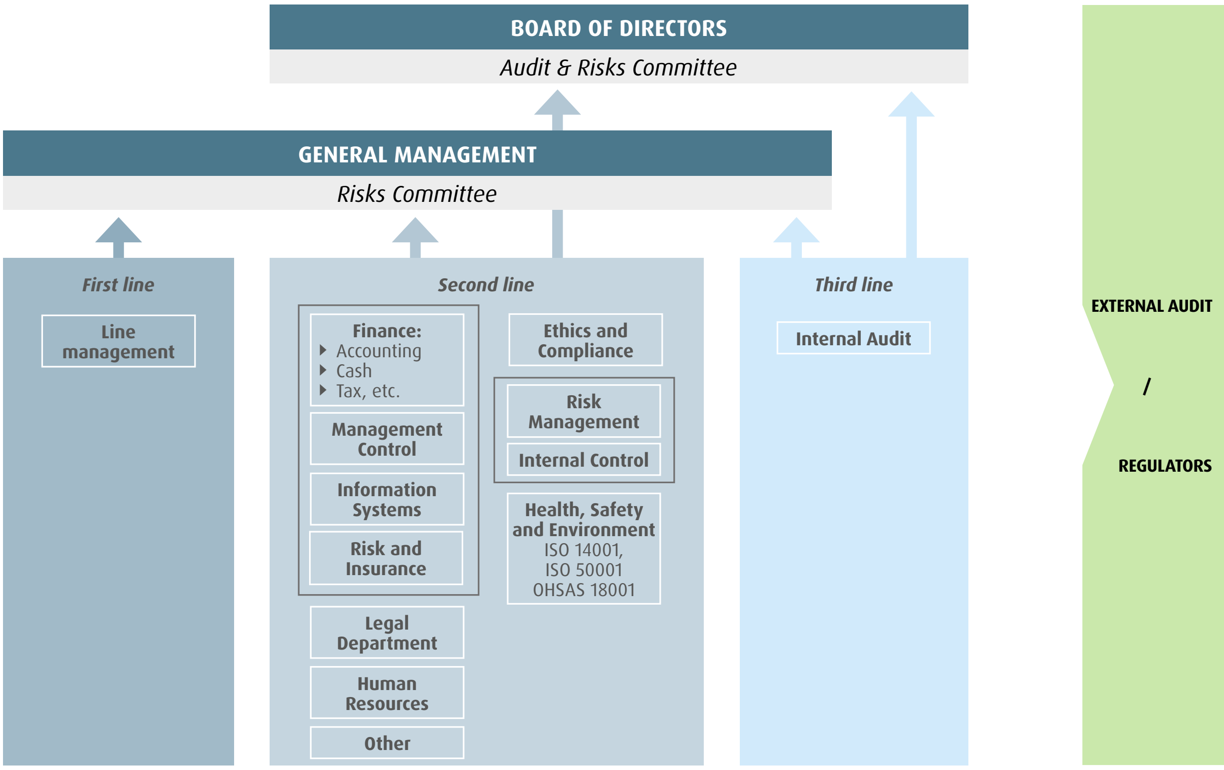
General Management sets strategic guidelines, arbitrates the allocation of resources to the Business Groups/Product Groups and Valeo Service, develops synergies between the Business Groups and National Directorates through the functional networks, and ensures that internal control procedures are duly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

RISKS COMMITTEE

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

OTHER PLAYERS

- **External auditors** report on any material internal control weaknesses with regard to the procedures for preparing and processing accounting and financial information. This is part of their annual statutory audit and consolidated/parent company financial statement certification engagement.
- The **regulators** also play a part in reinforcing existing risk management procedures.



FIRST LINE DEFENSE

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

SECOND LINE DEFENSE

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

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

THIRD LINE DEFENSE

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

2.3.1 Internal control and risk management – Definitions and applicable standards

Definition

Internal control as defined by the Group is the process implemented by management and employees to provide reasonable assurance regarding the due and proper management of operations with regard to the following objectives:

- reliability of financial and management data;
- compliance with applicable laws and regulations;
- implementation of guidelines and strategies set by General Management;
- adequate functioning of the Company's internal processes, particularly processes to help safeguard its assets;
- risk management;
- effectiveness and efficiency of operations.

As with any control system, Valeo's internal control procedures cannot provide absolute assurance that the Group's objectives will be achieved and that certain risks will be prevented from materializing. The purpose of the system put in place by Valeo is to reduce the probability of incidents occurring and their potential impact.

Applicable standards

Valeo has adopted a definition of internal control in line with the international standards provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the findings of which were published in 1992 in the United States. There are no significant discrepancies between Valeo's internal control organization and the procedures and principles described in the reference control framework and the Application Guide set out by the AMF.

2.3.2 Scope of internal control and risk management

Valeo's internal control and risk management procedures are applied to the entire Valeo Group, defined as the parent company Valeo and all of its fully consolidated subsidiaries.

2.3.3 Components of the Valeo Group's internal control and risk management system

Valeo's internal control procedures are based on the five components defined in the COSO framework.

Further to the February 2013 publication of an update to the COSO framework effective from December 2014, an analysis was conducted to assess the compliance of Valeo's internal control system with the international framework's new requirements. It resulted in the development of procedures implemented to prevent, detect and deal with fraud, to strengthen middle management's role in implementing the internal control process and to measure the robustness of subcontractors' internal control systems for outsourced services.

Control environment

The control environment sets the tone of an organization, influencing the level of awareness of its employees to the need for controls within the Group.

Valeo's internal control system is organized around a multi-tier operational structure: General Management, Group functional departments, Business Groups/Product Groups, Valeo Service, National Directorates and operational entities. General Management sets strategic guidelines, arbitrates the allocation of resources to the Business Groups/Product Groups, and develops synergies between Business Groups and National Directorates through the functional networks. The Business Groups/Product Groups, Valeo Service and the National Directorates control the performance of the operational entities and play a key role of coordination and support between the entities, notably with regard to the pooling of resources, the allocation of Research and Development expenditure and the optimization of production among the different industrial plants. Each level is directly involved in implementing the internal control system. For this purpose, the Group has established operating principles and rules with appropriate delegation of powers, starting with those of the Chairman and Chief Executive Officer, which precisely define the areas and levels of decision-making and control for each operational manager.

Valeo's policies and behavioral principles are set out in a Code of Ethics, which aims to ensure that Valeo operates in accordance with national and international rules of ethics and law. The code places major emphasis on upholding fundamental rights with respect to the prohibition of child labor, employment of disabled workers, the fight against discrimination and harassment, and occupational health and safety. It also highlights the Group's commitment to sustainable development, based on respect for the environment and the relentless drive for environmental protection, both of which are a priority for the Group. Finally, the Code of Ethics deals with societal aspects and business conduct. Available on the intranet and translated into 22 languages, the Code has been sent out to all of the Group's employees. It is also available on Valeo's website (www.valeo.com).

Capitalizing on its Code of Ethics and its culture of integrity, the Group has implemented a compliance initiative since 2012 under the aegis of the Ethics and Compliance Office, which created an in-depth program to fight corruption and anti-competitive practices. This program is both specific and well-suited to the regulatory constraints and the culture of the countries where Valeo operates. It uses annual and mandatory training campaigns for all Group managers and professionals. In 2017, the entire program was reviewed in order to bring it up to date with the provisions of the Sapin II law. In particular, the Group drew up a specific corruption risk map and is currently rolling out action plans aimed at reducing these risks. The section of the Code of Conduct concerning the prevention of insider trading and the notification procedure for those affected was updated following the entry into force of EU Regulation no. 596/2014 on market abuse (see Chapter 3, section 3.2.2 "Directors' rights and duties", pages 121 to 122).

Risk management assessment and procedures

Internal control procedures concern the ongoing identification and analysis of risks that may impact the objectives set by the Group, forming a basis for determining how those risks should be managed. By identifying possible risk factors, the Group can more accurately define what control activities are appropriate. This process involves risk mapping used to identify, review and monitor major risks. These risks are analyzed in depth and are evaluated according to a matrix that takes into account their potential financial impact, likelihood of occurrence and associated level of control in order to determine the degree of exposure.

Risk management procedures are coordinated by a Risks Committee made up of nine permanent members: the Chief Operating Officer; the Chief Financial Officer; the Group Risk and Insurance Director; the Group Accounting Director; the Group Internal Audit and Control Director; the Vice-President, Corporate Strategy and External Relations; the Chief Ethics and Compliance Officer; the Senior Vice-President, Human Resources; and the General Counsel. This committee met six times in 2017 and is mainly tasked with reviewing the risk mapping process and heading up the dynamic risk management system. This involves identifying for each major risk in the mapping process a "risk owner" who reports to a member of the Risks Committee, whose role is to monitor changes in the risk based on key indicators reviewed by the Risks Committee. Based on how the risk evolves and the related control system, each risk owner presents an analysis of the level of risk giving rise to the implementation of action plans when necessary.

Risk monitoring by the Business Groups and National Directorates enhances the dynamic risk management implemented by the Risks Committee. Along with the functional networks, the Business Groups and National Directorates are responsible for assessing and managing risks within their remit, and for ensuring compliance with local regulatory requirements. They are also responsible for ensuring that guidelines and recommendations defined at Group level are properly applied throughout their operational entities.

Risk mapping gives rise to an annual update approved by the Risks Committee, based on a detailed analysis of the major risks and monitoring carried out by the risk owners. The findings of the latest update were presented to the Audit & Risks Committee at its meeting on November 22, 2017. Accordingly, crisis management and communications risk was added to the list. A 2018 audit plan was drawn up on the basis of these findings, with a focus on the most acute risk areas.

The main risks identified and the procedures for managing these risks are presented in section 2.1 of this chapter, "Risk factors", pages 72 to 92. They are:

- operational risks, which include in particular risks relating to the development and launch of new products, risks related to attracting and retaining talent, industrial risks related to growth, cybersecurity and IT systems failure risk, supplier failure risk, risks relating to the automotive equipment industry, environmental or accident risks, geopolitical risks and customer credit risk;
- legal risks, comprising notably risks relating to products and services sold, intellectual property risks (patents and trademarks) risks of non-compliance with the Code of Ethics or the law;
- financial risks, which include commodity risk, foreign currency risk, liquidity risk, interest rate risk, banking counterparty risk, and equity risk.

Control activities

Control activities are the policies and procedures that help ensure that General Management directives are carried out. They are performed throughout the organization, at all levels and in all functions with the aim of mitigating the risks described above.

The Group has a Financial and Administrative Manual that contains all the financial management procedures. It is used throughout the operating departments on a daily basis and is divided into four main sections defining the rules relating to:

- internal control;
- management control;
- accounting: how the main items of the statement of financial position and income statement should be measured and presented;
- cash management: payment procedures and cash from operations.

Every year, letters of representation regarding compliance with the Group's internal control and management guidelines are drawn up at the different levels of the operational organization. At the end of 2017, the National Directors and National Financial Directors, the Financial Directors of the shared services centers, as well as the Financial Directors and Controllers of the operational entities all signed these letters of representation.

In addition to the Financial and Administrative Manual, the functional departments have drawn up special rules and procedures that are consistent with financial and management standards:

- Clean Project Management (CPM), including the Constant Innovation Charter, which defines the way to manage development projects;
- marketing procedures and sales practices;
- human resources procedures;
- ethics and compliance rules that define the principles that all the Group's employees must comply with while conducting business and completing work related to their position and level of responsibility;
- purchasing procedures that set down the Group's strategy and objectives for purchasing and its supply base, as well as the rules that buyers and all stakeholders must follow throughout the purchasing process;
- the Risk Management Manual on security, safety, health and the environment, as well as the Insurance Manual;
- legal procedures that set down the principles with which the Group must comply, mainly laws and regulations applicable in the countries where the Group operates, the Group's contractual obligations and the rules protecting the Group's intellectual property.

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

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

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

Steering the internal control system

The internal control system is jointly monitored and steered by General Management, the Risks Committee, and the Internal Audit and Control Department, with support from the functional departments, as well as management teams at the Business Groups/Product Groups, Valeo Service and the National Directorates.

The internal control system is audited by the Internal Audit and Control Department. This department is tasked with carrying out assignments within the Group to ensure that the procedures are implemented, the performance indicators are calculated in accordance with the rules of the business lines and the processes are effective. The tasks set out in the annual audit plan are set down based on the risk map. For 2017, the Internal Audit Department performed financial and IT audits at the operational entities and finance and accounting shared services centers as well as cross-functional audits examining the application of currency hedging procedures, indirect tax declaration and monitoring processes, supplier evaluation procedures, and the IT security of some of our financial software.

In 2017, the Internal Audit Department's Anti-Fraud Unit also performed more than 100 specific investigations following allegations of fraud received by email or letter (most of them anonymously) or via the whistleblower hotline put in place in February 2014. These allegations were handled by a dedicated audit team under the responsibility of the Group's Fraud Investigation Officer. The Alerts Committee, made up of the Chief Financial Officer, the General Counsel, the Senior Vice-President, Human Resources, the Chief Ethics and Compliance Officer and the Group Internal Audit and Control Director, was informed of the detailed findings of the investigations carried out by the Internal Audit Department, which decides on the actions to take and sanctions to apply in the case of actual fraud. An alerts report is also presented at least twice a year to the Audit & Risks Committee.

Recommendations for critical issues identified during the various assignments carried out by Internal Audit are put forward to the audited entities and shared services centers, which are subsequently required to implement appropriate action plans. Internal Audit's work and findings, as well as the progress made with the action plans in the audited entities, are presented to the Audit & Risks Committee every year in accordance with the committee's internal procedures.

The application of Valeo's quality, industry, project management and safety standards is regularly checked via VAQ (Valeo Audit Quality) audits, and the environmental and safety aspects are overseen by the Health, Safety and Environment Department. Valeo has thus launched a certification program for its manufacturing plants in accordance with the ISO 14001 standard (relating to environmental management) and the OHSAS 18001 standard (concerning occupational health and safety). At December 31, 2017, 122 plants had been certified to each of these standards, out of a total of 128 eligible plants. The percentage of ISO 14001- and OHSAS 18001-certified plants is therefore 95%.

In 2013, Valeo launched a certification program for its manufacturing plants in accordance with the ISO 50001 standard (relating to energy management systems). At December 31, 2017, 17 plants (13%) had been ISO 50001-certified out of a total of 128 eligible plants.

2.3.4 Organization of internal control and description of the assessment process

The Internal Control Department reports directly to the Internal Audit and Control Department. At the end of December 2017, it was made up of a team of 15 people, exclusively dedicated to internal control at Group and regional level. In 2017, the main role of the regional controllers was to assist the Group Internal Control Director in overseeing the internal control self-assessment campaign and ensuring best practices are applied uniformly across the regions with the support of the Business Groups and National Directorates.

The Group has developed a self-assessment process based on a questionnaire in order to measure and assess correct implementation of existing internal control procedures throughout all of its operational entities.

In 2017, the self-assessment questionnaire was rolled out, focusing on the following seven processes: accounts closing; sales, receivables management and payments received; purchases, payables management and payments made; monitoring of fixed assets; monitoring of inventories; payroll and human resources; cash flow. The self-assessment campaign involved 283 operational entities including 18 finance shared services centers (SSCs).

As part of the campaign, rules for documentation and testing (size of the sample used) were set so as to ensure reliability and uniformity of the tests carried out in the entities. A special database of internal control best practices has been posted on the Group's intranet.

A report of the initiative implemented in 2017 was presented to the Audit & Risks Committee on November 22, 2017. The results make it plain that internal control standards and the assessment procedure have been significantly improved owing mainly to the department's greater visibility and efficiency thanks to the establishment of clear objectives, the increased use of information systems and regular additions to department staffing.

The areas of improvement for the Group's internal control and risk management procedures are presented in section 2.3.7 of this chapter, "Outlook", page 92.

In addition to the internal control self-assessment and the implementation of action plans, Valeo has rolled out a procedure aimed at reviewing user profiles and access controls for the integrated business software package used within most of the Group's entities. The aim of this process is to ensure that the rules relating to separation of tasks laid down by internal control are applied consistently across all operational entities and shared services centers. Using matrices that show incompatibilities for each of the processes, standard user profiles respecting the principles for separation of tasks have been defined and deployed. Whenever the package is deployed for the first time, the Internal Audit team provides manuals and tracks incompatibility matrices, in liaison with the entities concerned.

2.3.5 Information and communication

Pertinent information must be identified and communicated in a form and timeframe that enable all of the Group's staff to carry out their responsibilities and perform the checks required of them. The information originating from the management system is analyzed and circulated once a month to all operational personnel. A monthly summary is presented to the Group's Operations Committee, comprising the Chairman and Chief Executive Officer, the Chief Operating Officer and 12 other functional or operational directors.

2.3.6 Procedures for preparing and processing financial and accounting information for the financial statements of the Company and the Group

The Finance Department is responsible for preparing the parent company and the consolidated financial statements, and reports to the Chief Executive Officer. The budget and monthly reporting procedure is a critical tool for Valeo in managing its operations. The same information system tool is used for the consolidation and reporting processes, thus ensuring completeness and consistency in the preparation of financial information.

The Finance Department is in charge of the internal control procedures pertaining to the preparation and processing of financial information. Production and analysis of this information is handled as follows:

- the Group Accounting Department prepares and disseminates the accounting procedures used by the Group, making sure they are consistent with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The Accounting Department, along with the Management Control Department, carries out regular checks to ensure that operations have been correctly recorded in the accounting books;
- the Consolidation Department (within the Group Accounting Department) is responsible for preparing half-yearly and annual consolidated financial statements under IFRS. Each half-yearly and annual report includes for each legal entity complete financial statements, drawn up on the basis of detailed period-end closing instructions, which include the accounts closing schedule, changes in the scope of consolidation, classification of and movements in the main statement of financial position items, the process for reconciling inter-company transactions within the Group, and the supervision of off-balance sheet commitments (entities are required to provide an exhaustive list of their commitments and also to monitor them);

- based on detailed monthly information for each management entity, the Management Control Department assesses the economic performance of the Group, analyzes the relevance of reported information, and prepares a summary of management indicators for General Management. Its analyses focus on sales, the order book, and margin and EBITDA analyses[1] for each Business Group/Product Group and geographic area;
- the Tax Department coordinates the Group's tax policy and advises the legal entities, National Directorates and, where necessary, the Business Groups/Product Groups and Valeo Service on all issues relating to tax law and also on the implementation of the tax consolidation system within certain countries.

2.3.7 Outlook

Valeo will pursue ongoing efforts to improve its identification and analysis of risks, and its internal control system. The purpose of these efforts, in place for several years now, is to constantly adapt human resources, management and control tools and information systems in line with changes in the Group's structure and objectives. In 2018, the Group will continue to develop its internal control policy, in particular by continuing to roll out IT internal control guidelines, by adapting its internal control guidelines to meet emerging operating imperatives, and developing data analysis software to enable constant monitoring of its operational entities.

The Group's aim is to develop pertinent and effective internal controls at each level of responsibility, based on:

- an appropriate control environment;
- the accountability of all parties involved, and particularly operational staff key to the internal control processes and responsible for driving forward ongoing internal control improvements;
- consideration of the cost of implementing internal controls with regard to the level of risk exposure.

This approach is actively supported by the Group's General Management.

(1) See Financial Glossary, page 36.

3 —

CORPORATE GOVERNANCE AFR

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

Valeo refers to the AFEP-MEDEF Corporate Governance Code for Listed Companies as amended in November 2016, which is available on the MEDEF website (www.medef.com). The application of the recommendations of the AFEP-MEDEF Code is described in section 3.2.4 of this chapter, "Corporate Governance Code", page 136.

The information contained in this Chapter 3, pages 94 to 166, constitutes the Corporate Governance Report required by Article L.225-37 of the French Commercial Code (*Code de commerce*). The information comprising this report was prepared by several of Valeo's functional departments, mainly the Legal, Finance and Human Resources Departments. It was reviewed by the Compensation Committee and the Governance, Appointment & Corporate Social Responsibility Committee for the parts under their respective authority, and then by the Board of Directors.

3.1 Corporate governance bodies

The Group's Executive Management team includes the Chairman and Chief Executive Officer, as well as the Functional Directors and the Operational Directors, who are members of the Operations Committee. The Group's executive managers are presented below.

Chairman and Chief Executive Officer

Jacques Aschenbroich

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

In his capacity as Chairman and Chief Executive Officer, Jacques Aschenbroich organizes and presides over the work performed by the Board of Directors, and presents a report on its activities to the Shareholders' Meeting. He ensures that the Company's governance functions effectively and makes sure that the directors are able to perform their duties. He has the widest possible powers to act in any circumstances in the Company's name. He exercises these powers within the limits of the Company's corporate purpose and subject to the provisions of the law, the Company's articles of association and the Internal Procedures. He represents the Company in its relations with third parties and before the courts. In compliance with the Internal Procedures, the Chief Executive Officer must obtain the prior approval of the Board of Directors for the acquisition or sale of any subsidiary, interest or other asset or investment of any kind representing more than 50 million euros per transaction.

OPERATIONS COMMITTEE
(composition at December 31, 2017)

Geoffrey Bouquot
Vice-President, Corporate Strategy and External Relations

Fabienne de Brébisson
Vice-President, Communications

Robert Charvier
Chief Financial Officer

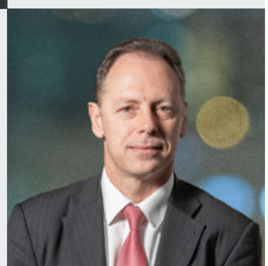
Xavier Dupont
President, Powertrain Systems Business Group

Éric Antoine Fredette
General Counsel

Catherine Delhaye
Chief Ethics and Compliance Officer

Bruno Guillemet
Senior Vice-President, Human Resources

Maurizio Martinelli
President, Visibility Systems Business Group



Francisco Moreno
President, Thermal Systems Business Group
Since January 16, 2017

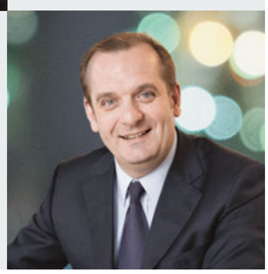
Christophe Périllat
Chief Operating Officer

Axel Maschka
Senior Vice-President, Sales & Business Development

Éric Schuler
President, Valeo Service

Jean-François Tarabbia
Senior Vice-President, Research & Development and Product Marketing

Marc Vrecko
President, Comfort & Driving Assistance Systems Business Group



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

3.2.1 Composition of the Board of Directors

According to the Company's articles of association, the Board of Directors comprises at least three and no more than 18 members appointed for a period of four years (subject to any amendments in line with changes in the applicable law). Directors representing employees are not included in the minimum and maximum number of directors. The Board of Directors currently has 13 members, including one director representing employees in accordance with the French law of August 17, 2015 on labor relations and employment, codified as Article L.225-27-1 of the French Commercial Code.

Directors are appointed by shareholders at Shareholders' Meetings on the recommendation of the Board of Directors, which in turn receives proposals from the Governance, Appointments & Corporate Social Responsibility Committee. A director representing employees was appointed by the Group Works Council following the amendment to the articles of association approved by the Shareholders' Meeting of May 23, 2017 (twentieth resolution) to include arrangements for appointing a director representing employees as required by Article L.225-27-1 of the French Commercial Code. If the number of directors appointed by the Shareholders' Meeting is higher than 12, a second director representing employees will be appointed by the Group European Works Council.

The following table provides an overview of the Board of Directors and the changes in its composition during 2017.

Composition of the Board of Directors at January 1, 2017	Departure(s)	Renewal(s)	Appointment(s)	Composition of the Board of Directors at December 31, 2017
Jacques Aschenbroich (Chairman and Chief Executive Officer)	-	-	-	**Jacques Aschenbroich (Chairman and Chief Executive Officer)**
Gérard Blanc (Independent director)	Term ended(1) (May 23, 2017)	-	-	-
Daniel Camus (Independent director)	-	-	-	**Daniel Camus (Independent director)**
Pascal Colombani (Independent director)	-	-	-	**Pascal Colombani (Independent director)**
Jérôme Contamine (Independent director)	Resignation (September 30, 2017)	-	Cooptation of Bruno Bézard(3) (October 24, 2017)	**Bruno Bézard (Independent director)**
C. Maury Devine (Independent director)	-	Re-appointed at the Shareholders' Meeting of May 23, 2017	-	**C. Maury Devine (Independent director)**
Sophie Dutordoir (Independent director)	Term ended(1) (May 23, 2017)	-	-	-
Michel de Fabiani (Independent director)	-	-	-	**Michel de Fabiani (Independent director)**
Mari-Noëlle Jégo-Laveissière (Independent director)	-	Re-appointed at the Shareholders' Meeting of May 23, 2017(2)	-	**Mari-Noëlle Jégo-Laveissière (Independent director)**
Noëlle Lenoir (Independent director)	-	-	-	**Noëlle Lenoir (Independent director)**
Thierry Moulonguet (Independent director)	-	-	-	**Thierry Moulonguet (Independent director)**
Georges Pauget (Lead Director and independent director)	-	-	-	**Georges Pauget (Lead Director and independent director)**
Ulrike Steinhorst (Independent director)	-	-	-	**Ulrike Steinhorst (Independent director)**

Composition of the Board of Directors at January 1, 2017	Departure(s)	Renewal(s)	Appointment(s)	Composition of the Board of Directors at December 31, 2017
Véronique Weill (Independent director)	-	Re-appointed at the Shareholders' Meeting of May 23, 2017[2]	-	**Véronique Weill (Independent director)**
-	-	-	Appointment of Éric Chauvirey[4] (June 30, 2017)	**Éric Chauvirey[4] (Director representing employees)**
14 directors				***13 directors***

(1) At its meeting on February 15, 2017, the Board of Directors took due note of the decision of Gérard Blanc and Sophie Dutordoir not to stand for re-appointment at the Shareholders' Meeting of May 23, 2017.

(2) During the Board of Directors' assessment of its practices and procedures, which was reviewed in turn by the Governance, Appointments & Corporate Social Responsibility Committee and the Board of Directors on February 14 and 15, 2017, the directors expressed their wish to keep a 12-member Board. Acting on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors took due note of the decision of Gérard Blanc and Sophie Dutordoir not to stand for re-appointment and consequently decided on February 15, 2017 not to recommend their re-appointment as directors to the Shareholders' Meeting of May 23, 2017. In the absence of replacements for Gérard Blanc and Sophie Dutordoir as directors and in order to renew the terms of office of one-fourth of the Board's members in accordance with Article 14.1 of the articles of association, a new order of rotation was drawn up at the Board meeting on March 22, 2017 on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee. Thus, in accordance with the articles of association as referred to above, the terms of office of Mari-Noëlle Jégo-Laveissière and Véronique Weill automatically lapsed at the Shareholders' Meeting of May 23, 2017. They stood for re-appointment and were re-appointed at that meeting for a term of four years expiring at the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2020.

(3) For the remainder of Jérôme Contamine's term of office, i.e., until the close of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017. Shareholders will be asked to ratify his cooptation at the Shareholders' Meeting on May 23, 2018. Bruno Bézard will provide the Board with the benefit of his experience in the most prestigious roles in the French civil service, spanning the economic, industrial and financial spheres, as well as in the private equity world. In addition, he brings in-depth knowledge of China, where he lived for several years and has spent a substantial amount of time in his current position. He also speaks the language.

(4) Following the amendment to the articles of association approved by the Shareholders' Meeting of May 23, 2017 to include arrangements for appointing a director representing employees, Éric Chauvirey was appointed director representing employees by the Group Works Council at its meeting of June 30, 2017. He attended his first Board meeting on July 20, 2017.

The directors appointed by the shareholders have different backgrounds and were selected for their experience and skills in various areas of business. Through that experience, Valeo's directors are able to exercise good judgment and an ability to anticipate events, enabling them to act in the Company's best interests. Furthermore, the director representing employees appointed by the Group Works Council brings the Board the benefit of his knowledge of the Company, its businesses, markets, customers and expertise.

For details of the directorships and other positions held by members of the Board of Directors over the last five years, and their experience and expertise, see "Presentation of directors in 2017", pages 104 to 120 of this section.

Members of the Board of Directors are appointed by the Shareholders' Meeting for four-year terms which expire at the close of the Shareholders' Meeting called in the year in which their terms expire to approve the financial statements for the previous year. They can be re-appointed. Where one or more seats on the Board become vacant due to the death or resignation of any member or members, the Board of Directors may appoint new members on a temporary basis until the next Shareholders' Meeting, in accordance with the applicable legislation. In 2017, the Board of Directors coopted Bruno Bézard to replace Jérôme Contamine, outgoing director, for the remainder of his predecessor's term, i.e., until the close of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017. Shareholders will be asked to ratify his cooptation at the upcoming Shareholders' Meeting on May 23, 2018.

The term of office of the Chairman of the Board of Directors may not exceed his term of office as a director.

To ensure smooth turnover on the Board of Directors in compliance with the recommendations of the AFEP-MEDEF Code, the Company's articles of association were amended by the Shareholders' Meeting of June 8, 2011 to provide for a staggered renewal of the appointed directors' terms of office.

The expiration dates of appointed directors' current terms of office are as follows:

Expiration of term of office	Directors whose term of office is due to expire
Shareholders' Meeting called to approve the 2017 financial statements	Daniel Camus, Bruno Bézard and Noëlle Lenoir
Shareholders' Meeting called to approve the 2018 financial statements	Jacques Aschenbroich, Pascal Colombani and Michel de Fabiani
Shareholders' Meeting called to approve the 2019 financial statements	Thierry Moulonguet, Georges Pauget and Ulrike Steinhorst
Shareholders' Meeting called to approve the 2020 financial statements	C. Maury Devine, Mari-Noëlle Jégo-Laveissière and Véronique Weill

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

The rules presented above as regards term and renewal of office also apply to the director representing employees (other than the rule regarding the renewal of the terms of office of one-fourth of the Board's members), insofar as his term of office will end at the expiration of that four-year term. If a seat as director representing employees becomes vacant for any reason, it shall be filled under the conditions provided for by law, i.e., in the same way as the outgoing director representing employees was appointed. If the requirement to appoint a director representing employees no longer applies, the director or directors representing employees shall stand down at the close of the Board meeting at which the Board of Directors duly notes that Valeo is no longer subject to that requirement.

Independence of directors

Classification as an independent director is reviewed by the Governance, Appointments & Corporate Social Responsibility Committee on two occasions: when a new director is appointed and every year before the Annual Report is prepared.

In compliance with the AFEP-MEDEF Code, the Internal Procedures classify as independent a director who has no relations whatsoever with the Company, the Group or the Group's Management that may compromise his/her ability to exercise freedom of judgment.

In particular, in accordance with the Internal Procedures updated in line with the latest version of the AFEP-MEDEF Code (November 2016), independence is presumed to exist when a director:

- is not and has not been in the past five years:
  - an employee or an executive corporate officer of the Company,
  - an employee, executive corporate officer or director of one of the Company's consolidated subsidiaries,

  - an employee, executive corporate officer or director of the parent company of the Company or of one of the parent company's consolidated subsidiaries;
- is not an executive corporate officer of a company in which the Company holds a directorship, either directly or indirectly, or in which an employee appointed in that role or an executive corporate officer of the Company (currently in office or having held such office during the last five years) is a director;
- is not a customer, supplier, commercial banker or investment banker:
  - that is material to the Company or its Group, or
  - for which the Company or its Group represents a significant part of the business.

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

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

Directors who represent major Company shareholders can be deemed independent if those shareholders do not have a controlling interest in the Company. However, above a 10% threshold of the share capital or voting rights in the Company, the Board, acting on a report from the Governance, Appointments & Corporate Social Responsibility Committee, will decide whether the directors qualify as independent, taking into account the composition of the share capital of the Company and the existence of any potential conflict of interest.

Director independence review on appointment and re-appointment

Pursuant to the Board of Directors' decision to propose the re-appointment of C. Maury Devine, Mari-Noëlle Jégo-Laveissière and Véronique Weill as directors at the Shareholders' Meeting of May 23, 2017, the Board of Directors, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, noted that the independence review carried out for the purposes of the 2016 Annual Report based on the above criteria remained valid and that they were therefore independent.

Furthermore, pursuant the Board of Directors' decision to coopt Bruno Bézard, the Governance, Appointments & Corporate Social Responsibility Committee and the Board of Directors (at its meeting of October 24, 2017) reviewed his status and concluded that he was independent based on the criteria set out in the Internal Procedures and the AFEP-MEDEF Code. The qualitative and quantitative criteria used at the time of his cooptation to determine whether or not he has a significant business relationship with the Company were the same as those described below.

Director independence review upon preparation of the Annual Report

In accordance with the Internal Procedures and the AFEP-MEDEF Code, the independence of the directors in office was reviewed at the Board meeting of January 25, 2018.

Particular attention was paid to Bruno Bézard's independence given the business relationships between the Company or the Group and the Cathay Capital group. Bruno Bézard is a Managing Partner of Cathay Capital Private Equity, holding company of private equity group Cathay Capital, although he does not hold an equity interest in Cathay Capital. The Cathay Capital group comprises several investment fund management companies. Before coopting Bruno Bézard to the Board, the Group made two investments in the Sino-French (Innovation) Fund SCPI and the CarTech fund, both of which are managed by Cathay Capital group fund management companies. The review to determine whether these business relationships should be classified as significant was based on the qualitative and quantitative criteria described below.

Bruno Bézard does not receive any form of compensation in relation to the two above-mentioned investments.

Neither Bruno Bézard nor Valeo sit on any committee involved in running the Sino-French (Innovation) Fund SCPI or CarTech or the fund management companies that manage those investments. Furthermore, Bruno Bézard has no direct or indirect decision-making power in the continuation of this business relationship, which existed before he was coopted as director of the Company.

Moreover, the Group is free to make investments via funds that do not belong to the Cathay Capital group. There is no relationship of exclusivity or dependency between the Group and the Cathay Capital group. The same is true for the Cathay Capital group, which has many other potential investors.

Lastly, as regards financial transactions, the Group's investments in the Cathay Capital group via Sino-French (Innovation) Fund SCPI and CarTech represent less than 0.5% of its revenue and less than 5% of the Cathay Capital group's assets under management, and are therefore not material. Given the new round of fund raising currently in progress, the Group's share of the funds managed by the relevant Cathay Capital group fund management companies will fall yet further. In addition, management fees, which are charged on an arm's length basis, are paid in proportion to the percentage held by each investor in the two funds and the Group's share is not material.

Accordingly, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors concluded that Bruno Bézard qualified as independent.

Following the independence review of the directors in office, the Board of Directors, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, concluded that at December 31, 2017, 11 of the 12 directors were independent (the director representing employees does not count in accordance with the recommendation set out in Article 8.3 of the AFEP-MEDEF Code): Bruno Bézard, Daniel Camus, Pascal Colombani, C. Maury Devine, Michel de Fabiani, Mari-Noëlle Jégo-Laveissière, Noëlle Lenoir, Thierry Moulonguet, Georges Pauget, Ulrike Steinhorst and Véronique Weill. Apart from Bruno Bézard, no other independent directors have a business relationship with the Company or the Group.

The table below provides an overview of the status of the directors at December 31, 2017, in light of the independence criteria set out in the Internal Procedures, which are based on the independence criteria set out in the AFEP-MEDEF Code.

	Employee or executive corporate officer in the last five years(1)	Cross-directorships(1)	Significant business relationships(1)	Family ties(1)	Statutory Audit(1)	12 years(1)
Bruno Bézard	0	0	0(2)	0	0	0
Daniel Camus	0	0	0	0	0	0
Pascal Colombani	0(3)	0	0	0	0	0
C. Maury Devine	0	0	0	0	0	0
Michel de Fabiani	0	0	0	0	0	0
Mari-Noëlle Jégo-Laveissière	0	0	0	0	0	0
Noëlle Lenoir	0	0	0	0	0	0
Thierry Moulonguet	0	0	0	0	0	0
Georges Pauget	0	0	0	0	0	0
Ulrike Steinhorst	0	0	0	0	0	0
Véronique Weill	0	0	0	0	0	0

(1) "0" represents an independence criterion that has been met.
(2) For the reasons given above, the business relationship between Valeo and Bruno Bézard is not significant and he is therefore considered to be independent. Apart from Bruno Bézard, no other independent directors have a business relationship with the Company or the Group.
(3) Pascal Colombani, currently Honorary Chairman, is not and has not in the last five years been an executive corporate officer as he held the position of Chairman of the Board of Directors until February 18, 2016. He is therefore independent within the meaning of the Internal Procedures and the AFEP-MEDEF Code.

Balance in the composition of the Board of Directors

Since May 26, 2016, women directors have represented 42% of the Board's members[1] and the Group therefore meets the 40% quota required by the legal provisions on equal representation of women and men on Boards of Directors. At December 31, 2017, the Board had five women directors (C. Maury Devine, Mari-Noëlle Jégo-Laveissière, Noëlle Lenoir, Ulrike Steinhorst and Véronique Weill).

The Company enjoys balanced representation of women and men on the Board of Directors and plans to continue its efforts to diversify the composition of the Board of Directors (see section 3.2.2 of this chapter, "Assessment of the operation of the Board of Directors", page 120). Bruno Bézard's cooptation forms part of this drive to diversify Board expertise and skills. He will provide the Board with the benefit of his experience in the most prestigious roles in the French civil service, spanning the economic, industrial and financial spheres, as well as in the private equity world. In addition, he brings in-depth knowledge of China, where he lived for several years and has spent a substantial amount of time in his current position. He also speaks the language.

Appointment of a Lead Director

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

(1) In accordance with the provisions of Article L.225-27-1 of the French Commercial Code, the director representing employees does not count for the purpose of determining the gender representation on the Board of Directors.

Following the decision by the Board of Directors at its meeting on February 18, 2016 to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, the Board of Directors, at the same meeting, acting on the recommendation of the Appointments, Compensation & Governance Committee, appointed Georges Pauget, independent director, as Lead Director. Following the re-appointment of Georges Pauget as director at the Shareholders' Meeting on May 26, 2016, the Board of Directors, at its meeting on the same day and based on the recommendation of the Appointments, Compensation & Governance Committee, re-appointed Georges Pauget as Lead Director.

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

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

In addition, the Lead Director is in regular, open contact with each director, and if necessary may act as a spokesperson to the Chairman and Chief Executive Officer. To guarantee the transparent operation of the Board of Directors, the Lead Director ensures that the directors are provided with the information necessary to carry out their duties and verifies that this information is provided to them prior to the Board of Directors' meetings. At least once a year, the Lead Director holds and chairs meetings, in the absence of executive corporate officers, for purposes including but not limited to (i) the assessment of the performance of General Management, and (ii) the assessment of the operation of the Board of Directors. On February 22, 2018, the Board of Directors' Internal Procedures were amended to enable these meetings to be held without executive corporate officers or non-independent directors being present unless invited, and to enable the Lead Director to hold such a meeting each time a Board meeting is held.

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

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

In accordance with AMF recommendation no. 2012-02, the progress report of the Lead Director assessing (i) the nature of the due diligence and tasks performed as Lead Director, and (ii) how he/she has made use of the powers given to him/her, is presented below.

Report of the Lead Director

In this report, Georges Pauget reports on the due diligence and tasks performed as Lead Director (as defined below) since February 15, 2017, the date of his last report, until February 22, 2018, the date on which this report was finalized.

Appointment and duties of the Lead Director

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

The duties of the Lead Director are set out in Article 1.7(b) of the Internal Procedures, available on Valeo's website (www.valeo.com) and summarized in this section, paragraph "Appointment of a Lead Director", page 100.

Work of the Lead Director

Access to information

To be able to perform his duties, the Lead Director must have a good knowledge of the Group and be well informed about the business. He was therefore kept informed about the Group's developments and business by meeting regularly with the Chairman and Chief Executive Officer. The Lead Director also had direct relations with the General Counsel, and Secretary of the Board of Directors, the Chief Financial Officer and the Human Resources Director. During these discussions, major governance matters arising in 2017 were covered.

Organization of the Board of Directors' work

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

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

Executive meetings

The Lead Director organizes and chairs "executive meetings" which are held without the presence of the executive corporate officer. The Board of Directors periodically held meetings during which the independent directors (and the director representing employees since his appointment by the Group Works Council on June 30, 2017) gave their views and comments on the combined governance system, the practices and procedures of the Board of Directors and its specialized committees (see below), and the assessment of General Management performance.

After discussions with the Compensation Committee, the directors reviewed the proposed changes to be made in 2018 to the 2017 compensation policy, which was approved by the Shareholders' Meeting on May 23, 2017. The 2018 compensation policy will be subject to approval at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017. Pursuant to Article 1.7(b) of the Internal Procedures, the Lead Director reported on the findings of these executive meetings to the Board of Directors.

Other duties

The Lead Director led the work of the Governance, Appointments & Corporate Social Responsibility Committee as regards the governance issues entrusted to that Committee, including the annual assessment of the operation of the Board of Directors and the individual contribution of each director. As the assessment was performed by an outside firm the previous year, the Board decided to conduct the 2017 assessment internally. The assessment was carried out between late 2017 and early 2018 by the Lead Director assisted by the Secretary of the Board of Directors, using a questionnaire given to each director to obtain their insight into the operation of the Board of Directors and its specialized committees and their suggestions for improvement. The outcome of the assessment, which was discussed by the Governance, Appointments & Corporate Social Responsibility Committee on February 13, 2018 and by the Board of Directors on February 22, 2018, concluded that the Company's governing bodies operate efficiently, openly and transparently. The Board of Directors' conclusions and avenues for improvement are described in section 3.2.2 of this chapter, "Assessment of the operation of the Board of Directors", page 134. The Lead Director also assessed the individual contribution of each director to the Board of Directors' work. This assessment was based on a second questionnaire sent to all directors, followed by conversations with each director about the outcome of the assessment.

The Lead Director also led the work of the Governance, Appointments & Corporate Social Responsibility Committee as regards its review of the Company's practices in light of the recommendations contained in (i) the AFEP-MEDEF Code as amended in November 2016 and its implementation guidance, and (ii) the 2017 reports of the AMF and of the High Committee on Corporate Governance (*Haut Comité de Gouvernement d'Entreprises*).

In addition, he actively participated in the work on diversity and equality within the Group, in particular equal treatment and gender equality. Valeo takes a determined and proactive approach to these issues, which are closely monitored by the Governance, Appointments & Corporate Social Responsibility Committee.

He also monitored the process for appointing a director representing employees, which led to (i) an amendment to the articles of association relating to the approval of such appointment by the Shareholders' Meeting on May 23, 2017, and (ii) the subsequent appointment of a director representing employees by the Group Works Council on June 30, 2017.

In addition, the Lead Director supervised the review of the Board of Directors' renewal plan, playing an active role in recruiting future members of the Board of Directors and its committees and, in particular, leading the selection process for candidates. The process was conducted with the assistance of a recruitment firm and consisted in holding interviews with the identified candidates and drawing up a list of identified profiles to submit to the Governance, Appointments & Corporate Social Responsibility Committee and the Board of Directors. The process led to the cooptation of Bruno Bézard as director and the identification of Gilles Michel, who will be proposed for appointment to the Board at the next Shareholders' Meeting. The Lead Director also took part in the discussions that led the Board of Directors to authorize Jacques Aschenbroich to accept a directorship at BNP Paribas. The purpose of the discussions was to make sure that such a directorship would not lead to a conflict with Jacques Aschenbroich's duties to the Company.

The Lead Director also led the work of the Compensation Committee as regards the review of the Chairman and Chief Executive Officer's compensation and the discussions about the possible changes to be made for 2018. He took part in discussions with various institutional investors and proxy advisory firms on the proposed changes to the 2018 compensation policy for the Chairman and Chief Executive Officer.

Furthermore, he took part in the preparations for the Shareholders' Meeting held on May 23, 2017.

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

Attendance

Since his last report on February 15, 2017 and until February 22, 2018, the date on which this report was finalized, Georges Pauget has attended all Board meetings (including three days at the strategy seminar in China) and chaired all meetings of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee.

Presentation of directors in 2017

(Information updated at December 31, 2017)

JACQUES ASCHENBROICH

Chairman and Chief Executive Officer

French
Age: 63

Valeo
43, rue Bayen,
75017 Paris, France

Number of shares held: 802,137
First appointed: 03/20/2009
Start of current term of office: 05/26/2015
End of current term of office: Shareholders' Meeting called to approve the 2018 financial statements

Main position held outside the Company in 2017

- Director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Chairman of the Board of Directors, *École nationale supérieure des Mines ParisTech*
- Director, Veolia Environnement ♦ (Chairman of the Research, Innovation and Sustainability Committee and member of the Accounts and Audit Committee) and BNP Paribas ♦ (member of the Accounts Committee)

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

–

Experience

Jacques Aschenbroich has been Chief Executive Officer of Valeo since March 20, 2009 and Chairman and Chief Executive Officer since February 18, 2016. He has extensive experience in senior executive positions in major industrial groups in France and abroad, as well as senior positions in the public service.

Before joining Valeo, he held several positions in the French administration and served in the Prime Minister's office in 1987 and 1988. He then pursued an industrial career in the Saint-Gobain group from 1988 to 2008. After having managed subsidiaries in Brazil and Germany, he became Managing Director of the Flat Glass division of Compagnie de Saint-Gobain and went on to become Chairman of Saint-Gobain Vitrage in 1996.

As Senior Vice-President of Compagnie de Saint-Gobain from October 2001 to December 2008, he managed the flat glass and high-performance materials sectors as from January 2007 and, as the Vice-Chairman of Saint-Gobain Corporation and General Delegate to the United States and Canada, he directed the operations of the group in the United States as from September 1, 2007. He was also a director of Esso SAF until June 2009.

Jacques Aschenbroich graduated in engineering from *École des Mines*.

He is a French citizen and speaks French, English, German and Portuguese.

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

BRUNO BÉZARD

Independent director

French
Age: 54

74, rue du Cardinal Lemoine,
75005 Paris, France

Number of shares held: 750[1]

First appointed: 10/24/2017

Start of current term of office: 10/24/2017

End of current term of office: Shareholders' Meeting called to approve the 2017 financial statements

Main position held outside the Company in 2017

- Managing Partner of investment fund Cathay Capital Private Equity

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

-

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

- Director, EDF, SNCF, AREVA, La Poste, Thales, Air France, Engie, PSA and *Fonds Stratégique d'Investissement* (FSI)

Experience

Bruno Bézard has experience in the most prestigious roles in the French civil service, spanning the economic, industrial and financial spheres, as well as in the private equity world. In addition, over the past few years he has gained in-depth knowledge of China, where he lived for several years and has spent a substantial amount of time in his current position. He also speaks the language.

He was Head of the French Public Finance Administration after spending two years as Minister-Advisor in Beijing, overseeing France's Greater China Regional Economic Department. He created, and then headed, the French State Shareholding Agency (APE), representing the State as a shareholder on a large number of company boards and acquiring vast experience in corporate governance and mergers & acquisitions. For example, he has held a seat on the boards of EDF, SNCF, Areva, La Poste, Thales, Air France, Engie, PSA and the *Fonds Stratégique d'Investissement* (FSI). He was Head of the French Treasury and President of the Paris Club before joining Cathay Capital as Managing Partner in 2016, a private equity fund that invests in startups, SMEs and middle market companies, and supports their international development in Europe, the United States and China.

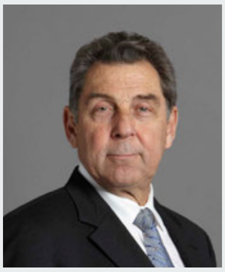
An Inspector General of Finance, Bruno Bézard is a graduate of the *École polytechnique* and the *École nationale d'administration* (ENA), and taught at both schools for a number of years.

He is a French citizen and speaks French, English, Chinese and Russian.

(1) *Bruno Bézard purchased 750 shares in 2017 and another 750 shares in 2018, in order to comply with the shareholding obligation provided for in the Company's articles of association.*

GÉRARD BLANC

Independent director (until May 23, 2017)
Member of the Strategy Committee



French
Age: 74

17, rue Joseph Marignac,
31300 Toulouse, France

Number of shares held: 1,500
First appointed: 05/21/2007
Start of current term of office: 06/06/2013
End of current term of office: Shareholders' Meeting held on May 23, 2017 to approve the 2016 financial statements

Main position held outside the Company in 2017

- Director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

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

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

- Chairman and CEO, Marignac Gestion SAS

Experience

Gérard Blanc has extensive experience in industry, mainly acquired at Airbus.

He served as Executive Vice-President of Programs at Airbus until 2003, when he was appointed Executive Vice-President of Operations, a position he held until 2005.

He also served as Chairman and Chief Executive Officer of Marignac Gestion SAS until January 2, 2016.

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

He is a French citizen and speaks French and English.

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

DANIEL CAMUS

Independent director
Chairman of the Audit & Risks Committee

French and Canadian
Age: 65

745 Upper-Belmont,
H3Y 1K3 Westmount (P.Q.),
Canada

Number of shares held: 2,200
First appointed: 05/17/2006
Start of current term of office: 05/21/2014
End of current term of office: Shareholders' Meeting called to approve the 2017 financial statements

3

Main position held outside the Company in 2017

- Chief Financial Officer, The Global Fund (until April 30, 2017) and Director of various companies

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Senior Advisor, Roland Berger Strategy Consultants (Germany)
- Member of the Supervisory Board, SGL Group SE (Germany) ♦ (Chairman of the Governance and Ethics Committee, member of the Strategy Committee)
- Director, Cameco Corp. (Canada) ♦ (member of the Audit and Compensation Committee) and ContourGlobal Plc (United Kingdom) ♦ (Chairman of the Compensation Committee and member of the Audit Committee)

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

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

Experience

Daniel Camus has extensive international experience in North America and Europe, acquired in executive-level financial and strategic positions in large industrial companies.

After working in the chemicals and pharmaceuticals industry for 25 years with the Hoechst-Aventis group in Germany, Canada, the United States and France, he joined the EDF group in 2002 as Chief Financial Officer. He then served as group Executive Vice-President in charge of International Activities and Strategy at the EDF group until December 1, 2010. After that, he was Chief Financial Officer of the Global Fund until April 30, 2017. He was also a member of the Supervisory Boards of Morphosys AG (Germany) and of Vivendi SA until 2015.

Daniel Camus holds a doctorate in economics, is an associate professor of management sciences (*agrégé en Sciences de la gestion*) and graduated with distinction from *Institut d'études politiques de Paris* (IEP).

He has dual French and Canadian nationality and speaks French, English and German.

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

ÉRIC CHAUVIREY

Director representing employees
Member of the Compensation Committee

French
Age: 43

11, allée des Saules,
95250 Beauchamp, France

Number of shares held: in accordance with the law, the articles of association and the Internal Procedures, the director representing employees is not required to hold 1,500 shares

First appointed by the Group Works Council: 06/30/2017

Start of current term of office: 06/30/2017

End of current term of office: 06/30/2021

Main position held outside the Company in 2017

-

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

-

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

-

Experience

Through his long experience in the Group and his involvement in the employee representative bodies and trade unions, Éric Chauvirey has in-depth knowledge of the Group's business and employee relations, which are essential attributes for a director representing employees.

He has been employed by Valeo for 21 years in production (Étaples) and R&D (Montigny-le-Bretonneux & Cergy). He began his career with Valeo in 1999 as Head of Project Design at Étaples-sur-Mer, before being appointed Head of Pre-Project Research & Development in 2005 for Valeo Systèmes de Liaison.

In 2007, he was promoted to the position of Head of Project Quality for Valeo Systèmes de Contrôle Moteur, the Group's engine management systems unit in Cergy, then became Project Manager in 2012. In September 2014, he was appointed Head of Prototype Scheduling in the Powertrain Systems Business Group. On December 1, 2017, he became Knowledge Manager Special Projects.

He was a member of the Works Council, Treasurer and trade union representative at the Cergy site, and central trade union representative for Valeo Systèmes de Contrôle Moteur. He was also a member of the Central Works Council, Chairman of the Economic Commission, and Group negotiator for the Force Ouvrière trade union.

Éric Chauvirey holds an engineering degree in Industrial Design and Production from the ESCPI-CNAM.

He is a French citizen and speaks French and English.

PASCAL COLOMBANI

Independent director
Honorary Chairman
Member of the Compensation Committee, the Governance, Appointments & Corporate Social Responsibility Committee, and the Strategy Committee

French
Age: 72

Valeo
43, rue Bayen,
75017 Paris, France

Number of shares held: 1,800
First appointed: 05/21/2007
Start of current term of office: 05/26/2015
End of directorship: Shareholders' Meeting called to approve the 2018 financial statements

3

Main position held outside the Company in 2017

- Chairman, TII Stratégies SAS
- Senior Advisor, J.P. Morgan Chase and A.T. Kearney Paris, strategic consulting firms, and Truffle Venture
- Director, TechnipFMC (United Kingdom) ♦ (member of the Strategy Committee and the Appointments and Governance Committee) and Noordzee Helikopters Vlaanderen (N.H.V) (Belgium) (Chairman of the Audit Committee and member of the Compensation Committee)

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Director, Alstom SA ♦ (until March 17, 2017), Technip SA ♦ (until January 16, 2017) and *Institut de physique du globe de Paris*
- Member of the European Advisory Board, J.P. Morgan Chase (United States)
- Member of the Supervisory Committee, SIACI Saint-Honoré (Chairman of the Audit Committee)
- Member, French Academy of Technology (*Académie des Technologies*)
- Vice-President, *Conseil Stratégique de la Recherche* (a research advisory board set up by the French government – CSR)
- Consultant, French Ministry of Foreign Affairs

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

- Director, Energy Solutions Inc. (United States)
- Chairman of the Board of Directors, N.H.V. (Belgium)
- Member of the AFEP-MEDEF High Committee on Corporate Governance (*Haut Comité de Gouvernement d'Entreprise*) (until November 24, 2016)

Experience

Pascal Colombani is Honorary Chairman of the Board of Directors, having been Chairman from March 20, 2009 until February 18, 2016. He has recognized expertise in new technologies and scientific fields. He has held senior management positions in the energy sector and has worked in Europe, the United States and Japan.

Pascal Colombani spent close to 20 years (1978-1997) at Schlumberger in various management positions, in Europe and in the United States, before becoming Chairman of its Japanese subsidiary in Tokyo. Between 1997 and 1999, he was the Director of Technology at the French Ministry for Research.

In January 2000, he was appointed Managing Director of the French Alternative Energies and Atomic Energy Commission (*Commissariat à l'Énergie Atomique* – CEA), a post that he held until December 2002. The instigator of the restructuring of CEA's industrial holdings and of the creation of Areva in 2000, he chaired the Supervisory Board of Areva until May 2003. On March 20, 2009 Pascal Colombani was appointed Chairman of the Board of Directors, a position he held until February 18, 2016.

He served as a director at Energy Solutions Inc. until 2013, member of the AFEP-MEDEF High Committee on Corporate Governance until November 24, 2016, Chairman of the Board of Directors of N.H.V. (Belgium) until December 9, 2016, director at Technip SA until January 16, 2017 and director at Alstom until March 17, 2017.

He has also notably served as a director at EDF, France Telecom, British Energy Group Plc, Rhodia SA and Energy Solutions Inc., and Senior Advisor at both Detroyat Associés and Arjil Banque.

Pascal Colombani is a graduate of *École normale supérieure de Saint-Cloud*, is an associate professor in sciences (*agrégé de physique*) and has a doctorate in physics.

He is a French citizen and speaks French and English.

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

JÉRÔME CONTAMINE

Independent director until September 30, 2017
Member of the Strategy Committee

French
Age: 60

Sanofi
54, rue La Boétie,
75414 Paris Cedex 8, France

Number of shares held: 6,000
First appointed: 05/17/2006
Start of current term of office: 05/21/2014
End of current term of office: Shareholders' Meeting called to approve the 2017 financial statements
Resigned on September 30, 2017

Main position held outside the Company in 2017

- Executive Vice-President and Chief Financial Officer, Sanofi

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

-

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

- Chairman, SECIPE, Sanofi 1 and SETC
- CEO, Sanofi-Aventis North America, Sanofi-Aventis Europe and Sanofi-Aventis Participations
- Director, SETC, Sanofi Pasteur Holding and Mérial Ltd.

Experience

Jérôme Contamine held several high-level positions in major French industrial groups, before becoming Executive Vice-President and Chief Financial Officer of Sanofi in March 2009.

Between 1988 and 2000, he held several financial positions within the Elf group including Financing and Treasury Director (1991 to 1994), Deputy Director in Europe and the United States for the Exploration and Production division, and Chief Executive Officer of Elf Norway (1995 to 1998).

In 1999, he was appointed Director of the integration group with Total, tasked with reorganizing the new merged entity, TotalFinaElf, and in 2000 became Vice-President of Continental European and Central Asian Operations for the Exploration and Production division of Total.

He then joined Veolia as Executive Vice-President of Finance, before becoming Executive Vice-President responsible for cross-functional activities in 2002, and Senior Executive Vice-President of Veolia Environnement in 2003 until January 16, 2009. He joined Sanofi in March 2009.

Jérôme Contamine is a graduate of *École polytechnique* and of *École nationale d'administration* (ENA) and is a special advisor to the French Court of Auditors (*Cour des comptes*).

He is a French citizen and speaks French and English.

C. MAURY DEVINE

Independent director
Member of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee

American
Age: 66

1219 35th Street NW
Washington, DC 20007,
United States

Number of shares held: 1,500
First appointed: 04/23/2015
Start of current term of office: 05/23/2017
End of current term of office: Shareholders' Meeting called to approve the 2020 financial statements

3

Main position held outside the Company in 2017

- Director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Director, Technip SA ♦ (Chair of the Ethics and Governance Committee and member of the Nominations and Remunerations Committee until January 16, 2017), John Bean Technologies (United States) ♦ (member of the independent Nominating and Governance Committee and member of the Audit Committee), Georgetown Visitation Preparatory School (United States) (Chair of the Audit Committee) and ConocoPhillips (United States) ♦ (member of the Audit Committee and the Public Policy Committee)
- Member of the independent Nominating and Governance Committee, Petroleum Geo-Services (Norway) ♦

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

- Chair of the Nominating and Governance Committee, John Bean Technologies (United States)
- Director, FMC Technologies (United States)

Experience

C. Maury Devine, a US national, has held several management positions in international and industrial groups in the United States and Europe. She has also served in public office in the United States and has extensive knowledge of US public affairs.

From 1972 to 1987, she worked for the US government in various capacities, most notably for the Department of Justice, the White House and the US Drug Enforcement Administration (DEA). Between 1987 and 2000, she held a number of positions at ExxonMobil Corporation, including Chair and Chief Executive Officer of its Norwegian subsidiary from 1996 to 2000 and Secretary General of Mobil Corporation between 1994 and 1996.

She was also Vice-Chair of the Board of Directors of Det Norske Veritas (DNV) from 2000 to 2010 and Fellow at the Belfer Center for Science and International Affairs at Harvard University from 2000 to 2003.

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

She is an American citizen and speaks French and English.

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

SOPHIE DUTORDOIR

Independent director (until May 23, 2017)
Member of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee

Belgian
Age: 55

Pelikaanhof 5,
3090 Overijse, Belgium

Number of shares held: 1,500
First appointed: 06/06/2013
Start of current term of office: 06/06/2013
End of current term of office: Shareholders' Meeting held on May 23, 2017 to approve the 2016 financial statements

Main position held outside the Company in 2017

- CEO, SNCB (Belgium)
- Director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Vice-Chair, Eurostation SA (Belgium)
- Chair of the Board of Directors, YPTO (Belgium), THI Factory SA (Belgium) and Thalys International Scrl (Belgium)
- Independent director, BNP Paribas Fortis (Belgium) ♦ (member of the Governance and Appointment Committee and the Compensation Committee) and BPost (Belgium) ♦ (member of the Audit Committee, the Appointment and Compensation Committee and the Committee of Independent Directors)
- Executive Manager, Poppeia (Belgium)
- Director, Eurogare SA (Belgium) and HR Rail (Belgium)

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

- Director, GDF Suez Energie Deutschland (Germany)
- Chair of the Board of Directors and director, Electrabel Customer Solutions (Belgium)
- Chief Executive Officer and director, Electrabel (Belgium)
- Member of the Executive Committee, Federation of Enterprises in Belgium (*Fédération des entreprises de Belgique*)

Experience

Sophie Dutordoir, a Belgian citizen, has held a number of top-level positions in various Belgian state-owned companies and is currently Chief Executive Officer of the Belgian railway company, SNCB.

She began her career in July 1984 as spokeswoman and advisor to the Belgian Prime Minister, before occupying the same position for the Belgian Ministers of Finance and Education. In 1990, she joined Electrabel and Tractebel where she served as General Manager of Marketing and Sales and was a member of the General Management Committee and General Officer of Electrabel Customer Solutions. In May 2007, she was appointed Chief Executive Officer of Fluxys, an operator of the gas transport network in Belgium.

In 2009, she returned to the Electrabel group where she served until December 31, 2013 as Chief Executive Officer and a director of Electrabel (Belgium) and Chair of the Board of Directors and a director of Electrabel Customer Solutions (Belgium). Up to this time, she was also a director of GDF Suez Energie Deutschland (Germany) and a member of the Executive Committee of the Federation of Enterprises in Belgium.

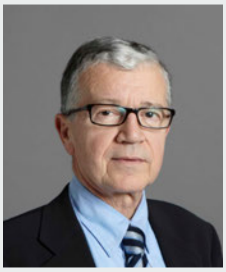
Sophie Dutordoir holds a graduate degree and is a qualified professor in Romance philology (*agrégée en philologie romane*) from the University of Ghent and holds a degree in Economic, Financial and Tax Sciences from the *Economische Hogeschool Sint-Aloysius* (EHSAL) school in Brussels.

She is a Belgian citizen and speaks English, Dutch and French.

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

MICHEL DE FABIANI

Independent director
Member of the Audit & Risks Committee, the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee



French
Age: 72

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

Number of shares held: 1,500
First appointed: 10/20/2009
Start of current term of office: 05/26/2015
End of current term of office: Shareholders' Meeting called to approve the 2018 financial statements

3

Main position held outside the Company in 2017

- Vice-President, Franco-British Chamber of Commerce and Industry
- Chairman of the Compensation Club of the French Institute of Directors (IFA)
- Chairman of the Policy Committee of the European Confederation of Directors' Associations (ECODA) (Belgium)
- Director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Director, BP France and EB Trans SA (Luxembourg)
- Member of the Supervisory Board, Valco Group
- Chairman of the Board of Directors, British Hertford Hospital Corporation
- Founding Chairman, *Cercle économique Sully* (a think tank) and Association for the Promotion of Ecological Vehicles (*Association pour la promotion des véhicules écologiques*)
- Vice-Chairman, *Œuvre du Perpétuel Secours* (a non-profit association)

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

- Director, Rhodia Group, Star Oil Mali (Mali) and SEMS (Morocco)
- Member of the Supervisory Board, Vallourec

Experience

Michel de Fabiani has extensive experience in the industrial world. He was the first Frenchman to become President, in 2005 and again in 2009, of the Franco-British Chamber of Commerce and Industry, an institution founded in 1873 to promote and develop business and trade between France and the United Kingdom. He has held a number of directorships and brings the Board considerable experience in corporate governance.

After joining the BP group in 1969, Michel de Fabiani held a number of positions in the nutrition, chemicals, finance and oil sectors in Milan, Paris and Brussels. In May 1995, he became Chairman and Chief Executive Officer of BP France. In September 1997, he was appointed Chief Executive Officer of the BP/Mobil joint venture in Europe and in 1999, President, Europe of the BP group and Vice-President of Europia (European Oil Industry Association) in Brussels until the end of 2004, when he left his executive position after 35 years with the BP group.

He has also served as a director of Rhodia and a member of the Supervisory Board of Vallourec.

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

He is a French citizen and speaks French, English, Italian, German and Spanish.

MARI-NOËLLE JÉGO-LAVEISSIÈRE

Independent director
Member of the Audit & Risks Committee

French
Age: 49

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

Number of shares held: 1,500
First appointed: 05/26/2016
Start of current term of office: 05/23/2017
End of current term of office: Shareholders' Meeting called to approve the 2020 financial statements

Main position held outside the Company in 2017

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

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Director, Engie ♦ (member of the Ethics, Environment and Sustainable Development Committee), Orange Romania and BuyIn SA
- Chair of the Board of Directors, Soft@Home and Viaccess SA

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

- Director, Nordnet and the French National Frequency Agency (*Agence Nationale des Fréquences*)

Experience

Mari-Noëlle Jégo-Laveissière brings the Board her considerable experience in new technologies and in research and development, particularly in telecommunications, areas in which she has spent most of her career.

She began her career in 1996 at the Paris regional office (*Direction Régionale de Paris*) of France Télécom's commercial distribution network. Since then, she has held various leadership positions within the Orange group: head of Consumer Marketing France (*Marketing Grand Public France*), Director of Research and Development and Director of International Networks. She became a member of the Executive Committee of Orange in March 2014 in her capacity as Executive Vice-President of Innovation, Marketing & Technologies.

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

She is a French citizen and speaks French and English.

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

NOËLLE LENOIR

Independent director
Member of the Audit & Risks Committee

French
Age: 69

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

Number of shares held: 3,000
First appointed: 06/03/2010
Start of current term of office: 05/21/2014
End of current term of office: Shareholders' Meeting called to approve the 2017 financial statements

Main position held outside the Company in 2017

- Partner, Kramer Levin Naftalis & Frankel LLP

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- President, HEC Europe Institute (*Institut de l'Europe des Hautes Études Commerciales*)
- Member, French Academy of Technology (*Académie des Technologies*)
- Director, Compagnie des Alpes ♦ (member of the Strategy Committee) and Cluster Maritime Français
- Founding Chair, *Cercle des Européens* and *Association des amis d'Honoré Daumier*
- Adjunct Professor, HEC business school in Paris (HEC)
- Member of the American Law Institute and member of the Bureau of the French Association of Constitutionalists (*Association française des constitutionnalistes*)
- Member of the International Committee of the French Institute of Directors (IFA)
- Member of the Bureau of the International Chamber of Commerce (French section)
- Honorary member of the *Conseil d'État* (France's highest administrative court) and the French Constitutional Council (*Conseil constitutionnel*)
- Chair of the Ethics Committee, Radio France
- Chair of the Scientific and Ethics Council, Parcoursup

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

- Director, Generali France
- Ethics Officer at the French National Assembly
- Director, Comparative Law Society (*Société de Législation Comparée*)

Experience

A practising lawyer, Noëlle Lenoir has held several very high-level positions in the French government during her career. As well as being the first woman to be appointed as a member of the French Constitutional Council (*Conseil constitutionnel*) (1992-2001), she was Deputy Minister of European Affairs from 2002 to 2004. Apart from her extensive knowledge of the workings of the French government and European institutions, she also brings the Board the benefit of her considerable legal experience in European regulations, competition law and compliance.

She worked as a partner in the law firms Debevoise & Plimpton LLP (2004-2009) and Jeantet et Associés before joining Kramer Levin Naftalis & Frankel LLP in 2011. She was also a member of the *Conseil d'État* (France's highest administrative court) and the French Constitutional Council (*Conseil constitutionnel*), a director of Generali France, Ethics Officer at the French National Assembly, a director of the Law Committee of the French Senate, a director of the French Data Protection Authority (*Commission Nationale de l'Informatique et des Libertés*) and Mayor of Valmondois (Val d'Oise).

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

She is a French citizen and speaks French and English.

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

THIERRY MOULONGUET

Independent director
Member of the Audit & Risks Committee and the Strategy Committee

French
Age: 66

Fimalac
97, rue de Lille,
75007 Paris, France

Number of shares held: 1,500
First appointed: 06/08/2011
Start of current term of office: 05/26/2016
End of current term of office: Shareholders' Meeting called to approve the 2019 financial statements

Main position held outside the Company in 2017

- Director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Independent director, Fimalac SA (member of the Remunerations Committee), Fimalac Développement, Lucien Barrière group (Chairman of the Audit and Risk Committee), HSBC France (Chairman of the Audit Committee), HSBC Europe (United Kingdom) (Chairman of the Audit Committee) and Prodways Group ♦
- Chairman of the Supervisory Board, Webedia (Fimalac group) (Chairman of the Audit and Risks Committee)

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

-

Experience

Thierry Moulonguet has extensive experience in the French and international automotive industry. He spent most of his career with the Renault-Nissan group, where he held a number of top positions including Vice Chief Executive Officer and Chief Financial Officer of Nissan in Japan and Vice Chief Executive Officer and Chief Finance Officer of the Renault group.

He joined the Renault-Nissan group in February 1991 as Head of Banking Strategy and Financial Communication. He later served as Director of Financial Relations, Vice-President, Capital Expenditure Controller, Vice Chief Executive Officer and Chief Financial Officer of Nissan before becoming Vice Chief Executive Officer and Chief Financial Officer of the Renault group, also in charge of Information Systems, and then member of the Management Committee for the Americas and member of its Executive Committee from January 2004 to July 1, 2010. He served as Special Advisor to Renault's Chairman and Chief Executive Officer, Carlos Ghosn, until March 31, 2011, the date on which he retired.

He also served as a member of the Board of Fitch Ratings Ltd, Ssangyong Motor Co. (South Korea), Avtovaz (Russia), RCI Banque and Renault Retail Group.

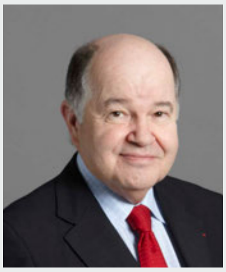
Thierry Moulonguet is a graduate of *École nationale d'administration* (ENA) and *Institut d'études politiques de Paris* (IEP).

He is a French citizen and speaks French and English.

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

GEORGES PAUGET

Independent director
Lead Director since February 18, 2016
Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee, and member of the Strategy Committee



French
Age: 70

ALMITAGE16.LDA
rue Almirante Pessanha
16 2DTO – 1200-022 Lisbon,
Portugal

Number of shares held: 1,500
First appointed: 04/10/2007
Start of current term of office: 05/26/2016
End of current term of office: Shareholders' Meeting called to approve the 2019 financial statements

Main position held outside the Company in 2017

- Legal Manager of ALMITAGE16.LDA (Portugal) and director (various companies)

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Honorary Chairman, LCL – Le Crédit Lyonnais
- Member of the Supervisory Board, Eurazeo ♦ (member of the Appointment and Compensation Committee and the Audit Committee)
- Director, Dalenys ♦ (member of the Audit Committee and the Compensation Committee)
- Vice-President, Club Med (Chairman of the Audit Committee)

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

- Chairman, Économie Finance et Stratégie SAS
- Director, Tikehau

Experience

Georges Pauget has extensive experience in finance and banking, having spent most of his career with the Crédit Agricole group where he was Chief Executive Officer from September 2005 to March 2010. As Lead Director of Valeo and Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee, he has also acquired considerable experience in the corporate governance of listed companies.

He was Chief Executive Officer of the Crédit Agricole SA Group from 2005 to 2010. He was also the permanent representative of Crédit Agricole SA on the Supervisory Board of *Fonds de Garantie des Dépôts* and Chief Operating Officer, a member of the Executive Committee and Director of the Regional Banks division of Crédit Agricole SA.

He served as Chairman of the Board of Directors of LCL – Le Crédit Lyonnais, and Chairman of the Board of Directors of Calyon until March 2010, Chief Executive Officer and Chairman of the Executive Committee of LCL – Le Crédit Lyonnais, permanent representative of LCL – Le Crédit Lyonnais at the *Fondation de France*, and Chairman of the Executive Committee of the French Banking Federation (2008 to 2009). He was also Chairman of the Board of Directors of Viel & Cie until March 14, 2012.

He was previously Scientific Director of the Chair of Asset Management and Adjunct Professor at *Université de Paris Dauphine*, lecturer at *Institut d'études politiques de Paris* (IEP) and Visiting Professor at the University of Beijing until 2015. He also served as Chairman of Économie Finance et Stratégie SAS.

Georges Pauget is a Doctor of Economic Sciences.

He is a French citizen and speaks French, English, Spanish and Italian.

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

ULRIKE STEINHORST

Independent director
Chair of the Strategy Committee and member of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee

German
Age: 66

3, villa du Coteau,
92140 Clamart, France

Number of shares held: 1,500
First appointed: 02/24/2011
Start of current term of office: 05/26/2016
End of current term of office: Shareholders' Meeting called to approve the 2019 financial statements

Main position held outside the Company in 2017

- Director, Mersen SA ♦ (Chair of the Governance, Appointment and Remuneration Committee and member of the Strategy Committee) and Albioma SA ♦ (Chairman of the Compensation Committee)
- President, Nuria Consultancy, a consulting firm

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Director, F2I (UIMM), the Franco-German Chamber of Commerce and Industry and *École nationale supérieure des Mines de ParisTech*

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

- Strategy, Planning and Finance Director, Airbus group's Technical Corporate division (until the end of 2015, then Advisor to the Chief Technical Officer until June 2017)
- Director, Imagine (genetic disease research institute) (until December 2016)
- Chief of Staff to the Executive Chairman of EADS

Experience

Ulrike Steinhorst, a German citizen, has extensive experience in top-level corporate positions, mainly at EDF, Degussa AG group and EADS, with a strong focus on international business and strategy.

She started her career in France at the office of the Minister for European Affairs. In 1990, she joined Electricité de France. From 1990 to 1998, she held a number of positions in the International division, then within the General Management of the group, before becoming head of the International Subsidiaries in the Industrial division. In 1999, she joined the Degussa AG group in Germany (Head of Human Resources of a division, and then Vice-President, Executive Development). She later headed the subsidiary Degussa France before heading up the group's representative office in Brussels. In 2007, she joined EADS where she served as Chief of Staff to the Executive Chairman. From 2012 to the end of 2015, she served as Strategy, Planning and Finance Director of the Technical Corporate division before serving as Advisor to the Chief Technical Officer (until June 2017).

Ulrike Steinhorst is a German lawyer and graduate of CPA/HEC, *Université Paris II – Panthéon* (post-graduate degree) and *École nationale d'administration* (ENA).

She is a German citizen and speaks German, English and French.

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

VÉRONIQUE WEILL

Independent director
Member of the Strategy Committee

French
Age: 58

Publicis Groupe
133, avenue
des Champs Élysées,
75008 Paris, France

Number of shares held: 2,390
First appointed: 05/26/2016
Start of current term of office: 05/23/2017
End of current term of office: Shareholders' Meeting called to approve the 2020 financial statements

3

Main position held outside the Company in 2017

- General Manager responsible for IT, Real Estate, Insurance and M&A at Re:Sources, Publicis Groupe

Other directorships and positions held in companies other than Valeo subsidiaries in 2017

- Chief Customer Officer, AXA group (until January 18, 2017)
- Chief Executive Officer, AXA Global Asset Management (until January 18, 2017)
- Director, Gustave Roussy Foundation and the Louvre Museum
- Chair of the Board of Directors (until January 18, 2017), AXA Assicurazioni Spa (Italy), AXA Aurora Vida, Sa De Seguros Y Reaseguros (Spain), AXA Pensiones SA, Entidad Gestora De Fondos De Pensiones, Sociedad Unipersonal (Spain), AXA Seguros Generales SA De Seguros Y Reaseguros (Spain), AXA Vida SA De Seguros Y Reaseguros (Spain), AXA Global Direct SA (France) and AXA Banque Europe (Belgium)
- Director (until January 18, 2017), AXA Assistance SA (Italy), AXA MPS Assicurazioni Danni SpA (Italy) ♦ and AXA MPS Assicurazioni Vita SpA (Italy) ♦
- Director, BBH Holdings Ltd (Bartle Bogle Hegarty) – Publicis Groupe

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

- Member of the Scientific Board, AXA Research Fund

Experience

Véronique Weill has a strong background in finance and M&A, as well as insurance, having spent more than 20 years in investment banking in the United States and France and then at AXA. She also has extensive experience in new and digital technologies.

Véronique Weill spent more than 20 years at J.P. Morgan, where she held various positions including global head of operations for the investment banking business and global head of IT and operations for the asset management and private banking business. In June 2006, she joined AXA as Chief Executive Officer of AXA Business Services and Director of Operational Excellence. She was also Chair and a director of various AXA subsidiaries in France, Spain, Italy and Belgium.

She was Chief Customer Officer for the AXA group and Chief Executive Officer of AXA Global Asset Management until January 18, 2017, as well as a member of the Scientific Board of the AXA Research Fund

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

She is a French citizen and speaks French and English.

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

The table below presents a summary of the composition of the Board of Directors at December 31, 2017.

	Age	Gender	Nationality	Independent	Number of directorships held in listed companies other than Valeo	Audit & Risks Committee	Governance, Appointments & Corporate Social Responsibility Committee[1]	Compensation Committee[1]	Strategy Committee	Start of first term of office	End of current term of office	Number of years on the Board	Attendance[2]
Jacques Aschenbroich Chairman and Chief Executive Officer	63	M	French	No	2					2009	2019	9	100%
Bruno Bézard[3]	54	M	French	Yes	0					2017	2018	1	100%
Daniel Camus	65	M	French-Canadian	Yes	3	✓ (Chair)				2006	2018	12[4]	100%
Éric Chauvirey[5] Director representing employees	43	M	French	N/A[6]	0			✓		2017	2021	1	100%
Pascal Colombani	72	M	French	Yes	1		✓	✓	✓	2007	2019	11	100%
C. Maury Devine	66	F	American	Yes	3		✓	✓		2015	2021	3	86%
Michel de Fabiani	72	M	French	Yes	0	✓	✓	✓		2009	2019	9	100%
Mari-Noëlle Jégo-Laveissière	49	F	French	Yes	1	✓				2016	2021	2	86%
Noëlle Lenoir	69	F	French	Yes	1	✓				2010	2018	8	86%
Thierry Moulonguet	66	M	French	Yes	1	✓			✓	2011	2020	7	86%
Georges Pauget Lead Director	70	M	French	Yes	2		✓ (Chair)	✓ (Chair)	✓	2007	2020	11	100%
Ulrike Steinhorst	66	F	German	Yes	2		✓	✓	✓ (Chair)	2011	2020	7	100%
Véronique Weill	58	F	French	Yes	0				✓	2016	2021	2	86%
Number of meetings						6	6	7	4				7
Attendance rate[7]						**93%**	**93%**	**95%**	**88%**				**93%**

(1) *The number of meetings and the rate of attendance of each member have been adjusted to take into account the Appointments, Compensation & Governance Committee meeting of January 26, 2017. As of this date, the committee was split into two separate committees – the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee.*
(2) *Rate of attendance at Board meetings (director present).*
(3) *Since his cooptation on October 24, 2017 to replace Jérôme Contamine.*
(4) *Daniel Camus was first appointed as director on May 17, 2006 and will therefore have been in office for 12 years on May 17, 2018.*
(5) *Since his appointment by the Group Works Council on June 30, 2017.*
(6) *Director representing employees.*
(7) *The attendance rates mentioned in the above table also take into account the attendance of members whose terms of office expired in 2017 (Gérard Blanc, Jérôme Contamine and Sophie Dutordoir).*

NATIONALITIES

: French – : French-Canadian – : American – : German

3.2.2 Preparation and organization of the Board of Directors' work

Internal Procedures

On March 31, 2003, the Board of Directors adopted Internal Procedures, which are regularly updated, defining the operating procedures of the Board of Directors in addition to applicable legal and regulatory requirements and the provisions of the Company's articles of association. Acting on the recommendation of the Appointments, Compensation & Governance Committee, the Board of Directors updated its Internal Procedures on February 22, 2018. Internal procedures have also been drawn up for the Board of Directors' committees, and are included in the appendices of the Board of Directors' Internal Procedures.

The Internal Procedures are available on the "Governance" page of the Company's website (http://www.valeo.com/en/the-group/governance-linked-documents.html).

Directors' rights and duties

The Internal Procedures include a Directors' Charter that sets out the principles that the directors must follow. This Charter imposes certain duties on directors in order to ensure, in particular, that (i) they are aware of the rules and regulations applicable to them, (ii) conflicts of interest are avoided, (iii) they dedicate the necessary time and attention to their duties and comply with the applicable law relating to multiple directorships, and (iv) as regards undisclosed information, they are bound by a duty of confidentiality that goes beyond the mere obligation of discretion provided by law. The Charter also specifies that while directors are individual shareholders, they represent all shareholders and must act in the interest of the Company in all circumstances. They also have a duty to be loyal to the Company.

Furthermore, members of the Board of Directors are responsible for ensuring that they have all the necessary information to carry out their duties. To this end, the Chairman and Chief Executive Officer provides directors with the information and documents required in order for them to fully perform their duties. The Lead Director, where applicable, also makes sure that the directors are fully informed.

As compensation for the work carried out by directors, Shareholders' Meetings may grant an annual fixed amount of attendance fees which may be freely allocated by the Board of Directors among its members. The Board of Directors may also grant directors exceptional compensation for specific assignments or tasks entrusted to them. The Board of Directors sets the compensation of the executive corporate officers, based on recommendations made by the Compensation Committee.

Article 14 of Valeo's articles of association stipulates that each director must hold at least 1,500 registered shares throughout his/her term of office. This obligation is included in Article 1.1(b) of the Internal Procedures. In accordance with the law and the provisions of the Company's articles of association and the Internal Procedures, this requirement does not apply to the director representing employees.

On January 23, 2008, the Board of Directors adopted a Code of Conduct on trading in financial instruments and compliance with French regulations on insider trading, which governs trading in the Company's securities by members of the Board of Directors, executive corporate officers, members of the Operations Committee and the Liaison Committee, and any person with insider information. The Code of Conduct was last updated on January 26, 2017 following the entry into force on July 3, 2016 of European Regulation no. 596/2014 on market abuse and the publication on October 26, 2016 of AMF position-recommendation no. 2016-08 on ongoing information and management of insider information. On accepting their position, each member of the Board of Directors agreed to comply with the Code.

This Code sets out the legal and regulatory provisions applicable to the Chairman and Chief Executive Officer, members of the Board of Directors and other executive managers in relation to declaring transactions concerning the Company's financial instruments.

Under the Code of Conduct, it is prohibited for any person to carry out one or more transactions based on insider information at any time. It is prohibited at any time for these people to carry out or attempt to carry out, either on their own behalf or for third parties, directly or indirectly, one or more transactions (including the sale of shares resulting from the exercise of stock purchase or subscription options or the cancellation or modification of an order) on financial instruments (shares, bonds, etc., and any related derivatives) of the Company if they have insider information about the Company or any other Group entity. This Code also prohibits any person having insider information from disclosing or attempting to disclose insider information about the Company or any Group entity, other than in the normal course of their duties, to any person, particularly when the circumstances of such disclosure would enable that person to carry out one or more transactions on the Company's financial instruments. They are also prohibited from advising or attempting to advise any person to carry out one or more transactions in the Company's financial instruments based on insider information about Valeo or any other Group entity, or encouraging or attempting to encourage any person to carry out such transactions in Valeo's financial instruments based on this insider information.

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

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

The Code of Conduct also applies to the purchase or sale (or forward transaction) of the financial instruments of any company other than Valeo by any persons having insider information if the transaction concerned is based on insider information obtained in the course of their duties.

In the event of doubt as to whether information is considered insider information, all persons must contact the Group's General Counsel before carrying out any transactions involving the Company's financial instruments. The Chairman and Chief Executive Officer, the directors and members of the Group's Operations Committee must check with the Group's General Counsel before carrying out any transactions involving the Company's financial instruments that they do not have insider information as a result of their position.

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

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

- between the thirtieth calendar day inclusive preceding the date of publication of Valeo's press release on the annual and half-yearly results, and the third trading day, inclusive, following the date of publication of said press release on these financial statements;
- between the fifteenth calendar day inclusive preceding the date of publication of Valeo's quarterly information and the third trading day, inclusive, following the date of publication of the press release on this quarterly information.

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

In addition, pursuant to this Code, the Chairman and Chief Executive Officer, the members of the Board of Directors, other executive managers and persons having close personal ties with them must comply with obligations to inform the Company and the AMF following transactions in the Company's shares, debt securities, derivatives or other related financial instruments in accordance with applicable laws and regulations.

Although not expressly provided for by the Internal Procedures, in practice the directors attend the Company's Shareholders' Meetings, in accordance with the relevant recommendations of the AFEP-MEDEF Code.

Rules governing the operation and organization of the Board, and their application

Average notice period for calling Board meetings

In accordance with its Internal Procedures, the Board of Directors meets at least six times a year, at dates that are sent to each director at the beginning of the fiscal year at the latest, and at any other time in the interest of the Company. The average notice period for calling a meeting of the Board of Directors is approximately ten days, allowing the directors to review any useful information for the meetings.

Representation of directors

A director may be represented at Board of Directors' meetings by another director; however, at a single meeting each director only has a proxy to represent one director. The proxy must be given in writing. During the 2017 fiscal year, five directors were represented by proxy at Board meetings.

Chairmanship of Board meetings

Board of Directors' meetings are chaired by the Chairman and Chief Executive Officer or, in his absence, by a Vice-Chairman, where applicable, or a director designated by the Board of Directors, including the Lead Director. All seven Board meetings held in 2017 were chaired by the Chairman and Chief Executive Officer.

Directors' participation in Board meetings

The Internal Procedures allow directors to participate in Board of Directors' meetings by any videoconferencing or telecommunications technology that enables them to be identified and ensures that they actually participate in the meeting. Accordingly, directors who take part in Board meetings through such means are deemed to be present for the purposes of calculating the quorum and majority, except at meetings dedicated to the preparation of the annual parent company and consolidated financial statements and the related management reports (as provided for in Articles L.232-1 and L.233-16 of the French Commercial Code). The Chairman is required to state in the relevant meeting notice whether these methods can be used for certain meetings. Directors wishing to participate in a Board meeting by these methods must contact the Secretary of the Board of Directors at least two working days before the meeting date (except in an emergency) in order to ensure that the relevant technical information can be exchanged and tests performed before the meeting takes place.

Decision-making on the Board

The Board of Directors is only validly constituted if half of its members are present or deemed present, without taking into account members who are represented. Decisions are made by a majority vote of members present, deemed present or represented. In the event of a tie, the Chairman has the casting vote.

Record of Board decisions

Minutes are drawn up at each meeting and signed by the Chairman and Chief Executive Officer and one other director. The draft minutes must be sent to all directors prior to this and no later than two weeks after the meeting. To ensure a clear account of Board of Directors' meetings, the minutes include, in addition to the information required by law, a summary of the discussions and decisions made, briefly mentioning the issues and reservations raised, along with an explanation of any technical issue related to videoconferencing or telecommunications technology used if it disrupted the meeting. The minutes of Board of Directors' meetings provide a record of the Board of Directors' proceedings.

Frequency and duration of Board meetings and average attendance rates of directors

The Board of Directors met on seven occasions in 2017, i.e., once more than the minimum number of meetings stipulated in its Internal Procedures, while there were a total of 23 meetings of the Board's committees. The average duration of Board meetings was about four hours. The directors held their annual strategy seminar in China, over four days in November 2017. The frequency and duration of Board meetings allowed the review and in-depth discussion of matters falling within the competence of the Board of Directors.

The average attendance rate of directors at Board meetings held in 2017 was: (i) 98% of directors present or represented, and (ii) 93% of directors present (excluding directors represented).

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

Director	Attendance rate (director in attendance)
Jacques Aschenbroich (Chairman and Chief Executive Officer)	100%
Bruno Bézard(1) (Independent director)	100%
Gérard Blanc(2) (Independent director)	100%
Daniel Camus (Independent director)	100%
Éric Chauvirey(3) (Director representing employees)	100%
Pascal Colombani (Independent director)	100%
Jérôme Contamine(4) (Independent director)	100%
C. Maury Devine (Independent director)	86%
Sophie Dutordoir(2) (Independent director)	50%
Michel de Fabiani (Independent director)	100%
Mari-Noëlle Jégo-Laveissière(1) (Independent director)	86%
Noëlle Lenoir (Independent director)	86%
Thierry Moulonguet (Independent director)	86%
Georges Pauget (Lead Director and independent director)	100%
Ulrike Steinhorst (Independent director)	100%
Véronique Weill(1) (Independent director)	86%

(1) Since his/her cooptation on October 24, 2017.
(2) Until the end of his/her term on May 23, 2017.
(3) Since his appointment by the Group Works Council on June 30, 2017.
(4) Until his resignation on September 30, 2017.

Directors' access to information

Directors' access to information

The Company's new directors receive training to help them learn about the Company, its business lines and its business sector. In accordance with the AFEP-MEDEF Code, the Company devised a specific training program for Éric Chauvirey prior to his appointment as director representing employees. Thus, since his appointment on June 30, 2017, meetings have been arranged with the General Counsel, Human Resources Director and Chief Financial Officer to improve his knowledge of various matters relevant to his role. He has also completed two external training courses, one on the role of director representing employees and the other on understanding financial statements. In 2018, he will attend a training course run by *Institut d'études politiques de Paris* (IEP) in partnership with the French Institute of Directors (*Institut Français des Administrateurs* – IFA) on the role of director, as well as several sessions on the Group's various product lines.

Within the scope of the Board of Directors' work, each director is given all the information required to perform his/her duties. The agenda for any upcoming Board of Directors' meeting and details of agenda items requiring upfront analysis and consideration are provided within a sufficient time frame and at least 48 hours (except in an emergency) before the meeting, provided that this is not incompatible with confidentiality requirements. The information provided to directors may include the Group's business plan, a market analysis for each of its main businesses, key performance indicators used by General Management, minutes of committee meetings, extracts from performance charts used by General Management, information about business activity in the coming months (orders, etc.), cash flow forecasts covering at least three months and indicators used to monitor working capital.

Directors who are not able to make an informed decision due to lack of information must notify the Chairman and Chief Executive Officer and/or the Lead Director and request the information they deem necessary to fulfill their duties. Requests for information needed to perform their duties must be made to the Chairman and Chief Executive Officer or to the Lead Director who will then notify the Chairman and Chief Executive Officer. Generally, each director receives the information that he/she needs to perform his/her duties and may be given all the related documents by the Chairman and Chief Executive Officer once the Board of Directors has determined that they are relevant.

The Chairman and Chief Executive Officer shares with the directors any information about the Company that he has and that he deems relevant to share on an ongoing basis.

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

Guests of the Board

During the 2017 fiscal year, the Group's General Counsel, in his capacity as Secretary of the Board of Directors, and the Group's Chief Financial Officer attended all meetings of the Board of Directors. Other members of the Group's Management attended for certain specific matters, including the Group Chief Operating Officer for external growth transactions, and the President and the Head of R&D and Marketing of the Powertrain Systems Business Group to present the strategy and research and development activity for their business. The Group's Statutory Auditors attended parts of some Board meetings.

Role of the Board

The principal role of the Board of Directors, which is a collegial body appointed by the shareholders, is to determine the Company's business strategies and ensure that they are implemented effectively. Subject to the powers expressly granted to Shareholders' Meetings and within the limits of the corporate purpose, it handles any issues related to the proper operation of the Company and takes care of the business that concerns it during its meetings.

In accordance with applicable laws and regulations, the Company's articles of association and the provisions of the Internal Procedures, the Board of Directors has the powers, in particular, to:

- convene Shareholders' Meetings and set the agendas thereof;
- draw up the parent company and the consolidated financial statements, the Annual Management Report and the forecast management documents;
- authorize related party agreements;
- appoint and remove the Chairman and Chief Executive Officer and the Executive Vice-Presidents from their positions and set their compensation;
- appoint the members of the committees;
- allocate the attendance fees;
- transfer the head office within French territory provided that the decision is approved at the next Ordinary Shareholders' Meeting;
- acting under the authority of the Extraordinary Shareholders' Meeting, amend the articles of association as necessary to ensure their compliance with applicable laws and regulations, provided that the articles of association are approved at the next Extraordinary Shareholders' Meeting;
- authorize sureties, endorsements and guarantees;
- review the Corporate Governance Report;
- issue non-dilutive bonds and/or securities giving or not giving access to the share capital;
- decide on any planned merger or spin-off;
- authorize the Chairman and Chief Executive Officer to carry out any significant transactions, i.e., the acquisition or sale of any subsidiary, interest or any other asset or investment of any kind, for a sum of more than 50 million euros per transaction;
- review the Group's industrial and financial strategy by devoting, in particular, one session per year to this review.

The Board of Directors is also informed about market and competitive trends and the main challenges faced by the Company, including those related to corporate social responsibility (CSR).

In 2017, the main topics addressed by the Board of Directors concerned in particular:

- the financial position, cash position and commitments of the Group, and in particular:
  - analyzing the 2017 budget,
  - the Statutory Auditors' presentation on the parent company and the consolidated financial statements for the 2016 fiscal year, and on the review of the interim consolidated financial statements for the six months ended June 30, 2017,
  - preparing the parent company and the consolidated financial statements for the 2016 fiscal year,
  - reviewing the results for the first half of 2017, the forecasts for the second half of 2017 and the outlook for the 2017 fiscal year,
  - preparing the Management Report and the related notes for the 2016 fiscal year,
  - handling the proposed payment of a dividend of 1.25 euros per share for 2016,
  - reviewing the quarterly figures and results, and the forecasts and projections prepared for 2017;
- oversight relating to key strategies, and in particular:
  - discussing acquisitions, investments and strategic operations under review (in particular FTE, Ichikoh and Kapec),
  - monitoring changes in the industry and the Group's key strategies,
  - reviewing market and competitive trends;
- executive compensation, and in particular:
  - reviewing the Chairman and Chief Executive Officer's variable compensation for 2016,
  - reviewing the supplementary pension plan covering the Chairman and Chief Executive Officer for 2016,

  - reviewing the compensation policy for the Chairman and Chief Executive Officer for 2017 and the corresponding report,
  - proposing changes to the Chairman and Chief Executive Officer's 2018 compensation,
  - drawing up the 2017 compensation of Operations Committee members,
  - reviewing the plan to allot performance shares to the Group's corporate officers and employees,
  - measuring the performance criteria for the 2017 performance share plans,
  - reviewing succession and development plans for the Group's main executive managers,
  - reviewing the Shares4U 2017 and Shares4U 2018 plans;
- corporate governance and internal control, and in particular:
  - reviewing the status of directors in light of the independence criteria set out in the Internal Procedures,
  - reviewing risk mapping,
  - assessing the operation of the Board of Directors and the committees,
  - reviewing the procedure for appointing directors representing employees,
  - reviewing the composition of the committees,
  - appointing and re-appointing directors,
  - reviewing succession plan for directors,
  - reviewing succession and development plans for the Group's main executive managers,
  - reviewing the attendance fees payable to directors,
  - approving the Report of the Chairman of the Board of Directors on corporate governance and internal control,
  - reviewing the draft report of the Lead Director,
  - reviewing the provisions of the consolidated AFEP-MEDEF Code (comply or explain), and the report of the High Committee on Corporate Governance,
  - reviewing the Board of Directors' special report on components of compensation due or awarded to executive corporate officers (say on pay) for the year ended December 31, 2016,
  - reviewing the Code of Conduct relating to securities trading and the prevention of insider trading,
  - amending the Internal Procedures,
  - splitting the Appointments, Compensation & Governance Committee into (i) a Compensation Committee and (ii) a Governance, Appointments & Corporate Social Responsibility Committee;
- financial operations, and in particular:
  - sureties, endorsements and guarantees,
  - issuance of bonds,
  - share buybacks;
- other issues, and in particular:
  - calling the Ordinary and Extraordinary Shareholders' Meeting (including deciding on the content of draft resolutions and the Board of Directors' Report on the resolutions),
  - reviewing related party agreements that remain in effect over time,
  - reviewing antitrust proceedings,
  - reviewing the proposed Ichikoh site in Morinosato,
  - organizing the Investor Day,
  - reviewing the Group's compliance program (in particular, relating to France's Sapin II and Duty of Care laws),
  - proposed construction/acquisition of the new CDA head office in Créteil,
  - issuing an opinion on any proposed directorships in other companies,
  - preparing a schedule of Board meetings for 2019,
  - reviewing press releases,
  - reviewing the ownership structure and any changes,
  - presentation of diversity and equality within the Group,
  - reviewing CSR and safety policies,
  - training policy for Group employees.

Committees created by the Board

The Board of Directors has set up several committees in order to enhance its operating procedures and provide assistance with preparing its decisions by issuing recommendations and opinions.

At December 31, 2017, the committees of the Board of Directors were:

- Governance, Appointments & Corporate Social Responsibility Committee;
- Compensation Committee;
- Audit & Risks Committee;
- Strategy Committee.

At its meeting on January 26, 2017, acting on the recommendation of the Appointments, Compensation & Governance Committee, the Board of Directors decided to split the Appointments, Compensation & Governance Committee into two: (i) a Compensation Committee and (ii) a Governance, Appointments & Corporate Social Responsibility Committee.

The division is aimed at achieving continuous improvement in governance. Valeo is committed to a sustainable development strategy through a CSR policy, aimed at ensuring the consistency of its economic, environmental and social targets, and bases its method of governance and its development on its values and socially responsible operating principles. It therefore seemed appropriate for this competency to be placed within the remit of the committee in charge of governance.

The roles of the Appointments, Compensation & Governance Committee were split between (i) the Compensation Committee, and (ii) the Governance, Appointments & Corporate Social Responsibility Committee, which has been entrusted with new corporate social responsibility duties.

When the split took place, it was decided that (i) initially, the composition of the two new committees would remain the same as that of the Appointments, Compensation & Governance Committee, but would evolve at a later stage, and (ii) pending a subsequent change in the composition of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee, the members of the two committees would not receive any additional fees for their attendance at both committees (instead of one prior to the split). Given the current composition of the two committees, this rule was applied throughout 2017.

The various committees reported regularly on their work to the Board of Directors in 2017.

Governance, Appointments & Corporate Social Responsibility Committee

The following table shows a summary of changes in the composition of the Governance, Appointments & Corporate Social Responsibility Committee from January 26, 2017 to December 31, 2017.

Composition of the Committee at January 26, 2017	Departure	Appointment	Composition of the Committee at December 31, 2017
Georges Pauget (Chairman, Lead Director and independent director)	-	-	**Georges Pauget** (Chairman, Lead Director and independent director)
Pascal Colombani (Independent director)	-	-	**Pascal Colombani** (Independent director)
C. Maury Devine (Independent director)	-	-	**C. Maury Devine** (Independent director)
Sophie Dutordoir (Independent director)	Term ended[1] (May 23, 2017)	-	-
Michel de Fabiani (Independent director)	-	-	**Michel de Fabiani** (Independent director)
Ulrike Steinhorst (Independent director)	-	-	**Ulrike Steinhorst** (Independent director)
6 members			***5 members***

(1) Sophie Dutordoir's term of office expired at the Shareholders' Meeting of May 23, 2017.

All the members are independent directors and the Company therefore complies with the provisions of the AFEP-MEDEF Code (Articles 16.1 and 17.1) recommending that the majority of directors on the Appointments Committee be independent. This provision has been written into the internal procedures. In accordance with the internal procedures of the Governance, Appointments and Corporate Social Responsibility Committee, the Senior Vice-President, Human Resources or any other person designated by the Chairman of the Committee acts as the secretary of meetings of the Committee. The Lead Director, where applicable, may attend and take part in any Governance, Appointments & Corporate Social Responsibility Committee meetings, even if he is not a member. Lastly, the Chairman and Chief Executive Officer is not a member of the Committee but is involved in its work, except for discussions regarding the renewal of his term of office (including when the offices of Chairman of the Board and Chief Executive Officer are combined).

According to its internal procedures, the roles and responsibilities of the Governance, Appointments & Corporate Social Responsibility Committee are, in particular, as follows:

a) as regards corporate governance:

- analyzing how the Board of Directors and its committees operate,
- assessing and updating corporate governance rules and, in particular, ensuring that the assessment of the Board of Directors' operation is carried out in line with market practices;

b) as regards selection and appointments:

- preparing the composition of the Company's governing bodies, by making reasoned recommendations regarding the appointment of executive corporate officers, directors, including the Lead Director, where applicable, as well as members of the committees and the Chairman of each of these committees (except for its own Chairman) as well as by drawing up a succession plan for the executive corporate officers and directors,
- reviewing the status of each director in light of the independence criteria set out in the Internal Procedures,
- selecting new directors for appointment;

c) as regards corporate social responsibility:

- reviewing the main thrusts of the Company and Group's corporate social responsibility policy,
- identifying corporate social responsibility objectives and challenges, and making sure that the previously defined objectives set are met,
- overseeing the gradual and increasing implementation of Valeo's corporate social responsibility policy and assessing the Group's contribution to sustainable development,
- in conjunction with the Audit & Risks Committee, gaining an understanding of the risks and issues involved in corporate social responsibility, and obtaining information about the resources the Group can call on to pursue its strategy in this area.

It should be noted that within the scope of its roles and responsibilities as regards selection and appointments, the choice of candidates for the duties of director by the Committee is guided by the interest of the Company and all its shareholders. The Committee may, in particular, consider: (i) the appropriate balance of the composition of the Board of Directors based on the composition of the Company's ownership structure and any changes thereto, (ii) gender balance, (iii) any representation of vested interests, (iv) the timeliness of renewing directorships, (v) the integrity, skills, international experience, nationality and independence of each candidate, and (vi) the appropriate number of independent directors. The Committee must also strive to reflect diverse experience and perspectives, while ensuring for the Board of Directors the objectivity and independence required in relation to General Management, a specific shareholder or group of shareholders, while ensuring the stability of the Company's corporate bodies.

When issuing opinions or recommendations on selections and appointments, the Committee must ensure that (i) at least half of the members of the Board of Directors are independent directors, (ii) the Chairman and Chief Executive Officer is not a member of the Audit & Risks Committee, and (iii) at least two-thirds of the Audit & Risks Committee members are independent directors. The Committee conducts its own research on potential candidates before contacting them.

In carrying out its duties, the Committee may contact the Company's executive managers or request external technical studies on matters falling within its competence, in particular after informing the Chairman and Chief Executive Officer and reporting to the Board of Directors.

The Governance, Appointments & Corporate Social Responsibility Committee met six times in 2017 (including the Appointments, Compensation & Governance Committee meeting on January 26, 2017 prior to its split into the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee) with an attendance rate of 93%.

The following table shows the average attendance rate of each member of the Governance, Appointments & Corporate Social Responsibility Committee at the Committee's meetings (including the Appointments, Compensation & Governance Committee meeting on January 26, 2017 prior to its split into the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee).

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Director	Attendance rate
Georges Pauget (Chairman, Lead Director and independent director)	100%
Pascal Colombani (Independent director)	83%
C. Maury Devine (Independent director)	100%
Sophie Dutordoir[1] (Independent director)	67%
Michel de Fabiani (Independent director)	100%
Ulrike Steinhorst (Independent director)	100%

(1) Until the end of her term on May 23, 2017.

During these meetings, the Governance, Appointments & Corporate Social Responsibility Committee in particular:

- reviewed directors' independence, including with regard to business relationships (reviewed by the Appointments, Compensation & Governance Committee on January 26, 2017);
- reviewed the assessment of the operation of the Board of the Directors and its committees for 2016, prepared by an outside firm;
- reviewed the split of the Appointments, Compensation & Governance Committee into (i) a Compensation Committee and (ii) a Governance, Appointments & Corporate Social Responsibility Committee;
- reviewed the renewal of terms of office of directors;
- reviewed the proposed appointment of Jacques Aschenbroich, Daniel Camus, C. Maury Devine and Georges Pauget as directors of other companies;
- reviewed and recommended changes to the composition of the committees;
- reviewed the procedure for appointing directors representing employees (reviewed by the Appointments, Compensation & Governance Committee on January 26, 2017);
- reviewed the proposed resolution on the appointment of a director representing employees;
- reviewed progress in the search for new directors and the succession plan for directors;
- noted the resignation of a director and coopted a new director;
- amended the Code of Conduct and the Internal Procedures and reviewed the rules on insider trading (reviewed by the Appointments, Compensation & Governance Committee on January 26, 2017);
- reviewed the comply or explain table pursuant to the consolidated AFEP-MEDEF Code and the report of the High Committee on Corporate Governance;
- reviewed the draft Report of the Chairman of the Board of Directors on corporate governance and internal control;
- reviewed the draft report of the Lead Director;
- reviewed the succession and development plans for the main Group executive managers;
- reviewed the Group's corporate social responsibility and safety policies, including product life cycle (from eco-design to carbon impact), further improvements in sustainability in the supply chain, progress in the eco-efficiency of production sites, general

training in corporate social responsibility, social relations with communities and the growing demands of customers and society in terms of corporate social responsibility. As regards safety, the Committee reviewed accident statistics, the continuous safety progress approach implying demanding standards, control resources and compliance monitoring, ergonomics and the financial consequences of the French law on arduous work, the relationship between absenteeism and workplace accidents, training and a summary of the 2017 objectives and action plans as regards the safety of Valeo employees;

- reviewed diversity and equality within the Group. The Committee was given a presentation by the Ethics and Compliance Officer on diversity and equality, in particular key figures on diversity within the Group, gender balance, disability employment, the "Valeo diversity" program and the Group's expectations, issues and objectives as regards diversity.

Compensation Committee

The following table shows a summary of changes in the composition of the Compensation Committee from January 26, 2017 to December 31, 2017.

Composition of the Committee at January 26, 2017	Departure	Appointment	Composition of the Committee at December 31, 2017
Georges Pauget (Chairman, Lead Director and independent director)	-	-	**Georges Pauget** (Chairman, Lead Director and independent director)
Pascal Colombani (Independent director)	-	-	**Pascal Colombani** (Independent director)
C. Maury Devine (Independent director)	-	-	**C. Maury Devine** (Independent director)
Sophie Dutordoir (Independent director)	Term ended(1) (May 23, 2017)	Appointment of Éric Chauvirey(2) (July 20, 2017)	**Éric Chauvirey(2)** (Director representing employees)
Michel de Fabiani (Independent director)	-	-	**Michel de Fabiani** (Independent director)
Ulrike Steinhorst (Independent director)	-	-	**Ulrike Steinhorst** (Independent director)
6 members			***6 members***

(1) Sophie Dutordoir's term of office expired at the Shareholders' Meeting of May 23, 2017.
(2) At its meeting on July 20, 2017, acting on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors appointed Éric Chauvirey, director representing employees, as a member of the Compensation Committee.

All the members are independent directors (except for the director representing employees who, in accordance with the recommendation in Article 14.1 of the AFEP-MEDEF Code, does not count) and the Company therefore complies with the provisions of the AFEP-MEDEF Code recommending that the majority of directors on the Compensation Committee be independent (Article 16.1) and that a director representing employees be a member of the Compensation Committee (Article 17.1). In accordance with the internal procedures of the Governance, Appointments and Corporate Social Responsibility Committee, the Senior Vice-President, Human Resources or any other person designated by the Chairman of the Committee acts as the secretary of meetings of the Committee. The Lead Director, where applicable, may attend and take part in any Compensation Committee meetings, even if he is not a member. Lastly, the Chairman and Chief Executive Officer is not a member of the Compensation Committee but takes part in its work on the compensation policy for the main executive managers who are not corporate officers of the Company.

According to its internal procedures, the roles and responsibilities of the Compensation Committee are, in particular, as follows:

- studying and making recommendations concerning the compensation paid to executive corporate officers, particularly as regards:
  - the variable component of their compensation: it defines the method for setting the variable component taking into account the performance of the executive corporate officers during the year and the medium-term strategy of the Company and the Group, and makes sure that these rules are applied,
  - all benefits in kind, performance shares or stock purchase or subscription options received from any Group company, pension provisions and any other benefits;
- making recommendations to the Board of Directors on the rules for allocating attendance fees and the individual amounts to be paid to each director, taking into account the actual number of Board and Committee meetings attended;
- recommending to the Board of Directors an aggregate amount of attendance fees to be proposed at the Shareholders' Meeting;
- giving its opinion to the Board of Directors on the general policy for allotting stock purchase or subscription options and free shares or performance shares, as well as on the stock option, free share and performance share plans set up by the Group's General Management in accordance with applicable rules and recommendations;
- making recommendations to the Board of Directors on the allotment of stock purchase or subscription options and free shares or performance shares, giving reasons for its choice and the related consequences;

- keeping informed about the compensation policy for the main executive managers who are not corporate officers of the Company or of other Group companies; and
- reviewing any questions submitted to the Committee by the Chairman about the above matters, as well as proposed share issues reserved for employees.

The Annual Report contains information for the shareholders about compensation paid to executive corporate officers, the principles and method of setting their compensation, and any stock purchase or subscription options or performance shares allotted to them.

The Compensation Committee met seven times in 2017 (including the Appointments, Compensation & Governance Committee meeting on January 26, 2017 prior to its split into the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee) with an attendance rate of 95%.

The following table shows the average attendance rate of each member of the Compensation Committee at the Committee's meetings (including the Appointments, Compensation & Governance Committee meeting on January 26, 2017 prior to its split into the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee):

Director	Attendance rate
Georges Pauget (Chairman, Lead Director and independent director)	100%
Éric Chauvirey(1) (Director representing employees)	100%
Pascal Colombani (Independent director)	86%
C. Maury Devine (Independent director)	100%
Sophie Dutordoir(2) (Independent director)	67%
Michel de Fabiani (Independent director)	100%
Ulrike Steinhorst (Independent director)	100%

(1) At its meeting on July 20, 2017, acting on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors appointed Éric Chauvirey, director representing employees, as a member of the Compensation Committee.
(2) Until the end of her term on May 23, 2017.

During these meetings, the Compensation Committee in particular:

- reviewed attendance fees for directors (reviewed by the Appointments, Compensation & Governance Committee on January 26, 2017);
- reviewed the Chairman and Chief Executive Officer's compensation, based on a study carried out by two reputed consulting firms;
- examined the proposed resolutions on the compensation of executive corporate officers to be put to the Shareholders' Meeting;
- examined the plan to allot free shares or performance shares to the Group's corporate officers and employees;
- examined the Shares4U 2017 and Shares4U 2018 employee share ownership plans;
- examined the Chairman and Chief Executive Officer's variable compensation for 2016 and 2017;
- examined the Chairman and Chief Executive Officer's supplementary pension entitlement;
- examined the report on compensation due or awarded to executive corporate officers in 2016 (say on pay);
- examined the 2017 compensation policy for the Chairman and Chief Executive Officer and the corresponding report;
- reviewed the compensation policy for the Chairman and Chief Executive Officer;
- reviewed the proposed changes to the pension plan;
- reviewed the compensation of Operations Committee members (reviewed by the Appointments, Compensation & Governance Committee on January 26, 2017);
- examined the proposed changes to the Chairman and Chief Executive Officer's compensation in 2018;
- examined the press releases on the Chairman and Chief Executive Officer's compensation.

Audit & Risks Committee

The following table shows a summary of the composition of the Audit Committee, which remained unchanged in 2017.

Composition of the Committee at January 1, 2017	Departure	Appointment	Composition of the Committee at December 31, 2017
Daniel Camus (Chairman and independent director)	-	-	**Daniel Camus** (Chairman and independent director)
Michel de Fabiani (Independent director)	-	-	**Michel de Fabiani** (Independent director)
Mari-Noëlle Jégo-Laveissière (Independent director)	-	-	**Mari-Noëlle Jégo-Laveissière** (Independent director)
Noëlle Lenoir (Independent director)	-	-	**Noëlle Lenoir** (Independent director)
Thierry Moulonguet (Independent director)	-	-	**Thierry Moulonguet** (Independent director)
5 members			***5 members***

All the members are independent directors and the Company therefore complies with the provisions of the AFEP-MEDEF Code (Article 15.1) recommending that at least two-thirds of directors on the Audit & Risks Committee be independent. In accordance with the internal procedures of the Audit & Risks Committee, the Group Internal Audit Director or any other person designated by the Chairman of the Committee acts as the secretary of meetings of the Committee. The Chairman and Chief Executive Officer is not a member of the Audit & Risks Committee but may be invited to attend its meetings. The Lead Director, where applicable, may attend and take part in any Audit & Risks Committee meetings, even if he is not a member.

When they are appointed, if necessary, members of the Audit & Risks Committee may receive training on specific accounting, financial and operating issues related to the Company and the Group.

Through their training or business experience, all current members of the Audit & Risks Committee have financial and accounting skills. Therefore, the Company goes beyond the requirements of Article L.823-19 of the French Commercial Code according to which at least one member of the Audit & Risks Committee must have specialized financial or accounting skills and be independent. For details of the experience of the Audit & Risks Committee members, see section 3.2.1 of this chapter, paragraph "Presentation of directors in 2017", pages 104 to 120.

In accordance with Article L.823-19 of the French Commercial Code and its internal procedures, the roles of the Audit & Risks Committee are as follows:

a) as regards the financial statements:

- ensuring that the accounting policies adopted to prepare the consolidated and parent company financial statements are relevant, consistent and properly applied, and that material transactions are accounted for appropriately at Group entity level,
- monitoring the statutory audit work on the annual and consolidated financial statements, and at the end of the reporting period, reviewing and giving an opinion on the draft interim and annual parent company and consolidated financial statements prepared by the Finance Department before they are presented to the Board of Directors. For this purpose, all draft financial statements and any other useful documentation and information should be provided to the Audit & Risks Committee before the Board of Directors reviews the financial statements. In examining the financial statements, the Audit & Risks Committee should also be provided with (i) a memorandum from the Statutory Auditors reporting on the performance of their assignment and the findings of their work, thereby informing the Committee of the principal risks and uncertainties identified by the Statutory Auditors in the financial statements, their audit approach and possible difficulties encountered in carrying out the assignment and (ii) a presentation from the Chief Financial Officer describing the Company's risk exposure and material off-balance sheet commitments and accounting options applied. The Audit & Risks Committee meets with the Statutory Auditors, the Finance Department (without General Management being present, where appropriate), and with General Management, to discuss depreciation, amortization, provisions, goodwill, consolidation principles and accounting policies, among other subjects,
- examining the draft interim financial statements, interim reports, activity report and earnings releases prior to publication, as well as any financial statements drawn up in connection with specific transactions (contributions, mergers, market operations, interim dividend payments, etc.),
- analyzing the scope of consolidation, and the reasons why certain companies may not have been consolidated,
- assessing the risks to which the Company is exposed as well as any material off-balance sheet commitments, and assessing the extent of the failures and weaknesses reported to it and informing the Board of Directors, where appropriate,
- reviewing the financial and accounting treatment of acquisitions or disposals in excess of 50 million euros per transaction, in conjunction with the opinions of the Strategy Committee where appropriate, and reviewing any key transactions which could have given rise to a conflict of interest;

b) as regards internal audit, internal control and risk management, including compliance:

- monitoring the Group's risk management and internal control systems and, where appropriate, internal audit related to the procedures for preparing and processing financial and accounting information within the Group. The Committee ensures that there are risk management and internal control systems in place to identify, analyze, manage, and continuously improve the prevention and management of all types of risks that the Group may face in the course of its business, particularly those likely to have an impact on financial and accounting information, and that the Group adheres to compliance rules,

- receiving information on a regular basis from General Management on the organization and operation of risk management and internal control systems,
- regularly reviewing the risk mapping of the main risks identified by General Management, the results of the operation of the risk management and internal control systems and the relevance of the risk monitoring procedure and ensuring that appropriate action plans have been implemented to mitigate the problems and weaknesses identified,
- remaining informed about the main problem areas and weaknesses observed and the action plans approved by General Management,
- receiving Internal Audit reports or regular summaries of these reports,
- monitoring any issues linked to control and the process for preparing financial and accounting information,
- checking that internal procedures for compiling and verifying information are defined to ensure the information is reliable and reported in a timely manner; reviewing the Statutory Auditors' work plan,
- regularly meeting with managers of the Group's Internal Audit unit, giving its opinion on how their Department is organized, and keeping informed of their work program,
- remaining regularly informed of the Group's external auditors' working plans and methods and on General Management's responses,
- reviewing and making observations about the section of the Management Report on the internal control and risk management procedures implemented by the Company,
- reviewing any issue related to internal control, risk management, and internal audit submitted to the Committee by the Board of Directors; asking General Management for any information,
- organizing an annual Audit & Risks Committee meeting dedicated to internal audit, internal control and risk management issues;

c) as regards the Statutory Auditors:

- assessing compliance with rules, principles and recommendations guaranteeing the independence of the Statutory Auditors and monitoring their independence, particularly by examining the risks to independence and the measures taken to mitigate such risks, in conjunction with the Statutory Auditors,
- supervising the procedure for selecting or renewing statutory audit engagements based on the best, and not the lowest, tender; expressing an opinion on the statutory audit fees requested; giving an informed opinion on the choice of Statutory Auditors and informing the Board of Directors of its recommendation,
- obtaining details of fees paid by the Company and the Group to the statutory audit firm and its network, and of any services provided in direct relation to the statutory audit engagement; ensuring that the amount or percentage that such fees represent in relation to the total revenues of the audit firm or network does not risk compromising their independence,
- pre-approving non-audit services;

d) as regards financial policies:

- remaining informed by General Management of the Group's financial position and of the methods and techniques used to define financial policy; keeping abreast of the main thrusts of the Group's financial strategy,
- reviewing external communications on accounting and financial matters or events liable to affect the Group's financial position or outlook, prior to their publication,
- giving an opinion on the resolutions submitted to Shareholders' Meetings relating to the parent company and consolidated financial statements,
- at General Management's request, giving an opinion on any resource allocation decisions which, in light of the beneficiaries or because of potential conflicts of interest, could give rise to difficulties in interpretation as to their compliance with legislative rules and the Company's articles of association,
- reviewing any financial or accounting matter referred to it by the Chairman, the Board of Directors, General Management or the Statutory Auditors, as well as any potential conflicts of interest brought to its attention;

e) as regards other reviews performed and falling within its remit:

- remaining informed by General Management and regularly hearing from the Tax Department on the Group's tax strategy and its implications,
- remaining informed by General Management and regularly hearing from the IT Services Department on the Group's information security and cybersecurity governance and policy,
- periodically reviewing the Group's Ethics and Compliance policy and the rules and procedures for its implementation,
- remaining informed by General Management and regularly hearing from the Insurance Department on the Group's insurance program,
- receiving information on a regular basis from General Management on the organization of the finance teams and the succession plan for these teams.

Any risk-related subject may be handled by the Audit & Risks Committee as part of its annual duties.

Furthermore, the internal procedures provide that the provision of non-audit services is subject to the approval of the Audit & Risks Committee and the verification by the Statutory Auditor of its independence, in accordance with the provisions of the French Commercial Code.

The approval of the Audit & Risks Committee is required for the provision of non-audit services by the Statutory Auditors or members of their network, in France or abroad, to the Company and entities controlling or controlled by the Company within the meaning of Article L.233-3 I and II of the French Commercial Code. For this purpose, the Audit & Risks Committee reviews the nature and scope of the services subject to its approval in accordance with the rules and regulations governing the independence of Statutory Auditors. In the absence of procedures required by the provisions, the Audit & Risks Committee implemented a procedure allowing it to fulfill its obligations, by drawing up a list of the non-audit services that can be provided by the Statutory Auditors or their network, with the related approval procedures. Each year, the Audit & Risks Committee will examine and pre-approve the list of the services that can be provided by the Statutory Auditors and will examine the list of prohibited services. These lists may be reviewed and amended by the Audit & Risks Committee at any time, where appropriate. The validity period of any pre-approval is 12 months, unless otherwise decided by the Audit & Risks Committee.

In order to implement this procedure, it is important to distinguish between:

- audit services that do not require the prior approval of the Audit & Risks Committee other than that required for the audit fee budget;
- non-audit services whose performance is required by law or regulations, that are authorized under a general procedure (general approval according to which the Audit & Risks Committee approves once a year all the services to be performed during the year as required by law or regulations);
- non-audit services that are authorized, subject to prior approval based on the nature of the assignment. This prior approval based on the nature of the assignment is appropriate for services usually provided by the Statutory Auditors, for which an independence analysis has already been performed and which do not represent a risk to the independence of Statutory Auditors;
- non-audit services that are authorized, requiring approval on a case by case basis. The Audit & Risks Committee renders a decision after analyzing the risks in terms of independence and measures taken by the Statutory Auditors to mitigate these risks. It documents its findings;
- assignments not permitted to be carried out by the Statutory Auditors or their network.

The services mentioned above are set out in the Board of Directors' Internal Procedures, which include the internal procedures of the Audit & Risks Committee and are available on the "Governance" page of the Company's website (www.valeo.com).

The Audit & Risks Committee liaises mainly with General Management, the Finance Department, the Legal Department and the Ethics and Compliance Office, as well as with the Company's Statutory Auditors. The Committee may interview members of the Finance Department, the Legal Department and the Ethics and Compliance Office, as well as the Company's Statutory Auditors without the members of General Management or executive corporate officers being present, if it sees fit and has previously notified the Chairman and Chief Executive Officer. The Audit & Risks Committee may interview third parties if this is deemed useful to complete its assignments.

The Audit & Risks Committee may also seek the assistance of external experts whenever it needs to, while ensuring that they are competent and independent, subject to informing the Chairman and Chief Executive Officer beforehand. The Committee may not address issues that fall outside the scope of its role unless requested to do so. It has no decision-making authority.

The Audit & Risks Committee met six times in 2017 with an attendance rate of 93%.

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

Director	Attendance rate
Daniel Camus (Chairman and independent director)	100%
Michel de Fabiani (Independent director)	100%
Mari-Noëlle Jégo-Laveissière (Independent director)	67%
Noëlle Lenoir (Independent director)	100%
Thierry Moulonguet (Independent director)	100%

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

- reviewed the draft financial statements for 2016;
- reviewed the Group's draft consolidated results for the first quarter of 2017 and the forecasts for the first half of 2017;
- reviewed the 2017 half-year financial statements;
- reviewed the draft press releases containing financial information;
- reviewed the reports and analyzed the findings presented by the Statutory Auditors;
- reviewed the Management Report for the 2016 fiscal year;
- analyzed administration expenses for 2015, 2016 and the 2017 budget;
- reviewed and approved the figures and methods used to calculate the Chairman and Chief Executive Officer's variable compensation for 2016;
- reviewed the draft Report of the Chairman of the Board of Directors on corporate governance and internal control;
- reviewed and pre-approved the list of services that can be provided by the Statutory Auditors and reviewed the list of prohibited services;

- analyzed information presented by the Group Financing and Treasury Director on the Group's financial policy;
- analyzed information presented by the Group Information Systems Director on information risk mapping, the implementation of action plans and information systems governance;
- analyzed information presented by the Ethics and Compliance Officer on the Group's Ethics and Compliance program (in particular, relating to France's Sapin II and Duty of Care laws);
- analyzed information presented by the Group's Head of Information Systems on cybersecurity;
- reviewed the Group's insurance program;
- analyzed information presented by the Group Accounting Director on IFRS 15 and changes in accounting standards;
- analyzed information presented by the Manufacturing Director on the inventory management policy;
- analyzed information presented by the Tax Director on the Group's tax policy.

The Audit & Risks Committee's work complied with the objectives defined for it during the year. The financial statements were made available to the Committee sufficiently in advance and it had adequate time to review them. The Audit & Risks Committee's work was facilitated by the presence of the Statutory Auditors, the Group's Chief Financial Officer, the Group Internal Audit and Control Director, and the Group Accounting Director at all of the Audit & Risks Committee's meetings. The Committee was also assisted by the work of Internal Audit. The Statutory Auditors' presentations mainly covered the findings of their audit of the annual parent company and consolidated financial statements as well as their limited review of the interim financial statements. They did not highlight any difficulties in carrying out their assignment.

The Audit & Risks Committee did not have any reservations concerning the annual parent company and consolidated financial statements or the interim financial statements presented to it.

Strategy Committee

The following table shows a summary of changes in the composition of the Strategy Committee in 2017.

Composition of the Committee at January 1, 2017	Departures	Appointment	Composition of the Committee at December 31, 2017
Ulrike Steinhorst (Chair and independent director)	-	-	**Ulrike Steinhorst** (Chair and independent director)
Gérard Blanc (Independent director)	Term ended[1] (May 23, 2017)	-	-
Pascal Colombani (Independent director)	-	-	**Pascal Colombani** (Independent director)
Jérôme Contamine (Independent director)	Resignation[2] (September 30, 2017)	-	-
Thierry Moulonguet (Independent director)	-	-	**Thierry Moulonguet** (Independent director)
Georges Pauget (Lead Director and independent director)	-	-	**Georges Pauget** (Lead Director and independent director)
Véronique Weill (Independent director)			**Véronique Weill** (Independent director)
7 members			***5 members***

(1) Gérard Blanc's term of office expired at the Shareholders' Meeting on May 23, 2017.
(2) Jérôme Contamine resigned as director of Valeo on September 30, 2017.

In carrying out its duties, the Strategy Committee may meet with Company and Group Executive Management teams, after first informing the Chairman and Chief Executive Officer. Where appropriate, and provided that it first informs, in particular, the Chairman and Chief Executive Officer, it may be assisted by independent consultants on matters dealt with by the Committee. The Committee can also interview third parties if this is deemed useful for the fulfillment of its responsibilities.

In accordance with its internal procedures, the Strategy Committee is responsible for submitting to the Board of Directors its opinions and recommendations on:

- the review of the Group's key strategies, market trend information, analyses of research activities, competition benchmarking and the resulting medium- and long-term outlook for the business;
- the review of the Group's development projects, including external growth transactions;
- the review of development or expansion projects in a country where the Group does not operate and which represents a particular risk.

The Lead Director, where applicable, may attend and take part in any Strategy Committee meetings, even if he is not a member. In agreement with the Chairman and Chief Executive Officer, the Committee may invite other directors to participate in its discussions.

The Strategy Committee met four times in 2017 with an attendance rate of 88%.

The Strategy Committee conducts preliminary reviews and studies to facilitate the work of the Board of Directors, one of whose principal roles is to determine strategy for Valeo's businesses and ensure that they are implemented effectively. In addition, each year the directors hold a seminar over a period of several days to discuss, debate and exchange views on the Group's strategy.

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

Director	Attendance rate
Ulrike Steinhorst (Chair and independent director)	100%
Gérard Blanc[(1)] (Independent director)	100%
Pascal Colombani (Independent director)	100%
Jérôme Contamine[(2)] (Independent director)	67%
Thierry Moulonguet (Independent director)	100%
Georges Pauget (Lead Director and independent director)	75%
Véronique Weill (Independent director)	75%

(1) Until the end of his term on May 23, 2017.
(2) Until his resignation as director of Valeo and member of the Strategy Committee on September 30, 2017.

During these meetings, the Committee in particular:

- reviewed the Group's intellectual property strategy;
- reviewed the results of M&A transactions carried out in 2017, as well as their consolidation;
- analyzed latest trends in the electrification market;
- analyzed the impacts of technological developments and digitalization on the automotive industry;
- reviewed the Group's industrial and financial strategy as a whole;
- examined strategic targets set for the Group;
- studied the Group's strategy in certain business sectors and specific regions worldwide;
- analyzed and discussed potential acquisitions, investments and partnerships;
- analyzed the organization and operation of the Group's R&D activities;
- analyzed the competitive landscape;
- studied the Group's medium-term plan.

Assessment of the operation of the Board of Directors

A process is carried out every year to assess the Board of Directors, and its operating procedures, composition and organization. This assessment is designed to help take stock of the Board of Directors' operating procedures, verify that the Board of Directors' discussions are properly organized and run, and assess the actual contribution of each director to the Board of Directors' work.

The assessment of the Board of Directors is carried out either based on a detailed questionnaire sent to each director (the responses are summarized, and then analyzed by the Governance, Appointments & Corporate Social Responsibility Committee and discussed at a Board of Directors meeting), or based on a study carried out with the help of a specialized consulting firm.

As the assessment was performed by an outside firm the previous year, the Board of Directors decided to conduct the 2017 assessment internally. The assessment was carried out between late 2017 and early 2018 by the Lead Director assisted by the Secretary of the Board of Directors, using a questionnaire given to each director to obtain their insight into the Board of Directors' operation and their suggestions for improvement. The topics covered included the Board of Directors' operation, structure, governance, composition and duties, directors' access to information, the choice of issues discussed, the quality of debate and directors' participation and the general running of the Board Committees.

The summary assessment report was reviewed by the Governance, Appointments & Corporate Social Responsibility Committee at its meeting on February 13, 2018, and presented and discussed at the Board of Directors' meeting held on February 22, 2018.

The assessment revealed that the directors are unanimously satisfied with the Board of Directors' operation, and that the Board of Directors had successfully taken into account all the suggestions for improvement made during the previous assessment. The directors emphasized the maturity, dynamism and quality of governance within the Company. They also expressed their satisfaction with the role played by the Lead Director, who contributes to balanced governance. The assessment also revealed that the succession and renewal plans for the Board of Directors had been astutely prepared. More generally, the quality of exchange and genuine ability to listen within the Board of Directors ensures a continued high quality of debate and discussion. The directors also highlighted the efficient operation of the Board Committees and the effective team work achieved by them. The strategy seminar, through its rich, high-quality debate and well-chosen speakers, also brought genuine insight into the Board of Directors' debates.

The Board of Directors continued to reflect on how best to evolve its composition, and proposed to continue its drive to encourage diversity in terms of gender, profiles and skills. The arrival of new directors also revealed the importance of creating a strong induction and training framework. Various recommendations were made about organizational aspects and the matters which the Board of Directors wished to address on a priority basis.

The Lead Director also assessed the individual contribution of each director to the Board of Directors' work. This assessment was based on a second questionnaire sent to all directors, followed by conversations with each director about the outcome of the assessment.

3.2.3 Declarations concerning the Group's corporate officers

Conflicts of interest

In order to avoid any potential conflicts of interest, the Internal Procedures impose strict obligations on the members of the Board of Directors, unless overridden for any reason by the Board of Directors. According to the Internal Procedures updated on February 22, 2018:

- *"directors are required to inform the Lead Director and the Board of any conflicts of interest (whether actual or only potential) and must abstain from the discussions and vote on any matters discussed by the Board in which there could be a conflict of interest (whether actual or only potential)" (Article 1.1(d));*
- *"a director cannot accept any responsibilities that may present a conflict of interest (whether actual or only potential) with those he/she has accepted within the Company" (Article 1.1(n));*
- *"without prejudice to the authorization and control formalities provided for by law and the articles of association, the Company's directors are required to communicate to the Chairman, as soon as possible, any agreement entered into by the Company in which they have a direct or indirect interest. In particular, the directors must inform the Chairman of any agreement entered into by them or by a company they manage or in which they hold, directly or indirectly, a significant interest, and the Company or one of its subsidiaries, or which was entered into through an intermediary" (Article 1.4(a));*
- *"Regarding conflicts of interest, the Lead Director:*
  - *prevents them from occurring by raising awareness of the circumstances that may generate such conflicts of interest;*
  - *notifies the Board of any conflicts of interest concerning the executive corporate officers and other members of the Board as may have been identified by the Lead Director directly or brought to his/her attention in accordance with Article 1.1(d) of the Board's Internal Procedures" (Article 1.7(b)).*

Furthermore, in response to a request made each year by the Company, the directors are required to provide a list of all directorships and other offices held in all companies in the past five years, and to respond to a questionnaire regarding the existence of any conflicts of interest.

At December 31, 2017, there are no conflicts of interest, as far as the Company is aware, between the duties of its corporate officers towards Valeo and their private interests and/or other duties.

There is a non-significant business relationship between the Group and the Cathay Capital group, in which Bruno Bézard is a Managing Partner of Cathay Capital Private Equity, as the Group has made two investments in funds managed by Cathay Capital group fund management companies. The Board of Directors noted that (i) Bruno Bézard does not receive any compensation related to the investment made by Valeo, (ii) he has no direct or indirect decision-making power in the continuation of the business relationship between the Group and the Cathay Capital group, (iii) there is no relationship of dependency or exclusivity between the Group and the Cathay Capital group, and (iv) there are no significant financial flows between the Group and the Cathay Capital group. In the interests of good governance, should the Board of Directors be required to make a decision about (i) the existing investments made by the Group and managed by the Cathay Capital group, or (ii) any direct investment in companies in which the funds managed by the Cathay Capital group have invested, Bruno Bézard will abstain from the Board's discussions and vote on any such decisions.

Furthermore, there is a business relationship between the Group and the BNP Paribas group, which is one of the Group's main financial services providers. On the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee and after an analysis of the situation, the Board of Directors expressly authorized Jacques Aschenbroich to accept a directorship in BNP Paribas. The business relationship with BNP Paribas is longstanding and existed prior to Jacques Aschenbroich's appointment as Chief Executive Officer on March 20, 2009. It has not evolved significantly over the past few years. The Group has other financial services providers and its practice is to go out to tender for any new financial service in order to obtain the best possible terms and conditions. Furthermore, Jacques Aschenbroich does not hold any executive office within the BNP Paribas group. Should the Board of Directors make any decision about a commitment to BNP Paribas, Jacques Aschenbroich will, in accordance with the Internal Procedures, abstain from the discussions and vote on any such decision.

The Internal Procedures, including the rules on preventing conflicts of interest, are available on the "Corporate Governance" page of the Company's website (www.valeo.com).

Service contracts between the members of the Board of Directors and the Company or any of its subsidiaries

No service contracts have been entered into between the members of the Board of Directors and the Company or any of its subsidiaries providing for the granting of benefits.

Other declarations concerning members of the Board of Directors

In accordance with the provisions of the Internal Procedures, directors must inform the Chairman and Chief Executive Officer and the Chairman of the Governance, Compensation & Corporate Social Responsibility Committee if they are solicited to hold a corporate office outside the Company, so as to enable said persons to consider the action to be taken, where applicable in conjunction with the Board of Directors. In this respect, at its meetings on January 26, 2017 and November 11, 2017, the Board of Directors gave a positive opinion on the potential appointment of Daniel Camus, C. Maury Devine and Georges Pauget as directors of, respectively, ContourGlobal, ConocoPhillips and Smartfolio. In addition, the Internal Procedures stipulate that each executive corporate officer must seek the opinion of the Board of Directors before accepting a new corporate office in a listed company. In this respect, at its meeting on January 26, 2017, the Board of Directors gave a positive opinion on the proposed appointment of Jacques Aschenbroich as a director of BNP Paribas.

To the best of the Company's knowledge, there are no family ties between the members of the Board of Directors.

As far as the Company is aware, in the past five years no member of the Board of Directors has (i) been convicted of a fraudulent offense, (ii) been involved in any bankruptcies, receiverships or liquidations, (iii) been issued any official public incriminations and/or sanctions by statutory or regulatory authorities (including designated professional bodies), or (iv) been disqualified by a court of law from acting as a member of the administrative, management or supervisory bodies of an issuer, or from acting in the management or conduct of the affairs of any issuer.

As far as the Company is aware, none of the members of the Board of Directors have agreed to any restrictions concerning the disposal of their interests in the Company's share capital within a certain period of time, other than the restrictions set down by the applicable laws and regulations, the Company's articles of association or pursuant to the Code of Conduct described in section 3.2.2 of this chapter, "Directors' rights and duties", pages 121 to 122.

As indicated in section 3.3.1 of this chapter, "Overview of the 2017 Compensation Policy for the Chairman and Chief Executive Officer", page 142, the Chairman and Chief Executive Officer must respect a minimum holding period and, in accordance with the Company's articles of association and the Internal Procedures, directors must hold at least 1,500 shares in the Company at all times during their term of office.

As far as the Company is aware, no arrangement or agreement has been signed with the main shareholders, or with customers or suppliers, under which one of them is selected to become a director of Valeo or a member of its General Management.

3.2.4 Corporate Governance Code

The Company refers to the AFEP-MEDEF Code as amended in November 2016, available in French and English on the MEDEF website (www.medef.com) and, in accordance with Article 27.2 of the Code, is a member of the AFEP-MEDEF High Committee on Corporate Governance.

The Company's practices comply with the recommendations set out in the AFEP-MEDEF Code, which requires specific disclosures regarding the application of its recommendations and explanations, where appropriate, of the reasons for which a company has not implemented certain recommendations. In this case, for 2017, this involves the recommendations set out in the following table:

Recommendations	Explanation
Directors' compensation (Article 20.1 of the AFEP-MEDEF Code) *"It should be recalled that the method of allocation of directors' compensation, the total amount of which is determined by the meeting of shareholders, is set by the Board of Directors. The Board should take account, in such ways as it shall determine, of the directors' actual attendance at meetings of the Board and committees, and the amount shall therefore consist primarily of a variable portion."*	This rule is not followed for the Committee Chairs and the Lead Director, given the special duties for which they are responsible.
Supplementary pension schemes with defined benefits governed by Article L.137-11 of the French Social Security Code (*Code de la sécurité sociale*) (Article 24.6.2 of the AFEP-MEDEF Code) *"(...) the beneficiaries must meet reasonable requirements of seniority within the Company, of at least two years, as determined by the Board of Directors, before they benefit from payments from a pension plan with defined benefits."*	The Board of Directors' meetings of April 9, 2009 and October 20, 2009, on the recommendation of the Appointments, Compensation & Governance Committee, decided to credit Jacques Aschenbroich, on appointment, with five additional years of service in view of his age and the fact that he was not covered by any other supplementary pension plan so that he could benefit from the supplementary pension plan as from January 1, 2010. This plan requires nevertheless that the Chairman and Chief Executive Officer end his professional career within the Group.

3.2.5 Authorizations granted regarding sureties, endorsements and guarantees governed by Article R.225-28 of the French Commercial Code

Further to a decision dated February 15, 2017, the Board of Directors authorized the Chief Executive Officer – and any person so designated by the Chief Executive Officer – to issue sureties, endorsements and guarantees in the Company's name up to a maximum amount of 40 million euros for a period of 12 months, and to maintain in effect the sureties, endorsements and guarantees previously issued. The Board of Directors' meeting on February 22, 2018 renewed this commitment based on the same terms and conditions.

During 2017, no further commitments of this type were made by the Company's Chairman and Chief Executive Officer.

3.2.6 General Management of the Company and limitations on the powers of the Chief Executive Officer

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

The Chairman of the Board of Directors organizes and presides over the work performed by the Board of Directors and presents a report on its activities to the Shareholders' Meeting. He ensures that the Company's governance functions effectively and that the directors are able to perform their duties. In accordance with the Company's articles of association, the Chairman of the Board of Directors does not fulfill any duties other than those entrusted to him by law. Jacques Aschenbroich, Chairman and Chief Executive Officer, did not therefore fulfill any duties other than those conferred on him by law.

The Chief Executive Officer has the widest possible powers to act in the Company's name, within the limits provided for by law, the Company's articles of association and/or the Internal Procedures. The Chief Executive Officer also represents the Company in its relations with third parties or in any legal proceedings. The Board of Directors' meeting on May 26, 2015, acting on the recommendation of the Appointments, Compensation & Governance Committee, also decided to maintain the limitation on the powers of the Chief Executive Officer, decided by the Board of Directors' meeting of March 20, 2009, renewed on June 8, 2011, and reflected in the Internal Procedures. In compliance with these procedures, the Chief Executive Officer must obtain the prior approval of the Board of Directors for the acquisition or sale of any subsidiary, interest or any other asset or investment of any kind, for a sum of more than 50 million euros per transaction.

On February 18, 2016, Pascal Colombani, having reached the age limit set out in the articles of association, stepped down from his position. On that same day, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, unanimously decided (Jacques Aschenbroich did not take part in the vote) to appoint Jacques Aschenbroich as Chairman of the Board of Directors, Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer. The powers of the Chairman and Chief Executive Officer are subject to the same limitation as previously applicable to the Chief Executive Officer.

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

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

The strong presence of independent directors on the Board of Directors (11 out of 12 members at December 31, 2017[(2)]), the Audit & Risks Committee (five out of five members at December 31, 2017), the Governance, Appointments & Corporate Social Responsibility Committee (five out of five members at December 31, 2017), the Compensation Committee (five out of five members at December 31, 2017[(3)]) and the Strategy Committee (five out of

(1) Par value of 3 euros prior to Valeo's three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.
(2) Jacques Aschenbroich, Chairman and Chief Executive Officer, is not considered to be independent and Éric Chauvirey, director representing employees, does not count for the purpose of determining the percentage of independent directors, in accordance with the recommendation in Article 8.3 of the AFEP-MEDEF Code.
(3) Éric Chauvirey, director representing employees, does not count for the purpose of determining the percentage of independent directors, in accordance with the recommendation in Article 14.1 of the AFEP-MEDEF Code.

five members at December 31, 2017), as well as the appointment of a Lead Director, with the widest powers to perform his duties, for the purpose of bringing additional guarantees to the smooth operation of the Board of Directors and ensuring the avoidance of potential conflicts of interest, serve as checks and balances. The role and powers of the Lead Director are described in section 3.2.1 "Appointment of a Lead Director", pages 100 to 101.

In addition, at its meeting on January 21, 2016, the Board of Directors, on the recommendation of the Appointments, Compensation & Governance Committee based on the results of the Board of Directors' self-assessment for 2015, approved the holding of Board of Directors' and specialized committee meetings without the executive corporate officer being present, to enable directors to address issues concerning the executive corporate officer, corporate governance or any other issue concerning the Company.

The Lead Director also has the power to hold and chair meetings, at least once a year, without corporate executive officers being present, for purposes of, including but not limited to, (i) the assessment of the performance of General Management, and (ii) the assessment of the operation of the Board of Directors. These practices were implemented and meetings were held periodically without executive corporate officers being present in 2016, 2017 and 2018, the last one being held on February 22, 2018. On February 22, 2018, the Internal Procedures were amended to enable these meetings to be held without executive corporate officers or non-independent directors being present unless invited, and to enable the Lead Director to hold such a meeting each time a Board meeting is held.

3.2.7 Agreements governed by Articles L.225-38 *et seq.* of the French Commercial Code already approved by the Shareholders' Meeting which continued to be implemented during the year

The following agreements relating to commitments to Jacques Aschenbroich as Chairman and Chief Executive Officer and already approved by a Shareholders' Meeting were pursued in 2017:

- a commitment in the form of life insurance covering death, disability or the consequences of any accidents that may occur during business travel (Board of Directors' decision of April 9, 2009). This policy is described in section 3.3.1 of this chapter, paragraph "Other benefits", page 145;
- a non-competition payment equal to 12 months of compensation (Board of Directors' decisions of February 24, 2010 and February 24, 2015) provided Jacques Aschenbroich does not work in any way for an automotive supplier or, more generally, for any of Valeo's competitors for 12 months after the end of his term of office as Chief Executive Officer, regardless of the reason for termination. This benefit is described in section 3.2.11 of this chapter, paragraph "Agreements providing for indemnities payable to employees or members of the Board of Directors if they resign or are dismissed without real or serious cause or if their employment contract is terminated as a result of a public tender offer", page 139;
- a commitment in the form of a defined benefit pension plan to the Chairman and Chief Executive Officer, Jacques Aschenbroich (Board of Directors' decision of April 9, 2009 implemented on October 20, 2009). This pension plan, open to senior executives of the Group since January 1, 2010, has been closed to new members since July 1, 2017 (Board of Directors' decision of July 20, 2017). A new "Article 83" defined contribution supplementary pension plan is currently being created. It will be open to those members of the above-defined benefit plan who wish to join (except for Jacques Aschenbroich), subject to the pension benefit arising from the new plan (employer's share) being deducted from that received under the defined benefit plan.

A special report on related party agreements and commitments has been drawn up by the Statutory Auditors in respect of the agreements described above (see Chapter 5, section 5.7 "Statutory Auditors' special report on related party agreements and commitments", pages 409 to 410).

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

No new agreements governed by Article L.225-42-1 of the French Commercial Code were authorized during 2017.

3.2.9 Agreements governed by Article L.225-37-4, paragraph 2 of the French Commercial Code

None.

3.2.10 Arrangements for attendance at Shareholders' Meetings

Shareholders' Meetings are convened and conduct business in accordance with the law and the Company's articles of association.

Articles 21 to 26 of Valeo's articles of association cover the provisions relating to Shareholders' Meetings and the exercise of voting rights. The articles of association are available on the "Corporate Governance" page of Valeo's website (http://www.valeo.com/en/financial-and-legal-documents). Article 23 of the Company's articles of association provides that double voting rights are attached to all fully paid-up shares that have been registered in the name of the same holder for at least four years.

3.2.11 Information likely to have an impact in the event of a public tender offer

Share ownership and direct or indirect shareholdings in the Company brought to the Company's attention

The ownership of the Company's share capital is described in Chapter 6, section 6.4.1 "Ownership structure", page 417.

Direct or indirect shareholdings in the Company brought to the Company's attention are described in Chapter 6, section 6.4.2 "Direct or indirect shareholdings in the Company brought to the Company's attention (Articles L.233-7 and L.233-12 of the French Commercial Code"), pages 418 to 423.

Restrictions on the exercise of voting rights

The Company's articles of association provide for a disclosure obligation imposed on any shareholder who acquires or sells a fraction equal to 2% of the share capital or voting rights of the Company or a multiple of this fraction, from the date when one of the thresholds is crossed. If a shareholder fails to comply with the disclosure obligation and one or more shareholders holding 2% of the voting rights submits a request, the voting rights exceeding the relevant threshold that should have been disclosed cannot be exercised at Shareholders' Meetings held within the two-year period from the date when the omission is remedied.

Powers of the Board of Directors

In accordance with the resolution passed by the shareholders at the Shareholders' Meeting on May 23, 2017, the Board of Directors may not use the Company's share buyback program while a public tender offer for the Company's shares is in progress.

Furthermore, in accordance with the resolution passed at the Shareholders' Meeting on May 23, 2017, the Board of Directors may not decide to issue shares or other securities with or without pre-emptive subscription rights while a public tender offer for the Company's shares is in progress. However, in accordance with the resolution passed at the Shareholders' Meeting on May 26, 2016, free shares may be allotted during such periods.

Agreements entered into by the Company that would change or terminate if there were a change in control of the Company, with the exception of those agreements whose disclosure would seriously harm its interests (except in the event of a legal obligation to disclose)

As specified in Chapter 2, section 2.1.3, paragraph "Liquidity risk", page 85, and Chapter 5, section 5.4.6, Note 8.1.2 "Gross debt" to the consolidated financial statements, pages 344 to 349, all of the bonds issued under the Euro Medium Term Note (EMTN) program include an option allowing bondholders to request early repayment or redemption of their bonds in the event of a change of control of Valeo that leads to (i) the bond's rating being withdrawn, or (ii) the bond's rating being downgraded to below investment grade, assuming it was previously rated in that category, or (iii) if the previous rating was below investment grade, a downgrade of one rating category (e.g., from Ba1 to Ba2).

In addition, for the European Investment Bank loan, the EIB may ask the borrower to put up security or collateral in the event of a change of control, or otherwise request early repayment of the loans. The convertible loan also includes a change of control clause under which investors can request early repayment or – at the choice of the issuer – buyback.

Some of Valeo's customers have a clause in their general purchasing conditions allowing them to terminate their contract with Valeo in the event of a change in control.

Lastly, the agreement entered into by Valeo and Siemens for the creation in 2016 of the Valeo Siemens eAutomotive GmbH joint venture specializing in high-voltage powertrain systems contains clauses providing for the possibility for the Group – from 2021 – to acquire the stake in the joint venture currently held by Siemens. These clauses take the form of put/call options which the parties may exercise under the terms and conditions and at the prices set out in the agreement. In particular, the options may be triggered by a change in control at either of the parties to the agreement (under certain conditions).

Agreements providing for indemnities payable to employees or members of the Board of Directors if they resign or are dismissed without real or serious cause or if their employment contract is terminated as a result of a public tender offer

The Board of Directors reserved the right to subject Jacques Aschenbroich to a non-competition obligation that would prohibit him from working in any way or for any reason for an automotive supplier or, more generally, for any of Valeo's competitors for 12 months after the end of his term of office as Chief Executive Officer. In this case, Jacques Aschenbroich would be paid a non-competition payment equal to 12 months of compensation (calculated based on the average compensation [fixed and variable] paid for the three fiscal years preceding the year of departure). The Company reserves the right to waive the non-competition clause, in which case no payment will be owed. For more details, see section 3.3.1 of this chapter, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment", page 145.

3.2.12 Summary table of powers currently delegated by the Shareholders' Meeting to the Board of Directors with respect to raising new equity and the use made of such delegations during the year

Authorizations granted Date of Shareholders' Meeting (duration of authorization/delegation and expiration date)	Maximum amount of issue	Maximum amount of debt securities	Comments on/Utilization of authorizations during the year
1. Authorization to increase capital *with* pre-emptive rights			
Delegation of authority to issue shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities (A) Shareholders' Meeting of May 23, 2017 – 12th resolution Expiring on July 23, 2019 (26 months)	70 million euros (A) + (B) + (C) + (D) + (E) + (F) + (G) combined share capital ceiling = 131 million euros	1.5 billion euros (A) + (C) + (D) + (E) + (F) + (G) combined debt ceiling = 1.5 billion euros	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (13th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of authority to increase the share capital by capitalization of reserves, profits, additional paid-in capital or other amounts that may be capitalized (B) Shareholders' Meeting of May 23, 2017 – 16th resolution Expiring on July 23, 2019 (26 months)	30 million euros Included in combined share capital ceiling	N/A	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (16th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
2. Authorization to increase capital *without* pre-emptive rights			
Delegation of authority to issue shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities under a public tender offer (delegation that can also be used as consideration for securities tendered to a public exchange offer initiated by the Company) (C) Shareholders' Meeting of May 23, 2017 – 13th resolution Expiring on July 23, 2019 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in combined share capital ceiling	1.5 billion euros Included in combined debt ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (14th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of authority to issue shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities by way of private placement (D) Shareholders' Meeting of May 23, 2017 – 14th resolution Expiring on July 23, 2019 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in combined share capital ceiling	1.5 billion euros Included in combined debt ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (15th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of power to issue shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities to be used as consideration for contributions in kind granted to the Company (E) Shareholders' Meeting of May 23, 2017 – 17th resolution Expiring on July 23, 2019 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in combined share capital ceiling	1.5 billion euros Included in combined debt ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (18th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of authority to issue shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities reserved for members of the employee share ownership plan (F) Shareholders' Meeting of May 23, 2017 – 18th resolution Expiring on July 23, 2019 (26 months)	5 million euros Included in combined share capital ceiling	1.5 billion euros Included in combined debt ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (20th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Used in connection with the July 27, 2017 capital increase reserved for employees

Authorizations granted Date of Shareholders' Meeting (duration of authorization/delegation and expiration date)	Maximum amount of issue	Maximum amount of debt securities	Comments on/Utilization of authorizations during the year
3. Authorization to increase capital *with or without* pre-emptive rights			
Delegation of authority to increase the number of shares or securities to be issued with or without pre-emptive rights under an overallotment option (G) Shareholders' Meeting of May 23, 2017 – 15th resolution Expiring on July 23, 2019 (26 months)	The ceiling is specified in the applicable regulation (currently 15% of the initial issuance), not to exceed the ceiling applicable to the initial issuance, determined pursuant to resolution (A), resolution (C) or resolution (D)	The ceiling is determined pursuant to resolution (A), resolution (C) or resolution (D)	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (17th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
4. Authorization to allot free shares			
Authorization to allot free existing or new shares to Group employees and corporate officers (H) Shareholders' Meeting of May 26, 2016 – 20th resolution Expiring on July 26, 2018 (26 months)	Maximum number of shares (existing or to be issued) allotted: 3,467,000 (with a sub-ceiling of 195,000 shares for executive corporate officers), these allotments may not exceed more than 10% of the share capital at the date of the Board's decision Included in combined share capital ceiling	N/A	Used by the Board of Directors at its meeting on March 22, 2017 (1,012,043 shares allotted)

3.3 Compensation of corporate officers, Board members and other Group executive managers

3.3.1 Compensation of the Chairman and Chief Executive Officer

The compensation policy for the Chairman and Chief Executive Officer sets out the principles and criteria for determining, structuring and awarding the fixed, variable and exceptional components of his total compensation and benefits package. It is determined by the Board of Directors on the recommendation of the Compensation Committee and then submitted to the Shareholders' Meeting for approval. This section describes the compensation policy for the Chairman and Chief Executive Officer for the year ended December 31, 2017 (the "**2017 Compensation Policy**"), the components of compensation awarded or paid to him in 2017 pursuant to the policy, and the compensation policy for the Chairman and Chief Executive Officer for the year ending December 31, 2018 (the "**2018 Compensation Policy**").

Compensation policy for the Chairman and Chief Executive Officer

General principles

The Chairman and Chief Executive Officer's compensation package is determined by the Board of Directors, acting on the recommendation of the Compensation Committee, and in compliance with the AFEP-MEDEF Code as amended in November 2016.

Accordingly, for the preparation and determination of the compensation policy, Valeo takes into account the Company's general interest, the shareholders' interest, market practices and the performance of the Chairman and Chief Executive Officer, as well as the other stakeholders in the Company.

Compensation is assessed as a whole, taking into account each component awarded or paid to the Chairman and Chief Executive Officer, including the supplementary pension plan to which he is entitled.

The compensation components are complementary and meet various objectives. A balanced allocation between the various components is also sought. The structure and allocation of the various components of compensation and the related amounts are subject to comparative studies. This enables Valeo to track and align its compensation policy with market practices.

Overview of the 2017 Compensation Policy for the Chairman and Chief Executive Officer

The 2017 Compensation Policy approved at the Shareholders' Meeting of May 23, 2017 under the tenth resolution is summarized below.

Fixed compensation

The annual fixed compensation notably remunerates for responsibilities associated with the duties of Chairman and Chief Executive Officer. In accordance with the AFEP-MEDEF Code, fixed compensation is reviewed at relatively long intervals.

At its meeting of June 8, 2011, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, set the annual fixed compensation of the Chairman of the Board of Directors and of the Chief Executive Officer. It took effect on June 1, 2011 and remained unchanged until February 18, 2016. In light of the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer, and the continued growth of the Valeo Group's scope since 2011, and after noting that the annual fixed compensation of the Chairman and Chief Executive Officer was lower than the average fixed compensation reported in various comparative studies on the compensation of Chief Executive Officers and Chairmen and Chief Executive Officers of companies in the CAC 40 index and comparable European industrial companies[(1)], at its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to increase the annual fixed compensation previously paid to the Chief Executive Officer who is now the Chairman and Chief Executive Officer, from 900,000 euros to 1,000,000 euros.

This compensation has remained unchanged since February 18, 2016. There are currently no plans to amend it until the end of the Chairman and Chief Executive Officer's current term of office.

Variable compensation

Each year, the Board of Directors analyzes the annual variable compensation of the Chairman and Chief Executive Officer, on the recommendation of the Compensation Committee.

The variable portion of the compensation must be in line with the Chairman and Chief Executive Officer's performance, as well as the Company's strategy and progress. It is therefore determined partly according to quantifiable criteria with strict and ambitious objectives based on the Group's operating and financial performance, and partly on a qualitative basis. The quantifiable and qualitative objectives to be reached are set according to specific, demanding and predetermined objectives.

In the interests of stability with respect to the criteria for assessing and continuously measuring the Chairman and Chief Executive Officer's performance, the following criteria for the Chairman and Chief Executive Officer's variable compensation, considered as particularly representative of the Company's performance, were

(1) A summary of the results of the comparative studies and the panels used can be found in the Shareholders' Meeting section of Valeo's website.

applied in previous years and renewed by the Board of Directors at its meeting of February 15, 2017, acting on the recommendation of the Compensation Committee[1]:

- **five quantifiable criteria:** (i) operating margin, (ii) free cash flow[2], (iii) net income, (iv) return on capital employed (ROCE), and (v) Group order intake. Similar criteria and objectives are used to set the variable compensation of the members of Valeo's Operations Committee and Liaison Committee. The maximum amount of the Chairman and Chief Executive Officer's annual variable compensation is contingent on the achievement of ambitious objectives (significantly higher than the budget) set by the Board of Directors each year, based on the recommendation of the Compensation Committee;
- **three qualitative criteria:** (i) financial communications, (ii) strategic vision, and (iii) risk management. Sub-criteria are regularly added to strengthen the stringency and the degree of achievement of the objectives.

The performance criteria and related targets may not be changed during a given year.

In accordance with the recommendations of the AFEP-MEDEF Code, the total amount of the variable portion is expressed as a percentage of the annual fixed compensation, each criterion granting entitlement to a percentage of the annual fixed compensation.

The Chairman and Chief Executive Officer's variable portion is capped at 170% of his annual fixed compensation. The decision to cap his variable compensation at 170% of his annual fixed compensation was taken by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, on July 24, 2015 during a review of his variable compensation, in view of the Company's strong operating performance and after noting that his variable compensation was misaligned with the median variable compensation reported in various comparative studies on the compensation of Chief Executive Officers and Chairmen and Chief Executive Officers of companies in the CAC 40 index and comparable European industrial companies[3].

The following table summarizes the quantifiable and qualitative criteria, the entitlement relating to each of these criteria in terms of percentage of annual fixed compensation, as well as the maximum variable compensation of the Chairman and Chief Executive Officer for 2017:

Quantifiable criteria[1]

Nature of the criterion	Maximum amount of the variable portion as a % of annual fixed compensation
Operating margin	23%
Free cash flow[2]	23%
Net income[3]	23%
ROCE	23%
Group order intake[4]	23%
TOTAL QUANTIFIABLE CRITERIA	**115%**
Qualitative criteria	
Financial communications *This criterion is measured, in particular, based on variations in Valeo's share price in comparison with the share prices of several European, North American and Japanese companies operating in the same sector as the Company.*	5%
Strategic vision This criterion is measured based on: ■ analysts' assessments; ■ strategic operations carried out by Valeo; ■ the increase in the proportion of innovative products[5] in the order intake for the year; ■ the presentation by Management at a strategy seminar of a technology roadmap and its impact on R&D and human resources.	25%
Risk management This criterion is measured, in particular, based on: ■ continued and intensified measures to reinforce the compliance policy; ■ the management of risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints; ■ the Group's policy on corporate social responsibility and the management of the corresponding risks.	25%
TOTAL QUALITATIVE CRITERIA	**55%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**

(1) Excluding tax and regulatory impact.
(2) Assuming that the investment budget is respected.
(3) Assuming a 20% tax rate for the Group.
(4) Excluding Ichikoh.
(5) Products and technologies in series production for less than three years.

(1) The level of achievement of these criteria in 2017 is presented in section 3.3.1 of this chapter, paragraph "Variable compensation", pages 142 and 143.
(2) The quantifiable criterion pertaining to operating cash has been clarified compared to previous years. Reference is now made to free cash flow.
(3) A summary of the results of the comparative studies and the panels used can be found in the Shareholders' Meeting section of Valeo's website.

Long-term compensation policy – Allotment of performance shares

The aim of allotting performance shares is not only to encourage the Chairman and Chief Executive Officer to take a long-term approach to his duties, but also to retain him and align his interests with those of Valeo and its shareholders. Under the performance share plans, performance criteria must be met over a period of three consecutive years. Valeo applies strict and ambitious financial and operating performance criteria considered as particularly representative of the Company's performance. These criteria, which have been adopted and renewed by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee over recent years, and applied for 2017, are as follows: (i) pre-tax ROA, (ii) operating margin, and (iii) ROCE. The aforementioned criteria will be met if, for each of them, the average over the three years of the reference period, of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one, it being specified that the target return set by the Board of Directors may not be modified subsequently. The guidance will change in line with the Group's ambitious objectives as announced at the Investor Day on February 28, 2017.

In addition, a presence condition must also be met at the time of each allotment. The performance shares allotted to the Chairman and Chief Executive Officer will vest only if his term of office has not expired on the vesting date (however, this presence condition may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct) or he has claimed his retirement benefits.

Each time that it decides to allot performance shares, the Board of Directors ensures that allotments for the Chairman and Chief Executive Officer do not represent an excessive proportion of the total number of performance shares allotted and that they have a limited impact in terms of dilution (195,000 shares under the twentieth resolution of the Shareholders' Meeting of May 26, 2016). In accordance with applicable laws and Company practices, the Group's executive managers and employees are also entitled to performance shares.

In accordance with the recommendations of the AFEP-MEDEF Code and the Group's Code of Conduct, the Chairman and Chief Executive Officer must not use hedging transactions to reduce his risk. At the end of the holding period set by the Board of Directors, he must also hold a significant number of vested performance shares in the form of registered shares until the end of his term of office. This holding obligation corresponds to 50% of the vested performance shares.

The amount of performance shares allotted to the Chairman and Chief Executive Officer valued under IFRS must not exceed 270% of the Chairman and Chief Executive Officer's annual fixed compensation (100% of the maximum annual fixed and variable compensation). The decision to cap the amount of performance shares, valued under IFRS, at 270% of his annual fixed compensation was taken by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, on July 24, 2015 during a review of his variable compensation, in view of the Company's strong operating performance and after noting that his variable compensation was misaligned with the median variable compensation reported in various comparative studies on the compensation of Chief Executive Officers and Chairmen and Chief Executive Officers of companies in the CAC 40 index and comparable European industrial companies(1). The cap of 270% of annual fixed compensation is a maximum amount and the Board of Directors reserves the right to award a lower percentage depending on Valeo's performance.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan

With a view to retaining and motivating the executive corporate officer with regard to the Company's objectives, general interest and market practices, at its meeting of April 9, 2009, when determining the executive corporate officer's overall compensation, the Board of Directors decided to register him with the supplementary defined benefit pension plan for the Group's senior executives and referred to in Article L.237-11 of the French Social Security Code. This decision was implemented on October 20, 2009. In view of the executive corporate officer's age and the fact that he was not covered by any other supplementary pension plan, the decision was made to credit him with five years of service at the start of his tenure.

There is a cap on the amount of this pension plan, which came into effect on January 1, 2010 and was closed to new members on July 1, 2017 (entitlement corresponding to 1% of the reference salary per year of service, capped at 20%), and on the basis for determining entitlements (additional pension benefits, all plans combined, are capped at 55% of the reference salary(2)).

In order to comply with the provisions of French law no. 2015-990 of August 6, 2015 on growth, activity and equal opportunity (known as the "Macron law"), it was decided that the acquisition of conditional supplementary pension benefits would be subject to a performance condition deemed to have been achieved if the Chairman and Chief Executive Officer's variable compensation paid in year Y+1 for year Y amounted to 100% of his fixed compensation payable for year Y. If his variable compensation was less than 100% of his fixed compensation, rights would accrue on a prorata basis.

The pension plan to which Jacques Aschenbroich is entitled was approved as a related party agreement pursuant to Article L.225-38 of the French Commercial Code by the Shareholders' Meeting on June 3, 2010 in its twelfth resolution, and as a related party agreement pursuant to Article L.225-42-1 of the French Commercial Code by the shareholders at the Shareholders' Meeting of May 26, 2016 in its fifth resolution.

(1) A summary of the results of the comparative studies and the panels used can be found in the Shareholders' Meeting section of Valeo's website.

(2) The reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation received for working full time within the Group.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment

In order to protect the Company's interests, a non-competition clause binding the executive corporate officer was put in place by the Board of Directors.

If the Company triggers the non-competition clause, the executive corporate officer will be prohibited from working in any way for an automotive supplier or, more generally, for any of Valeo's competitors. The clause will apply for 12 months after the end of his term of office as Chief Executive Officer of Valeo, regardless of the reason for termination.

In consideration, the executive corporate officer will receive a non-competition payment equal to 12 months of compensation (calculated by taking the average compensation [fixed and variable] paid for the three fiscal years preceding the year of departure). The payment will be made in equal monthly installments over the entire period to which the non-competition clause applies.

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

This non-competition clause, which applies to Jacques Aschenbroich, has been in force since February 24, 2010. To comply with the AFEP-MEDEF Code as amended in June 2013, at its meeting on February 24, 2015, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, amended the non-competition clause, which was approved by the shareholders at the Shareholders' Meeting of May 26, 2015 in its fifth resolution pursuant to Article L.225-42-1 of the French Commercial Code.

Other benefits

The Chairman and Chief Executive Officer is also entitled to benefits in kind which were set by the Board of Directors, at its meeting of April 9, 2009, when determining the executive corporate officer's overall compensation. He is therefore entitled to coverage under the unemployment insurance fund for company managers, the collective and mandatory health, death and disability plan and life insurance covering death, disability or the consequences of any accidents that may occur during business travel. Valeo also provides him with a company car.

Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

The Chairman and Chief Executive Officer is not entitled to multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation or termination benefits. In this respect, it should be noted that Jacques Aschenbroich was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived following the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer on February 18, 2016.

The Chairman and Chief Executive Officer does not receive attendance fees. He is not entitled to any compensation or other benefits as a result of agreements entered into with the Company(1) or any Group company.

No stock subscription or purchase options or long-term components of compensation other than performance shares were allotted to the executive corporate officer in 2017.

In accordance with Articles L.225-37-2 and L.225-100 of the French Commercial Code, the Chairman and Chief Executive Officer's variable compensation for 2017 will only be paid once the fixed, variable and exceptional components comprising the total compensation and benefits package paid or awarded to him in respect of 2017 have been approved by the shareholders at an Ordinary Shareholders' Meeting.

Compensation policy for the Chairman and Chief Executive Officer for the year ending December 31, 2018

This section sets out the principles and criteria for determining, structuring and awarding the fixed, variable and exceptional components of the Chairman and Chief Executive Officer's total compensation and benefits package for the year ending December 31, 2018. It forms part of the report prepared in accordance with Article L.225-37 of the French Commercial Code and contains the information required pursuant to Article L.225-37-2, paragraph 2 of said Code.

The Compensation Committee conducted a full review of the Chairman and Chief Executive Officer's compensation and considered a number of possible changes. To this end, the Compensation Committee has met several times since July 2017 and has held in-depth discussions with the Board of Directors at various meetings.

(1) Except for the retirement and non-competition benefits referred to in this section, paragraphs "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan", page 144, and "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment", page 145.

As part of this review, two reputed consulting firms were instructed to conduct a detailed study of the Chairman and Chief Executive Officer's compensation and to make recommendations. Generally speaking, the outcome of these reviews showed that the level of fixed, variable and long-term compensation is consistent with market practices. It will therefore remained unchanged in 2018.

At the end of the review process, the Compensation Committee nevertheless recommended certain adjustments to the criteria used for annual variable compensation compared with the 2017 Compensation Policy.

At its meeting on February 22, 2018, the Board of Directors, acting on the recommendations of the Compensation Committee, approved the 2018 Compensation Policy as described below.

As part of this process, certain changes were made to the benchmarking panels used to review the components of the Chairman and Chief Executive Officer's compensation, following the recommendations of the two consulting firms. The new panels are available on the "Corporate Governance" page of the Company's website (www.valeo.com).

Fixed compensation

The principles and criteria relating to fixed compensation under the 2017 Compensation Policy (see this section, paragraph "Fixed compensation", page 142) remain unchanged in the 2018 Compensation Policy.

Annual fixed compensation remains unchanged versus the 2017 Compensation Policy at 1 million euros, as the review conducted by the two consulting firms confirmed that this was an appropriate level.

There are currently no plans to amend it until the end of the Chairman and Chief Executive Officer's current term of office.

Variable compensation

The Chairman and Chief Executive Officer's maximum variable compensation, which in any event remains capped at 170% of annual fixed compensation, remains unchanged compared with the 2017 Compensation Policy, as the benchmarking panels used by Valeo to determine the 2018 Compensation Policy and the review conducted by the two consulting firms confirmed that this was an appropriate level.

As indicated in the 2017 Compensation Policy, the variable portion of the compensation must be in line with the Chairman and Chief Executive Officer's performance, as well as the Company's strategy and progress. It is therefore determined partly according to quantifiable criteria based on the Group's operating and financial performance, and partly on a qualitative basis. The quantifiable and qualitative objectives to be reached are set according to specific, demanding and predetermined objectives. These criteria are determined each year by the Board of Directors, based on recommendations made by the Compensation Committee.

In the interests of stability with respect to the criteria for assessing and continuously measuring the Chairman and Chief Executive Officer's performance, criteria considered as particularly representative of the Company's performance were applied for annual variable compensation in previous years and renewed by the Board of Directors at its meeting of February 15, 2017, based on the recommendation of the Compensation Committee and approved by the Shareholders' Meeting of May 23, 2017 in its tenth resolution.

Under the 2018 Compensation Policy review, the Board of Directors decided, on the recommendation of the Compensation Committee, to make some adjustments to the quantifiable and qualitative criteria previously used. These adjustments are aimed at better reflecting the Group's strategy and current financial, non-financial and operational performance objectives in the proposed criteria.

The Chairman and Chief Executive Officer's annual variable compensation for 2018 will therefore be based on (i) the same quantifiable criteria as those used in the 2017 Compensation Policy (similar criteria were used to determine the variable compensation of Operations Committee members), with a slight adjustment to their respective weightings, and (ii) similar qualitative criteria to those used in the 2017 Compensation Policy, with a few adjustments, including the creation of a "corporate social responsibility" criterion, adjustments to certain qualitative sub-criteria, and a change in the respective weightings of each qualitative criterion (see table below).

The performance criteria and related targets will not be changed during a given year.

In accordance with the recommendations of the AFEP-MEDEF Code, the total amount of the variable portion is expressed as a percentage of the annual fixed compensation, each criterion granting entitlement to a percentage of the annual fixed compensation.

The maximum amount of annual variable compensation (170% of annual fixed compensation) is contingent on the achievement of ambitious objectives (significantly higher than the budget with respect to the quantifiable criteria), set by the Board of Directors based on the recommendation of the Compensation Committee.

For each quantifiable criterion, the variable portion varies within a range of 0% to 100% of the maximum amount of annual fixed compensation obtainable under the relevant criterion.

The following table summarizes the applicable quantifiable and qualitative criteria, the entitlement relating to each of these criteria as a percentage of annual fixed compensation, and the maximum variable compensation for 2018:

Quantifiable criteria[1]

Nature of the quantifiable criterion	Maximum amount of the variable portion as a % of annual fixed compensation
Operating margin	25%
Free cash flow[2]	25%
Net income[3]	20%
ROCE	20%
Group order intake	25%
TOTAL QUANTIFIABLE CRITERIA	**115%**

Qualitative criteria

Nature of the qualitative criterion	Maximum amount of the variable portion as a % of annual fixed compensation
Strategic vision *This criterion is measured based on:* ▪ financial analysts' assessments; ▪ strategic operations carried out by Valeo and the integration of recent acquisitions; ▪ the increase in the proportion of innovative products[4] in the order intake for the year; ▪ an assessment of the technology roadmap presented at the strategy seminar and its impact on R&D and human resources.	20%
Risk management *This criterion is measured, in particular, based on:* ▪ continued and intensified measures to reinforce the compliance policy; ▪ the management of risks related to new product launches and customer complaints; ▪ the Company's transformation (industrial, human resources) to adapt to product and technology change.	15%
Corporate social responsibility *Progress achieved by Valeo, in particular based on the following indicators:* ▪ number of employees with disabilities; ▪ diversity (gender and age). *Overall assessment of safety performance, in particular based on the following indicators:* ▪ number of lost-time workplace accidents; ▪ decrease in the number of category 1 accidents (death, amputation, severe trauma, disability/incapacity) and category 2 accidents (major material damage and near major accident). *Change in OE sales resulting from products that reduce CO_2 emissions.*	20%
TOTAL QUALITATIVE CRITERIA	**55%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**

(1) Excluding tax and regulatory impact.
(2) Assuming that the investment budget is respected.
(3) Assuming a 20% tax rate for the Group.
(4) Products and technologies in series production for less than three years.

3

Long-term compensation policy – Allotment of performance shares

The Chairman and Chief Executive Officer's maximum long-term compensation, which in any event remains capped at 270% of annual fixed compensation (100% of maximum annual fixed and variable compensation), remains unchanged compared with the 2017 Compensation Policy, as the benchmarking panels used by Valeo to determine the 2018 Compensation Policy and the review conducted by the two consulting firms confirmed that this was an appropriate level. The cap of 270% of annual fixed compensation is a maximum amount and the Board of Directors reserves the right to award a lower percentage depending on Valeo's performance.

In 2018, the total amount of the 55,026 performance shares allotted to Jacques Aschenbroich, valued in accordance with IFRS, represented 260% of his annual fixed compensation, which is below the maximum amount of this component of compensation provided for in this compensation policy, i.e., 270%.

The principles and criteria relating to long-term compensation under the 2017 Compensation Policy (see this section, paragraph "Long-term compensation – Allotment of performance shares", page 144) remain unchanged in 2018, except as set out below.

At its meeting on February 22, 2018, acting on the recommendation of the Compensation Committee, the Board of Directors set the following rules that will apply to the performance shares in the event of the Chairman and Chief Executive Officer's departure. Entitlement to the performance shares will be lost in the event of (i) departure due to gross negligence or misconduct or (ii) forced departure for reasons attributable to the Chairman and Chief Executive Officer's performance, before the end of the vesting period. Except for these two cases, the Board of Directors will determine whether or not the Chairman and Chief Executive Officer will retain his entitlement to the performance shares before the end of the vesting period based on an in-depth analysis of the reasons for and circumstances surrounding his departure. In any event, the shares will only vest if the performance criteria are achieved. By way of exception to the foregoing, in the event of termination of his corporate office in connection with the liquidation of mandatory and supplementary pension plans and death or disability, entitlement to performance shares will be maintained and the performance criteria will apply to retirement but not to death or disability.

The performance criteria to be achieved over a period of three years will not be changed during that period.

A percentage of the initial share allotments will vest according to the number of performance criteria achieved over the reference period (100% for three criteria, 60% for two criteria, 30% for one criteria and 0% for no criteria).

Performance share allotments, valued in accordance with IFRS, must not represent a disproportionate percentage of the total compensation package including performance share awards. In principle, performance shares are allotted at the same times each year.

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Group's Code of Conduct, the Chairman and Chief Executive Officer must not use hedging transactions to reduce his risk. Jacques Aschenbroich will make a formal commitment in this respect as required by the AFEP-MEDEF Code.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan

The Chairman and Chief Executive Officer may benefit from a defined benefit pension plan in accordance with Group and market practices.

As indicated in the 2017 Compensation Policy, Jacques Aschenbroich is entitled to a defined benefit pension plan that is also open to the Group's senior executives. In view of his age and the fact that he was not covered by any other supplementary pension plan, the decision was made to credit him with five years of service at the start of his tenure. There is a cap on the amount of this pension plan, which came into effect on January 1, 2010 and was closed to new members on July 1, 2017 (entitlement corresponding to 1% of the reference salary per year of service, capped at 20%), and on the basis for determining entitlements (additional pension benefits, all plans combined, are capped at 55% of the reference salary[1]). These caps are identical to those applied under the 2017 Compensation Policy. A performance condition was introduced in order to comply with the provisions of French law no. 2015-990 of August 6, 2015 on growth, activity and equal opportunity (known as the Macron law). This performance condition, which also formed part of the 2017 Compensation Policy, will be deemed to have been achieved if the Chairman and Chief Executive Officer's variable compensation paid in year Y+1 for year Y amounts to 100% of his fixed compensation payable for year Y. If his variable compensation is less than 100% of fixed compensation, rights will accrue on a prorata basis.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment

The principles and criteria relating to this component of compensation under the 2017 Compensation Policy (see this section, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment", page 145), remain unchanged in the 2018 Compensation Policy.

Other benefits

The principles and criteria relating to this component of compensation under the 2017 Compensation Policy (see this section, paragraph "Other benefits", page 145), remain unchanged in the 2018 Compensation Policy.

(1) The reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation received for working full time within the Group.

Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

The principles and criteria relating to this component of compensation under the 2017 Compensation Policy (see this section, paragraph "Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation", page 145), remain unchanged in the 2018 Compensation Policy.

Accordingly, the Chairman and Chief Executive Officer will not be entitled to multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation or termination benefits. In this respect, it should be noted that Jacques Aschenbroich was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived following the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer on February 18, 2016. The maximum amount of benefits that can be awarded and paid to the Chairman and Chief Executive Officer upon departure therefore correspond to the non-competition payment that may be awarded or paid to him by the Company, i.e., 12 months of compensation (calculated by taking the average compensation [fixed and variable] paid for the three fiscal years preceding the year of departure).

The Chairman and Chief Executive Officer will not receive attendance fees. He will not be entitled to any compensation or other benefits as a result of agreements entered into with the Company or any Group company.

No stock options or other long-term component of compensation other than performance shares will be allotted to the Chairman and Chief Executive Officer in 2018.

In accordance with Articles L.225-37-2 and L.225-100 of the French Commercial Code, the Chairman and Chief Executive Officer's variable compensation for 2018 will only be paid once the fixed, variable and exceptional components comprising the total compensation and benefits package paid or awarded to him in respect of 2018 have been approved by the shareholders at an Ordinary Shareholders' Meeting (*ex post* vote).

Compensation of Jacques Aschenbroich, Chairman and Chief Executive Officer, for the year ended December 31, 2017 and prior years

The section below summarizes the compensation paid or awarded by Valeo to Jacques Aschenbroich, Chairman and Chief Executive Officer, in respect of the years ended December 31, 2016 and December 31, 2017, as set by the Board of Directors based on the recommendation of the Compensation Committee. In accordance with applicable legal and regulatory provisions, the compensation paid or awarded in respect of 2017 must be approved by the Shareholders' Meeting. Jacques Aschenbroich does not have an employment contract with the Valeo Group.

Compensation in respect of the year ended December 31, 2017

In accordance with Article L.225-100 II of the French Commercial Code, the Shareholders' Meeting must approve the fixed, variable and exceptional components comprising the total compensation and benefits package paid or awarded to the Chairman and Chief Executive Officer in respect of 2017 under the 2017 Compensation Policy. Payment of his variable compensation for 2017 is contingent on approval by said Shareholders' Meeting of the above-mentioned components, which are described in detail below.

Fixed compensation

In accordance with the 2017 Compensation Policy (see this section, paragraph "Fixed compensation", page 142), Jacques Aschenbroich received gross fixed compensation of 1,000,000 euros from Valeo in 2017.

Variable compensation

At its meeting on February 15, 2017, acting on the recommendation of the Compensation Committee, the Board of Directors decided that the variable compensation to be paid to Jacques Aschenbroich for his role as Chairman and Chief Executive Officer for 2017 would be (i) subject to the same cap of 170% of annual fixed compensation as in 2016, and (ii) based on the same quantifiable and qualitative criteria as those set for 2016, except that compared with 2016, the quantifiable operating cash criterion has been clarified (free cash flow), certain qualitative sub-criteria have been adjusted and the respective weightings of the qualitative criteria have been modified.

The principles and criteria relating to the Chairman and Chief Executive Officer's 2017 compensation are described in the 2017 Compensation Policy (see this section, paragraph "Variable compensation", pages 142 and 143).

At its meeting on February 22, 2018, acting on the recommendation of the Compensation Committee, the Board of Directors noted that the achievement rate for quantifiable criteria was 80.4% and that the achievement rate for qualitative criteria was 47.5% of the annual fixed compensation due to Jacques Aschenbroich for 2017, bringing the amount of variable compensation due to Jacques Aschenbroich for 2017 to 127.9% of his annual fixed compensation for 2017, i.e., 1,279,000 euros (versus 1,627,738 euros in 2016). The specific, predetermined targets underlying the quantifiable criteria have not been publicly disclosed for reasons of confidentiality, as provided for in Article 25.2 of the AFEP-MEDEF Code. However, the table below shows the degree of achievement of each quantifiable criterion. For each quantifiable criterion, the variable portion varies within a range of 0% to 100% of the maximum amount of annual fixed compensation obtainable under the relevant criterion. The objectives for the quantifiable criteria are ambitious. Consequently,

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despite excellent results in 2017 (increase of 12% in sales, 11% in operating margin and 8% in net income [excluding a non-recurring expense of 117 million euros relating to the decline in the value of deferred tax assets, proportional to the decrease in the US corporate tax rate]), order intake and ROCE were the only quantifiable criteria for which the upper end of the range was achieved.

The following table summarizes, in particular, the quantifiable and qualitative criteria, the entitlement relating to each of these criteria as a percentage of annual fixed compensation and the maximum variable compensation for the year ended December 31, 2017:

Quantifiable criteria(1)

Nature of the criterion	Maximum amount of the variable portion as a % of annual fixed compensation	Amount of the variable portion obtained as a % of annual fixed compensation	Difference in % compared with the upper end of the range representing the maximum amount of variable compensation
Operating margin	23%	17.9%(6)	77.8%
Free cash flow(2)	23%	16.5%(7)	71.7%
Net income(3)	23%	0%(8)	0%
ROCE	23%	23%(9)	100%
Group order intake(4)	23%	23%(10)	100%
TOTAL QUANTIFIABLE CRITERIA	**115%**	**80.4%**	**69.9%**

Qualitative criteria

Nature of the criterion	Maximum amount of the variable portion as a % of annual fixed compensation	Amount of the variable portion obtained as a % of annual fixed compensation
Financial communications This criterion is measured, in particular, based on variations in Valeo's share price in comparison with the share prices of several European, North American and Japanese companies operating in the same sector as the Company.	5%	2.5%(11)
Strategic vision *This criterion is measured based on:* ▪ analysts' assessments; ▪ strategic operations carried out by Valeo; ▪ the increase in the proportion of innovative products(5) in the order intake for the year; ▪ the presentation by Management at the strategy seminar of a technology roadmap and its impact on R&D and human resources.	25%	25%(12)
Risk management *This criterion is measured, in particular, based on:* ▪ continued and intensified measures to reinforce the compliance policy; ▪ the management of risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints; ▪ the Group's policy on corporate social responsibility and the management of the corresponding risks.	25%	20%(13)
TOTAL QUALITATIVE CRITERIA	**55%**	**47.5%**

QUANTIFIABLE AND QUALITATIVE CRITERIA	Maximum amount of the variable portion as a % of annual fixed compensation	Amount of the variable portion obtained as a % of annual fixed compensation
TOTAL	**170%**	**127.9%**

(1) Excluding tax and regulatory impact.
(2) Assuming that the investment budget is respected.
(3) Assuming a 20% tax rate for the Group.
(4) Excluding Ichikoh.
(5) Products and technologies in series production for less than three years.
(6) 2017 operating margin equal to 8% of sales.
(7) Free cash flow generation of 278 million euros in 2017.
(8) 2017 net income of 886 million euros.
(9) 2017 ROCE of 30%.
(10) 2017 order intake of 27.6 billion euros.
(11) 14% increase in the Valeo share price in 2017, underperforming the companies in the automotive sector used in the comparison sample but exceeding the average performance of the companies listed on the CAC 40.
(12) Three major strategic transactions carried out by Valeo in 2017: Ichikoh, FTE and Kapec. In addition, the companies acquired in 2016, in particular peiker and Spheros, have been successfully integrated. Proportion of innovations (products and technologies in series production for less than three years) in the 2017 order intake: 50%.
(13) The qualitative criterion on the management of risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints was not entirely achieved given the demanding objectives linked to this growth.

Long-term compensation policy – Allotment of performance shares

In accordance with the provisions of Article L.225-197-1 of the French Commercial Code, the number of free shares allotted may not represent more than 10% of the Company's share capital on the date of the Board of Directors' decision. The maximum amount provided for in the twentieth resolution of the Shareholders' Meeting of May 26, 2016, which is effective for a period of 26 months, was 3,467,000 shares (i.e., 1.45% of the share capital at December 31, 2015) with a specific sub-limit of 195,000 shares (i.e., 0.08% of the share capital at December 31, 2015) for the Chairman and Chief Executive Officer. The free shares outstanding at December 31, 2015 represented 1.43% of the Company's share capital.

In accordance with the 2017 Compensation Policy (see this section, paragraph "Long-term compensation policy – Allotment of performance shares", page 144), at its meeting on March 22, 2017, acting on the recommendation of the Compensation Committee, the Board of Directors decided to allot 51,030 performance shares to Jacques Aschenbroich, pursuant to the twentieth resolution of the Shareholders' Meeting of May 26, 2016.

All the performance shares allotted to Jacques Aschenbroich are contingent on the achievement of performance criteria measured over the 2017, 2018 and 2019 fiscal years. These criteria are ROA, operating margin and ROCE. They will be met if, for each of them, the average over the three years of the reference period of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one, it being specified that the target returns set by the Board of Directors may not be modified subsequently.

The target returns set by the Board of Directors for 2017 are (i) 19% for ROA, (ii) 7.9% for operating margin, and (iii) 29% for ROCE (after consolidation of Ichikoh and excluding any other acquisitions for all criteria).

The following scale then applies:

- if all three criteria for fiscal years 2017, 2018 and 2019 are met, all the performance shares allotted will vest;
- if two of the three criteria for fiscal years 2017, 2018 and 2019 are met, only 60% of the performance shares allotted will vest and the remainder will be forfeited;
- if only one of the three criteria for fiscal years 2017, 2018 and 2019 is met, only 30% of the performance shares allotted will vest and the remainder will be forfeited;
- if none of the three criteria for fiscal years 2017, 2018 and 2019 is met, no performance shares allotted will vest and all the performance shares will be canceled.

The performance shares will vest after the expiration of a three-year vesting period. Jacques Aschenbroich will then have to hold the shares for two years. At the end of the two-year holding period, he must also hold at least 50% of the vested performance shares as registered shares until the end of his term of office. Since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase options allotted to him, or any vested performance shares.

All the performance shares allotted to Jacques Aschenbroich will vest only if his term of office has not expired on the vesting date (however, this presence condition may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct) or he has claimed his retirement benefits.

The performance shares allotted to Jacques Aschenbroich during 2017 had a limited dilutive impact and represented 0.02% of the Company's share capital at December 31, 2017.

At its meeting on March 22, 2017, the Board of Directors noted that the 51,030 performance shares allotted to the Chief Executive Officer in 2017, valued at 52.91 euros each under IFRS, amounted to 2,699,997 euros, representing 270% of his annual fixed compensation for the same year.

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Group's Code of Conduct, the Chairman and Chief Executive Officer must not use hedging transactions to reduce his risk. No hedging instruments have been used with respect to his performance shares.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan

Under the 2017 Compensation Policy (see section 3.3.1, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan", page 144), Jacques Aschenbroich was covered by a defined benefit pension plan in 2017.

At its meeting on April 9, 2009, the Board of Directors discussed the total compensation of Jacques Aschenbroich and decided to register Jacques Aschenbroich with the supplementary defined benefit pension plan for the Group's senior executives and referred to in Article L.237-11 of the French Social Security Code. This decision was implemented on October 20, 2009 and was taken with a view to retaining Jacques Aschenbroich, then Chief Executive Officer, and motivating him with regard to the Company's objectives, protecting its corporate interest and following market practices. In view of Jacques Aschenbroich's age and the fact that he was not covered by any other supplementary pension plan, the decision was made to credit him with five additional years of service at the start of his tenure.

It was adopted as a related party agreement by the Shareholders' Meeting on June 3, 2010 in its twelfth resolution, and maintained without any modification until February 21, 2012.

At its meetings on February 21, 2012 and January 23, 2014, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to (i) include the payment of benefits to the surviving beneficiary in the event of the death of an active contributor if the event occurs after the legal voluntary retirement age and (ii) adjust the supplementary pension plan to bring it in line with market practices. This adjustment, which does not have retroactive effect, involved taking into account in the reference salary (calculated using an average of the last three years) the basic fixed compensation and the portion of variable compensation actually paid for the periods after February 1, 2014. The supplementary pension remains capped at 20% of the reference salary, which complies with and is even lower than the maximum percentage recommended by Article 24.6.2 of the AFEP-MEDEF Code, as amended in November 2016, that establishes a maximum percentage of 45% of the fixed and variable compensation due in the reference period. All the Group's senior executives benefited from this adjustment.

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

Following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors on February 18, 2016, Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, Jacques Aschenbroich's supplementary pension plan was amended to provide for performance criteria to comply with the provisions of French law no. 2015-990 on growth, activity and equal opportunity of August 6, 2015 (known as the Macron law). It was decided that the acquisition of conditional supplementary pension benefits under the supplementary defined benefit pension plan would be subject to a performance condition deemed to have been achieved if the Chairman and Chief Executive Officer's variable compensation paid in year Y+1 for year Y amounted to 100% of his fixed compensation payable for year Y. If his variable compensation is less than 100% of his fixed compensation, rights would accrue on a prorata basis. The amended supplementary pension plan was authorized by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, on February 18, 2016, and approved by the shareholders at the Shareholders' Meeting of May 26, 2016 (in its fifth resolution). At its meeting on February 22, 2018, acting on the recommendation of the Compensation Committee, the Board of Directors noted that this condition was met in full for 2017 (as was also the case for 2016 on a prorata basis).

Entitlement to this plan requires nevertheless that the Chairman and Chief Executive Officer end his professional career within the Group. In addition, all of the Chairman and Chief Executive Officer's statutory pensions must have been settled. The Chairman and Chief Executive Officer's supplementary pension plan is financed by Valeo annually through the payment of premiums to the service provider in charge of administering the annuities.

Further to the Board of Directors' decision on July 20, 2017, this pension plan, which came into effect on January 1, 2010, was closed to new members on July 1, 2017. A new "Article 83" defined contribution supplementary pension plan is currently being created. It will be open to those members of the above-defined benefit plan who wish to join (except for Jacques Aschenbroich, to whom the old plan will continue to apply), and to all employees in France whose compensation is more than four times the Social Security ceiling.

At December 31, 2017, Jacques Aschenbroich's supplementary pension benefits represented a total amount of 8,553,512 euros, i.e., a yearly pension allowance of 227,294 euros (it being specified that social security contributions at a rate of 32% are payable by the Company on annuities paid).

As the Chairman and Chief Executive Officer did not claim his pension entitlements in 2017, no amount was awarded or paid to him for 2017.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment

Under the 2017 Compensation Policy, Jacques Aschenbroich is entitled to a non-competition payment (see this section, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment", page 145). This was decided by the Board of Directors at its meeting on February 24, 2010 and approved by the Shareholders' Meeting of June 3, 2010 in its eleventh resolution. It was then renewed without change at the Board of Directors meeting of February 24, 2011, on the recommendation of the Appointments, Compensation & Governance Committee. The modified non-competition payment was adopted as a related party agreement pursuant to Article L.225-42-1 of the French Commercial Code at the Shareholders' Meeting on May 26, 2015 in its fifth resolution. The principles and criteria relating to this non-competition payment are described in the 2017 Compensation Policy (see this section, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment", page 145).

As Jacques Aschenbroich's term of office did not end in 2017, no non-competition payment was awarded or paid to him for 2017.

Other benefits

In accordance with the 2017 Compensation Policy (see this section, paragraph "Other benefits", page 148), Jacques Aschenbroich benefited, in the year ended December 31, 2017, from coverage under the unemployment insurance fund for company managers, the collective and mandatory health, death and disability plan, life insurance covering death, disability or the consequences of any accidents during business travel, and a company car, representing a total amount of 24,539 euros.

Other components of compensation – no multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

In accordance with the 2017 Compensation Policy (see this section, paragraph "Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation", page 145), Jacques Aschenbroich did not receive any multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation in 2017 except for performance shares.

As regards termination benefits, Jacques Aschenbroich was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived following the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer on February 18, 2016.

Compensation in respect of the year ended December 31, 2016

Fixed compensation

Valeo paid Jacques Aschenbroich gross annual fixed compensation of 986,508 euros in 2016, following the increase in his fixed compensation from 900,000 euros to 1,000,000 euros on February 18, 2016, date on which the positions of Chairman of the Board of Directors and Chief Executive Officer were combined.

Variable compensation

At its meeting on February 18, 2016, acting on the recommendation of the Appointments, Compensation & Governance Committee, the Board of Directors decided that for 2016, the annual variable compensation of Jacques Aschenbroich, Chairman and Chief Executive Officer, would depend on the same quantifiable targets (operating margin, operating cash, net income, ROCE and Group order intake) and qualitative criteria (financial communications, strategic vision and risk management) as those applied in 2015, subject to the addition of two new sub-criteria to (i) assess the achievement of the strategic vision criterion (the presentation by Management at the strategy seminar of a technology roadmap and its impact in terms of Research and Development), and (ii) measure the achievement of the risk management criterion (risk management relating to the Group CSR policy).

The variable compensation for 2016 expressed as a percentage of annual fixed compensation for each criterion and the maximum amount of the variable compensation (capped at 170% of annual fixed compensation) were set by the Board of Directors on July 24, 2015, on the recommendation of the Appointments, Compensation & Governance Committee, and confirmed on February 18, 2016 (see table below).

The decision to cap the amount of variable compensation at 170% of annual fixed compensation was made by the Board of Directors, on the recommendation of the Appointments, Compensation & Governance Committee, on July 24, 2015 and confirmed on February 18, 2016 in view of the Company's strong operating performance and after noting that the variable compensation of Jacques Aschenbroich was misaligned with the median variable compensation reported in various comparative studies on the compensation of Chief Executive Officers and Chairmen and Chief Executive Officers of companies in the CAC 40 index and comparable European industrial companies[(1)].

At its meeting on February 15, 2017, acting on the recommendation of the Compensation Committee, the Board of Directors noted that the achievement rate for quantifiable criteria was 115% and that the achievement rate for qualitative criteria was 50% of the annual fixed compensation due to Jacques Aschenbroich for 2016, bringing the amount of variable compensation due to Jacques Aschenbroich for 2016 to 165% of his annual fixed compensation for 2016, i.e., 1,627,738 euros (versus 1,215,000 euros in 2015, which represented the maximum amount that could be paid or awarded to him in respect of said year). The achievement of the qualitative criteria was assessed by the Board of Directors, acting on the recommendation of the Compensation Committee, on the basis described in the table below.

(1) A summary of the results of the comparative studies and the panels used can be found in the Shareholders' Meeting section of Valeo's website.

The following table summarizes the quantifiable and qualitative criteria, the entitlement relating to each of these criteria as a percentage of annual fixed compensation and the maximum variable compensation for the year ended December 31, 2016:

Quantifiable criteria

Nature of the criterion	Maximum amount of the variable portion as a % of annual fixed compensation	Amount of the variable portion obtained as a % of annual fixed compensation
Operating margin	23%	23%(1)
Operating cash	23%	23%(2)
Net income	23%	23%(3)
ROCE	23%	23%(4)
Group order intake	23%	23%(5)
TOTAL QUANTIFIABLE CRITERIA	**115%**	**115%**
Financial communications *This criterion is measured, in particular, based on variations in Valeo's share price in comparison with the share prices of several European, North American and Japanese companies operating in the same sector as the Company.*	11%	11%(6)
Strategic vision *This criterion is measured based on:* ■ analysts' assessments; ■ strategic operations carried out by Valeo; ■ the increase in the proportion of innovative products(8) in the order intake for the year; ■ the presentation by Management at the strategy seminar of a technology roadmap and its impact on R&D.	22%	22%(7)
Risk management *This criterion is measured, in particular, based on:* ■ continued and intensified measures to reinforce the compliance policy; ■ the management of risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints; ■ risk management relating to the Group's CSR policy.	22%	17%(9)
TOTAL QUALITATIVE CRITERIA	**55%**	**50%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**	**165%**

(1) 2016 operating margin of 8.1% of 2016 sales, higher than the operating margin announced under the 2016 guidance.
(2) Operating cash of 603 million euros in 2016.
(3) 2016 net income equal to 5.6% of 2016 sales.
(4) 2016 ROCE of 34%.
(5) 2016 order intake of 23.6 billion euros.
(6) Increase of 14.9% in the Valeo share price in 2016 compared to an increase of 1.6% in the share price of the companies in the automotive sector used in the comparison sample.
(7) List of major strategic operations carried out by Valeo in 2016: acquisition of Spheros and peiker, creation of a joint venture with Siemens. Proportion of innovations(8) in the order intake in 2016: 50%.
(8) Products and technologies in series production for less than three years.
(9) The qualitative criterion on the management of the risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints was not entirely achieved given the demanding safety objectives linked to this growth.

Long-term compensation policy – Allotment of performance shares

In accordance with the provisions of Article L.225-197-1 of the French Commercial Code, the number of free shares allotted may not represent more than 10% of the Company's share capital on the date of the Board of Directors' decision. The maximum amount provided for in the twentieth resolution of the Shareholders' Meeting of May 26, 2016, which is effective for a period of 26 months, was 3,467,000 shares (i.e., 1.45% of the share capital at December 31, 2015) with a specific sub-limit of 195,000 shares (i.e., 0.08% of the share capital at December 31, 2015) for the Chairman and Chief Executive Officer. The free shares outstanding at December 31, 2015 represented 1.43% of the Company's share capital.

At its meeting on May 26, 2016, acting on the recommendation of the Appointments, Compensation & Governance Committee, the Board of Directors decided to allot 70,974 performance shares to Jacques Aschenbroich, Chairman and Chief Executive Officer, pursuant to the twentieth resolution of the Shareholders' Meeting on May 26, 2016.

All the performance shares allotted to Jacques Aschenbroich are contingent on the achievement of performance criteria measured over the 2016, 2017 and 2018 fiscal years. These criteria are ROA, operating margin and ROCE. They will be met if, for each of them, the average over the three years of the reference period, of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one, it being specified that the target return set by the Board of Directors may not be modified subsequently.

The target returns set by the Board of Directors for 2016 are (i) 20% (excluding acquisitions) for ROA, (ii) 7.8% for operating margin, and (iii) 30% for ROCE.

The following scale then applies:

- if all three criteria for fiscal years 2016, 2017 and 2018 are met, all the performance shares allotted will vest;
- if two of the three criteria for fiscal years 2016, 2017 and 2018 are met, only 60% of the performance shares allotted will vest and the remainder will be forfeited;
- if only one of the three criteria for fiscal years 2016, 2017 and 2018 is met, only 30% of the performance shares allotted will vest and the remainder will be forfeited;
- if none of the three criteria for fiscal years 2016, 2017 and 2018 is met, no performance shares allotted will vest and all the performance shares will be canceled.

The performance shares will vest after the expiration of a three-year vesting period. Jacques Aschenbroich will then have to hold the shares for two years. At the end of the two-year holding period, he must also hold at least 50% of the vested performance shares as registered shares until the end of his term of office. Since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase options allotted to him, or any vested performance shares.

All the performance shares allotted to Jacques Aschenbroich will vest only if his term of office has not expired on the vesting date (however, this presence condition may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct) or he has claimed his retirement benefits.

The performance shares allotted to Jacques Aschenbroich during 2016 had a limited dilutive impact and represented 0.03% of the Company's share capital at December 31, 2016.

At its meeting on May 26, 2016, the Board of Directors noted that the performance shares allotted to Jacques Aschenbroich in 2016, valued at 38.04 euros each under IFRS, i.e., 114.13 euros a share before a three-for-one stock split, amounted to 2,699,850 euros and represented 270% of his annual fixed compensation for the same year, in accordance with the Board of Directors' decision of February 18, 2016 that the valuation under IFRS of the performance shares allotted to Jacques Aschenbroich in 2016 should not exceed 270% of his annual fixed compensation.

The decision to cap the amount of performance shares at 270% of annual fixed compensation was made by the Board of Directors, on the recommendation of the Appointments, Compensation & Governance Committee, on July 24, 2015 and confirmed on February 18, 2016 in view of the Company's strong operating performance and after noting that the variable compensation of Jacques Aschenbroich was misaligned with the median variable compensation reported in various comparative studies on the compensation of Chief Executive Officers and Chairmen and Chief Executive Officers of companies in the CAC 40 index and comparable European industrial companies[1].

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Group's Code of Conduct, Jacques Aschenbroich is not permitted to use hedging transactions to reduce his risk. No hedging instruments have been used with respect to his performance shares.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan

The defined benefit pension plan is described in this section, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan", page 151.

At December 31, 2016, Jacques Aschenbroich's supplementary pension benefits represented a total amount of 6,335,554 euros, i.e., a yearly pension allowance of 194,352 euros (it being specified that social security contributions at a rate of 32% are payable by the Company on annuities paid).

Since the Chairman and Chief Executive Officer did not claim his pension entitlements in 2016, no amount was owed to him for 2016.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment

The non-competition payment is described in this section, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment", page 152).

As Jacques Aschenbroich's term of office did not end in 2016, no non-competition payment was owed to him for 2016.

(1) A summary of the results of the comparative studies and the panels used can be found in the Shareholders' Meeting section of Valeo's website.

Other benefits

Other benefits are described in this section, paragraph "Other benefits", page 152.

In 2016, Jacques Aschenbroich received benefits worth 18,526 euros.

Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

In 2016, Jacques Aschenbroich did not receive any of the following components of compensation: multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company, or options or any other long-term component of compensation other than performance shares.

As regards termination benefits, Jacques Aschenbroich was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived following the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer on February 18, 2016.

Historical information

Variable compensation

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

(% of fixed compensation)	2013		2014		2015		2016		2017	
	Achieved	**Capped**	**Achieved**	**Capped**	**Achieved**	**Capped**	**Achieved**	**Capped**	**Achieved**	**Capped**
Quantifiable criteria	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	115.0%	115.0%	80.4%	115%
Qualitative criteria	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	55.0%	47.5%	55%
VARIABLE COMPENSATION	**135.0%**	**135.0%**	**135.0%**	**135.0%**	**135.0%**	**135.0%**	**165.0%**	**170.0%**	**127.9%**	**170%**

Long-term compensation

The history of stock purchase options and performance shares allotted, including to Jacques Aschenbroich, is summarized in the tables in this section, paragraph "Compensation paid to the Chief Executive Officer over the last two years", pages 157 to 161.

Under the Group's Code of Conduct, the Chairman and Chief Executive Officer must not use hedging transactions to reduce his risk. No hedging instruments have been used with respect to his stock purchase options, the shares obtained on exercising his stock options, or his performance shares.

At the end of the holding period set by the Board of Directors, he must also hold a significant number of vested performance shares in the form of registered shares until the end of his term of office. This holding obligation corresponds to 50% of the vested performance shares. Since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase options, or any vested performance shares.

No stock purchase options have been allocated since March 27, 2012. For information, the tenth resolution of the Shareholders' Meeting of June 4, 2012 was not renewed and was declared null and void on August 5, 2014. As regards the stock subscription options allocated to Jacques Aschenbroich in prior years, he must respect a minimum holding period and the shares that he obtains on exercising his stock purchase options must be held for a minimum of two years following their allotment. After selling the number of shares necessary for financing the exercise of the stock purchase options and the payment of any tax, social security contributions and transaction costs, he must keep at least 50% of the shares obtained on exercising his options in registered form until the end of his term of office. As indicated above, since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase options, or any vested performance shares.

Compensation paid to the Chief Executive Officer over the last two years

The following tables show the compensation paid and awarded and the stock options and shares allotted to Jacques Aschenbroich over the last two years. Pascal Colombani was Chairman of the Board of Directors until February 18, 2016 and received 50,000 euros in annual fixed compensation in 2016. His compensation for the last two years is not included in the tables below as he did not receive any other compensation in respect of 2016 in his capacity as Chairman, nor did he receive any compensation in respect of 2017 as he has no longer been Chairman since February 18, 2016. Since that date, he has only received attendance fees in his capacity as director.

▶ Summary of compensation paid and stock purchase options and performance shares allotted to Jacques Aschenbroich (AMF Table no. 1)

(in euros)	2016	2017[1]
Compensation due for the year	2,632,772	2,303,539
Value of multi-annual variable compensation granted during the year	-	-
Value of stock purchase options allotted during the year	-	-
Value of performance shares allotted during the year[2]	2,699,850	2,699,997
TOTAL	**5,332,622**	**5,003,536**

(1) The total compensation and benefits package paid or awarded to the Chairman and Chief Executive Officer under the 2017 Compensation Policy will be submitted to the vote of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017 (ex post vote). Payment of the variable compensation is contingent on its approval by the shareholders.

(2) All performance shares allotted to the Chairman and Chief Executive Officer are subject to a presence condition, the achievement of performance criteria, and a holding obligation. The performance criteria linked to the performance shares allotted to the Chairman and Chief Executive Officer during 2016 and 2017 are described in this section, paragraphs "Long-term compensation", page 151 and "Allotment of performance shares", pages 154 and 155.

▶ Summary of compensation paid to Jacques Aschenbroich (AMF Table no. 2)

	2016		2017	
(in euros)	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	986,508[1]	986,508	1,000,000	1,000,000
Annual variable compensation	1,627,738	1,215,000[2]	1,279,000[4]	1,627,738[2]
Multi-annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Attendance fees	-	-	-	-
▪ o/w attendance fees paid by Valeo	-	-	-	-
▪ o/w attendance fees paid by controlled companies	-	-	-	-
Benefits in kind[3]	18,526	18,526	24,539	24,539
TOTAL	**2,632,772**	**2,220,034**	**2,303,539**	**2,652,277**

(1) Taking into account the increase in his fixed compensation from 900,000 euros to 1,000,000 euros on February 18, 2016, date on which the positions of Chairman of the Board and Chief Executive Officer were combined.

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

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

(4) The total compensation and benefits package paid or awarded to the Chairman and Chief Executive Officer under the 2017 Compensation Policy will be submitted to the vote of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017 (ex post vote). Payment of the variable compensation is contingent on its approval by the shareholders.

▶ Stock subscription and purchase options allotted to Jacques Aschenbroich during the year (AMF Table no. 4)

Plan no. and date	Type of option (purchase/ subscription)	Value of options according to the method used for consolidated financial statements	Number of options allotted during the year	Exercise price	Exercise period	Performance criteria
None	-	-	-	-	-	-

▶ Stock subscription and purchase options exercised by Jacques Aschenbroich during the year (AMF Table no. 5)

Plan no. and date	Number of options exercised during the year	Exercise price
None	-	-

▶ Performance shares allotted to Jacques Aschenbroich during the year (AMF Table no. 6)

Performance shares allotted by the Shareholders' Meeting during the year to Jacques Aschenbroich by Valeo or any Group company	Plan no. and date	Number of shares allotted during the year	Value of shares according to the method used for consolidated financial statements	Vesting date	Shares available as at	Performance criteria
	03/22/2017	51,030	€52.91	03/22/2020	03/22/2022(1)	(2)

(1) Obligation to hold at least 50% of the vested shares as registered shares until the end of his term of office.
(2) All performance shares allotted to the Chairman and Chief Executive Officer are subject to a presence condition, the achievement of performance criteria, and a holding obligation (see above). The performance criteria linked to the performance shares allotted to the Chairman and Chief Executive Officer during 2017 are described in this section, paragraph "Long-term compensation – Allotment of performance shares", page 151.

▶ Performance share allotments that became available for trading for Jacques Aschenbroich (AMF Table no. 7)

Plan no. and date	Number of shares that became available for trading during the year	Vesting requirements
03/27/2014	31,515	-

► History of allotments of stock subscription and purchase options including to Jacques Aschenbroich – Information concerning stock subscription and purchase options (at December 31, 2017) (AMF Table no. 8)

The table below shows a history of stock subscription and purchase option allotments, including to Jacques Aschenbroich[1]:

Date of Board meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013[4]	03/27/2014[5]
Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011	06/04/2012	06/04/2012
Total number of shares that can be purchased	3,000,000	878,520	1,101,480	-	-
Start of exercise period	06/24/2012	06/08/2014	03/27/2015	-	-
Expiration date	06/23/2018	06/07/2019	03/26/2020	-	-
Purchase price[2]	€8.02	€14.13	€13.59	-	-
Number of options conditionally allotted to Jacques Aschenbroich[3]	300,000	90,900	105,900	-	-
Performance criteria – rate of achievement	100%	60%	100%		
Total number of shares that can be purchased by Jacques Aschenbroich	300,000	54,540	105,900		
Number of shares purchased	300,000	54,540	105,900	-	-
Number of stock subscription and purchase options canceled or forfeited (cumulative)	455,736	381,900	118,650	-	-
Stock subscription and purchase options remaining at year-end	267,695	82,175	226,735	-	-

(1) The figures in the table have been adjusted for the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date. To protect the interests of stock purchase option holders, at its meeting on May 26, 2016, the Board of Directors decided to adjust the exercise price of the unexercised options, by dividing the exercise price by three and multiplying the number of options by three.

(2) Equal to the average share price over the 20 trading days preceding the Board of Directors' meeting allotting the options, which is 80% higher than the average purchase price of shares held by Valeo under Articles L.225-208 and L.225-209 of the French Commercial Code, as adjusted.

(3) All stock purchase options allotted to the Chairman and Chief Executive Officer are contingent on the achievement of performance criteria (average operating margin, ROCE and ROA over the reference period).

(4) At its meeting on March 27, 2013, the Board decided not to allot any stock purchase options.

(5) At its meeting on March 27, 2014, the Board decided not to allot any stock purchase options. For information, the tenth resolution of the Shareholders' Meeting of June 4, 2012 was not renewed and was declared null and void on August 5, 2014.

▶ History of allotments of free shares including to Jacques Aschenbroich – information concerning free shares allotted (at December 31, 2017) (AMF Table no. 10)

The table below shows a history of free share allotments, including to Jacques Aschenbroich[(1)]:

Date of Board meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013	03/27/2014	03/26/2015	05/26/2016	03/22/2017
Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011	06/04/2012	06/04/2012	05/21/2014	05/26/2016	05/26/2016
Total number of free shares allotted	1,200,000	980,580	639,420	1,421,442	970,440	957,027	1,267,022	1,012,043
Vesting date of shares								
■ France	06/24/2012	06/08/2014	03/27/2015	03/27/2016	03/27/2017	03/26/2018	06/08/2019	03/22/2020
■ Other countries[(2)]	06/24/2014	06/08/2016	03/27/2017	03/27/2018	03/27/2019	03/26/2020	06/08/2021	03/22/2022
End of holding period – France and other countries	06/24/2014	06/08/2016	03/27/2017	03/27/2018	03/27/2019	03/26/2020	06/08/2021	03/22/2022
Number of shares conditionally allotted to Jacques Aschenbroich[(3)]	150,000	46,800	34,200	76,902	31,515	30,696	70,974	51,030
Performance criteria – rate of achievement	100%	60%	100%	100%	100%	100%		
Total number of shares purchased by Jacques Aschenbroich	150,000	28,080	34,200	76,902	31,515	30,696		
Total number of shares canceled or forfeited (cumulative)	207,723	352,050	78,537	202,608	193,335	148,974	42,433	17,690
Free shares allotted remaining at year-end	0	0	0	448,716	358,029	807,990	873,326	754,806

(1) The figures in the table have been adjusted for the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date. To protect the interests of the beneficiaries of free shares during the vesting period, at its meeting on May 26, 2016, the Board of Directors decided to multiply the number of free shares allotted but not yet vested by three.

(2) With the exception of free shares allotted under the Shares4U plan.

(3) All performance shares allotted to Jacques Aschenbroich are contingent on the achievement of performance criteria. The performance criteria linked to the performance shares allotted to Jacques Aschenbroich during 2016 and 2017 are described in this section, paragraphs "Long-term compensation", page 151 and "Allotment of performance shares", pages 154 to 156.

Employment contract, supplementary pension plans and benefits (AMF Table no. 11)

	Employment contract	Supplementary pension plans	Compensation or benefits owed or likely to be owed on termination or change of position	Payment relating to a non-competition clause
	No	Yes	No(1)	Yes
Jacques Aschenbroich Chairman and Chief Executive Officer since February 18, 2016 First appointed as a director: 03/20/2009 First appointed as Chairman and Chief Executive Officer: 03/20/2009 Start of term of office (director): 05/26/2015 End of current term of office (director and Chairman and Chief Executive Officer): Shareholders' Meeting called to approve the 2018 financial statements		The pension plan, to which Jacques Aschenbroich is entitled, is described in this section, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan", pages 151 and 152. At December 31, 2017, Jacques Aschenbroich's supplementary pension benefits represented 18% of his reference salary(2) and 4% of his variable reference compensation(3), i.e., a yearly pension allowance of 227,294 euros (it being specified that social security contributions at a rate of 32% are payable by the Company on annuities paid).		The non-competition payment is described in this section, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition payment", page 152).

(1) Following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors by a unanimous decision of the members of the Board of Directors on February 18, 2016 (Jacques Aschenbroich did not take part in the vote), Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer, Jacques Aschenbroich notified the Board of Directors of his decision to waive, as from his appointment on February 18, 2016, his right to termination benefits. At its meeting on February 18, 2016, the Board of Directors duly noted his decision.

(2) Jacques Aschenbroich's reference salary, which is the average of the last 36 months of fixed compensation and excludes the variable component and exceptional compensation, amounted to 962,169 euros at December 31, 2017.

(3) Jacques Aschenbroich's reference variable compensation, which is the average of the last 36 months of variable compensation received, amounted to 1,352,579 euros at December 31, 2017.

3.3.2 Compensation of non-executive corporate officers

Non-executive corporate officers receive attendance fees for their presence at Board of Directors and committee meetings.

In accordance with the French Commercial Code, the Internal Procedures and the internal procedures of the Compensation Committee, the Board of Directors has powers to decide how attendance fees should be allocated. It bases its decision on the rules recommended by the Compensation Committee for allocating these attendance fees and the suggested amounts payable to each director, taking into account directors' attendance rates at Board of Directors and committee meetings.

Following the Shareholders' Meeting of May 26, 2016, the budget for attendance fees was set at 1,100,000 euros for 2016 and subsequent years until a new decision of the Shareholders' Meeting, compared to 700,000 euros at the Shareholders' Meeting of May 21, 2014. This decision was taken by the Shareholders' Meeting of May 26, 2016 after considering that (i) according to a study of directors' compensation of companies in the CAC 40 index, the average amount paid to Valeo's directors was lower than the average reported for these companies, (ii) the number of directors eligible for attendance fees was going to increase following the appointment of the two new women directors decided by the Shareholders' Meeting, (iii) as from the end of his term of office as Chairman of the Board of Directors on February 18, 2016, Pascal Colombani had been receiving attendance fees as a director (which was not the case when he was an executive corporate officer), and (iv) the Lead Director would receive additional attendance fees for the performance of his duties.

Since the approval of the new budget for attendance fees at the Shareholders' Meeting of May 26, 2016, the rules for allocating attendance fees have been as follows:

(i) each director receives:

- fixed portion: 25,000 euros/year,
- variable portion: 3,000 euros/meeting attended;

(ii) each director who is a member (but not Chairman) of a Board Committee also receives:

- fixed portion: 0,
- variable portion: 3,000 euros/meeting attended;

(iii) the director who is also Chairman of the Audit & Risks Committee also receives:

- fixed portion: 15,000 euros/year,
- variable portion: 3,000 euros/meeting attended;

(iv) each director who is also Chairman of a Board Committee (other than the Audit & Risks Committee) also receives:

- fixed portion: 12,000 euros/year,
- variable portion: 3,000 euros/meeting attended.

These payments are not capped. However, if the budget of 1,100,000 euros set by the Shareholders' Meeting of May 26, 2016 in its eleventh resolution is exceeded, the following formula is applied:

$$\frac{\text{Fees paid to an individual director}}{\text{Total fees paid to all directors}} \times 1{,}100{,}000 \text{ euros}$$

Attendance fees are paid every six months, according to the following attendance rules:

- the fixed portion is paid in full; and
- the variable portion is paid based on the number of meetings that the director has actually attended.

Since February 12, 2009, no corporate officer has received attendance fees in respect of the positions he/she holds within the Group. Acting on the recommendation of the Appointments, Compensation & Governance Committee, the Board of Directors' meeting on February 12, 2009 decided that attendance fees would no longer be payable to the Chairman and Chief Executive Officer for offices held within the Group. Again, acting on the recommendation of the Appointments, Compensation & Governance Committee, the Board of Directors' meeting on April 9, 2009 decided that attendance fees would no longer be payable to the Chairman of the Board of Directors and the Chief Executive Officer for offices held within the Group.

At its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, confirmed the maintenance of this rule following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors by a unanimous decision of the members of the Board of Directors on February 18, 2016 (Jacques Aschenbroich did not take part in the vote), Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the positions of Chairman of the Board of Directors and Chief Executive Officer. Under the 2017 and 2018 Compensation policy, the Chairman and Chief Executive Officer does not receive attendance fees for his offices held within the Group.

The compensation of the Lead Director is equal to the fixed portion and variable portion that he/she receives as director for a given year, in accordance with the Board of Directors' decision of October 21, 2015.

Apart from Jacques Aschenbroich, no Board member was paid any other compensation or benefits by the Company during the year other than attendance fees. No director was allocated stock subscription or purchase options or performance shares. No director holds any stock subscription or purchase options.

The amount of attendance fees paid to each director in 2017 is outlined in the table below.

Summary of attendance fees and other compensation paid to corporate officers (AMF Table no. 3)

Attendance fees paid to Board members amounted to 893,937.50 euros in 2017, compared with 916,231.68 euros in 2016. Attendance fees were distributed as follows:

(in euros)	Attendance fees 2016	Attendance fees 2017	Other compensation (fixed, variable or exceptional compensation, benefits in kind) 2016	Other compensation (fixed, variable or exceptional compensation, benefits in kind) 2017
Executive corporate officers				
Jacques Aschenbroich	-	-	2,220,034	2,652,277
Non-executive corporate officers				
Bruno Bézard (coopted on October 24, 2017)	-	10,687.50		
Gérard Blanc (term ended on May 23, 2017)	58,000.00	30,500.00	-	-
Daniel Camus	79,000.00	79,000.00	-	-
Pascal Colombani	104,583.33[(1)]	73,000.00	50,000	-
Éric Chauvirey (appointed on June 30, 2017)	-	30,500.00	-	-
Jérôme Contamine (resigned on September 30, 2017)	48,769.23	39,750.00	-	-
C. Maury Devine	61,000.00	64,000.00		
Sophie Dutordoir (term ended on May 23, 2017)	67,000.00	24,500.00	-	-
Michel de Fabiani	85,000.00	85,000.00		
Mari-Noëlle Jégo-Laveissière	29,972.53	55,000.00		
Noëlle Lenoir	61,000.00	61,000.00	-	-
Thierry Moulonguet	70,000.00	70,000.00	-	-
Georges Pauget	136,703.29	131,000.00	-	-
Ulrike Steinhorst	88,230.77	88,000.00	-	-
Véronique Weill	26,972.53	52,000.00		
TOTAL	**916,231.68**	**893,937.50**	**2,270,034**	**2,652,277**

(1) Including 59,750 euros (gross) for assistance to the Chairman and Chief Executive Officer and the Lead Director provided by Pascal Colombani after the end of his term of office as Chairman of the Board of Directors on February 18, 2016 to manage the governance transition and to prepare the Shareholders' Meeting of May 26, 2016.

3.3.3 Overall compensation of other Group executive managers

The other executive managers are members of the Operations Committee, which at December 31, 2017 was made up of 14 members and the Chairman and Chief Executive Officer. The total gross compensation paid to the members of the Operations Committee (excluding the Chairman and Chief Executive Officer) came to 10,678,869 euros in 2017 (compared with 10,406,581 euros in 2016), of which 5,827,398 euros in fixed compensation, 4,750,867 euros in variable compensation, 84,484 euros in benefits in kind, and 16,120 euros in profit-sharing and incentive compensation bonuses. The compensation policy for Group managers is described in Chapter 4, section 4.4.2, paragraph "Employee Compensation", pages 228 to 229.

At its meeting on March 22, 2017, acting on the recommendation of the Compensation Committee, the Board of Directors decided to allot free shares or performance shares to employees and corporate officers pursuant to the twentieth resolution of the Shareholders' Meeting on May 26, 2016, including:

- 121,545 performance shares to the Operations Committee members (excluding Jacques Aschenbroich);
- 47,096 performance shares to the Liaison Committee members (other than the Operations Committee members);
- 246,880 performance shares to the main direct reports of the Liaison Committee members;
- 545,492 free shares (maximum), not subject to performance criteria, including (i) 498,992 free shares allotted to all the Group's employees in France and in countries not participating in the Shares4U employee share ownership plan and the international contribution as part of the Shares4U employee share ownership plan, and (ii) 46,500 free shares to high-potential managers.

The performance shares allotted by the Board of Directors to the Operations Committee members (excluding Jacques Aschenbroich) at its meeting on March 22, 2017, acting on the recommendation of the Compensation Committee, are subject to the same performance criteria, performance assessment methods and target returns as the performance shares allotted to the Chief Executive Officer by the Board of Directors on the same day (described in section 3.3.1 of this chapter, paragraph "Long-term compensation – Allotment of performance shares", page 151).

Furthermore, the performance shares allotted to the Liaison Committee members (other than the Operations Committee members) and the main direct reports of the Liaison Committee members by the Board of Directors at its meeting on March 22, 2017, acting on the recommendation of the Compensation Committee are contingent on the achievement of the two performance criteria: operating margin and ROCE. These criteria will be met if, for each of them, the average over the three years of the reference period of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one, it being specified that the target return set by the Board of Directors may not be modified subsequently.

For 2017, the performance assessment method and target returns for the relevant performance criteria are the same as those applicable to the performance shares allotted to the Chairman and Chief Executive Officer on the same day (described in section 3.3.1 of this chapter, paragraph "Long-term compensation – Allotment of performance shares", page 151).

For beneficiaries of performance shares, except non-French tax residents, the performance shares will vest after the expiration of a three-year vesting period and are then subject to a two-year holding period. For beneficiaries who are non-French tax residents, the performance shares will vest after the expiration of a five-year period with no holding period requirement.

Free shares that are not subject to performance criteria will vest after the expiration of a three-year vesting period, and the beneficiaries must hold the shares for a two-year period. However, this vesting period will be five years for beneficiaries who are non-French tax residents. In exchange, they are exempt from the minimum holding period.

All performance shares will be allotted to such employees and executive managers provided, in particular, that (i) the beneficiary's employment contract is still valid, and (ii) the vesting date does not fall during the notice period following the beneficiary's resignation, dismissal or contract termination, unless provided otherwise (such as in the case of death, total and permanent disability, retirement, early retirement, the sale of the beneficiary's entity, or the Board of Directors' decision).

In accordance with the Group's Code of Conduct, the members of the Operations Committee and the Liaison Committee must not engage in hedging transactions over Valeo's securities (including performance and/or free shares).

The free shares or performance shares allotted to employees and corporate officers (including Jacques Aschenbroich) during 2017 had a limited dilutive impact and represented 0.32% of the Company's share capital at December 31, 2017. All the shares to which the stock purchase options give access and the free shares or performance shares allotted to employees and corporate officers (including Jacques Aschenbroich) since 2010 represented respectively 2.08% and 3.53% of the Company's share capital at December 31, 2017.

At its meeting on October 20, 2009, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to implement a supplementary pension plan to replace the existing plans for Group executives in office at the date of the plan, including Jacques Aschenbroich. Entitlements under the old plan were frozen at December 31, 2009. At its meetings on February 21, 2012 and January 23, 2014, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to adjust the supplementary pension plan offered to the Group's senior executives.

The main characteristics of the supplementary pension plan are as follows:

- cap due to the nature of the plan: additional pension of 1% of the reference salary per year of service, starting on the employment date with the Group for the new beneficiaries of the plan and starting on January 1, 2010 for the beneficiaries of the previous plans whose entitlements were frozen at December 31, 2009, up to a maximum of 20%, which complies with and is even lower than the maximum percentage recommended by the AFEP-MEDEF Code that establishes a maximum percentage of 45% of the fixed and variable compensation due for the reference period;
- cap on the basis for determining entitlements: total pension entitlements, all plans combined, are capped at 55% of the reference salary;
- the reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation – itself equal to the average variable compensation received over the last 36 months – received for working full time within the Group;
- payment of benefits to the surviving beneficiary in the event of the death of an active contributor if the event occurs after the legal voluntary retirement age.

As regards the Chairman and Chief Executive Officer, since February 18, 2016, the accrual of conditional supplementary pension rights has been contingent on a performance condition deemed to have been achieved if his variable compensation paid in year Y+1 for year Y amounts to 100% of his fixed compensation payable for year Y. If his variable compensation was less than 100% of his fixed compensation, rights accrue on a prorata basis (see section 3.3.1 of this chapter, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan", page 155).

In order to be eligible for the supplementary pension plan, Valeo, or one of its subsidiaries, must be the beneficiary's last employer before settlement of the pension entitlements, but the beneficiary does not need to be present in the Group at the time of the settlement of the entitlements at the statutory retirement age under the general social security regime. Jacques Aschenbroich was credited with five years of service upon taking up his tenure (see section 3.3.1, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan", page 155).

Further to the Board of Directors' decision on July 20, 2017, this pension plan, which came into effect on January 1, 2010, was closed to new members on July 1, 2017. A new "Article 83" defined contribution supplementary pension plan is currently being created. It will be open to those members of the above-defined benefit plan who wish to join (except for Jacques Aschenbroich, to whom the old plan will continue to apply), and to all employees in France whose compensation is more than four times the Social Security ceiling.

3.3.4 Information about stock subscription and purchase options and performance shares

The stock subscription and purchase option and performance share allotment policy for executive corporate officers is described in section 3.3.1 of this chapter, paragraphs "Overview of the 2017 Compensation Policy for the Chairman and Chief Executive Officer", page 142, and "Long-term compensation – Allotment of performance shares", page 151. The policy for other beneficiaries is described in section 3.3.3 of this chapter, "Overall compensation of other Group executive managers", page 163.

Stock purchase options and free shares are also detailed in Chapter 6, section 6.6.2 "Other securities giving access to the share capital – Stock purchase option and free share plans".

Stock subscription and purchase options allotted and exercised during the year (AMF Table no. 9)

Stock subscription and purchase options allotted to the ten employees receiving the greatest number of options and options exercised by the ten employees exercising the greatest number of options, excluding corporate officers	Number of options allotted/exercised	Weighted average strike price	Expiration date	Date of Board meeting
Options allotted in 2017 by Valeo and/or other Group companies to the ten employees of the issuer or other Group companies receiving the greatest number of options	-	-	-	-
Options held on Valeo and/or other Group companies, and exercised during the year by the ten employees of the issuer or other Group companies with the greatest number of options exercised	113,850	€12.30	06/23/2018 06/07/2019 03/26/2020	06/24/2010 06/08/2011 03/27/2012

Performance shares allotted during the year

Performance shares allotted to the ten employees receiving the greatest number of performance shares, excluding corporate officers	Number of performance shares allotted	Date of Board meeting
Performance shares allotted by Valeo to the ten employees of Valeo or related entities, as defined in Article L.225-197-2 of the French Commercial Code, who received the greatest number of such shares[1]	104,380	03/22/2017

(1) Valued at 52.91 euros under IFRS.

Pensions and other post-employment benefits and related provisions

At December 31, 2017, the total amount of provisions set aside by Valeo or its subsidiaries for the payment of pensions or other post-employment benefits to members of the Board of Directors and other executive managers of the Group came to 13 million euros, as opposed to 14 million euros at December 31, 2016.

At December 31, 2017, total provisions set aside and the total amount paid by Valeo or its subsidiaries for these benefits to former Board members or other executive managers of the Group came to, respectively, 2 million euros (as opposed to 3 million euros at December 31, 2016) and 283,099 euros (as opposed to 303,873 euros at December 31, 2016).

4 —

SUSTAINABLE DEVELOPMENT

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

INTERVIEW

"OUR RECRUITMENT OF NEW SKILLS MATCHES THE FOCUSES OF OUR RESEARCH"

JACQUES ASCHENBROICH

JACQUES ASCHENBROICH
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

WHAT MAKES SUSTAINABLE DEVELOPMENT CENTRAL TO VALEO?

J.A. A commitment to sustainable development is embedded in Valeo's DNA.

As a technology company, Valeo offers innovative products and systems that help reduce CO_2 emissions and promote the development of an intuitive, connected and more autonomous driving experience.

Today, Valeo's strategic decision to contribute to the transition toward sustainable mobility has been validated by our customers. As such, innovations[1] accounted for 50% of order intake in 2016 and 2017. In addition, products that directly or indirectly contribute to reducing CO_2 emissions accounted for more than 50% of Valeo's original equipment sales in 2017.

HOW IS THE GROUP'S SUSTAINABLE DEVELOPMENT POLICY STRUCTURED?

J.A. At Valeo, sustainable development is built on four key axes: innovation, environmental eco-efficiency, employees and commitment to corporate citizenship. It pervades all the areas where the Group interacts with stakeholders, both internally and outside the Group.

Since 2010, at my request, Valeo has had a function and department dedicated to sustainable development. Its role within the Group is to define the sustainable development policy and coordinate work in this area. Outside the Group, it is tasked with ensuring the consistency of the messages shared with external stakeholders, be they our customers or analysts that monitor our performance in this area, all of which are becoming increasingly discerning. Other Group functions, including Research and Development, Risk Insurance, Health, Safety and Environment, Human Resources, Ethics and Compliance, and Purchasing, also make a direct contribution to sustainable development in their respective fields, and have developed their own tools for taking action and assessing performance.

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

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

WHAT WERE THE HIGHLIGHTS OF 2017?

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

For the environment, Valeo pursued its strategy and objectives in terms of reducing natural resource consumption and reining in CO_2 emissions. Since 2008, Valeo has significantly reduced consumption (as a proportion of sales) of water (by 52%), energy (by 33%) and packaging (by 27%). Direct and indirect CO_2 emissions (as a proportion of sales) have been cut by 7% compared with 2009.

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

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

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

With regard to the Group's commitment to corporate citizenship, the Plants' Initiatives program, which has been in place in each of our sites since 2008, represents a wide range of social initiatives targeting both our employees and the neighboring local communities. In 2017, each site organized at least one such initiative, with priority going to ideas for schools, technology institutes and universities. Initiatives in this area are monitored closely by the Group, and are improving and flourishing.

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

WHAT ARE THE CHALLENGES FOR THE COMING YEARS?

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

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

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

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

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

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

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

March 29, 2018

(1) Corporate social responsibility.
(2) Canada-based group specializing in services for financial markets professionals and in economic and financial news, with a special focus on sustainable development issues.
(3) Dow Jones Sustainability Index (DJSI World and DJSI Europe).

4.1 Valeo and sustainable development: strategy, policy and organization

4.1.1 Sustainable development challenges

To determine its key sustainable development challenges, Valeo has carried out a materiality analysis to:

- enable stakeholders to better comprehend their interactions with Valeo;
- give its Research and Development (R&D), environmental, labor-related and social data sharper focus on key issues of significance for the Group and its stakeholders;
- reinforce the relevance and quality of information put forward by the Group.

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

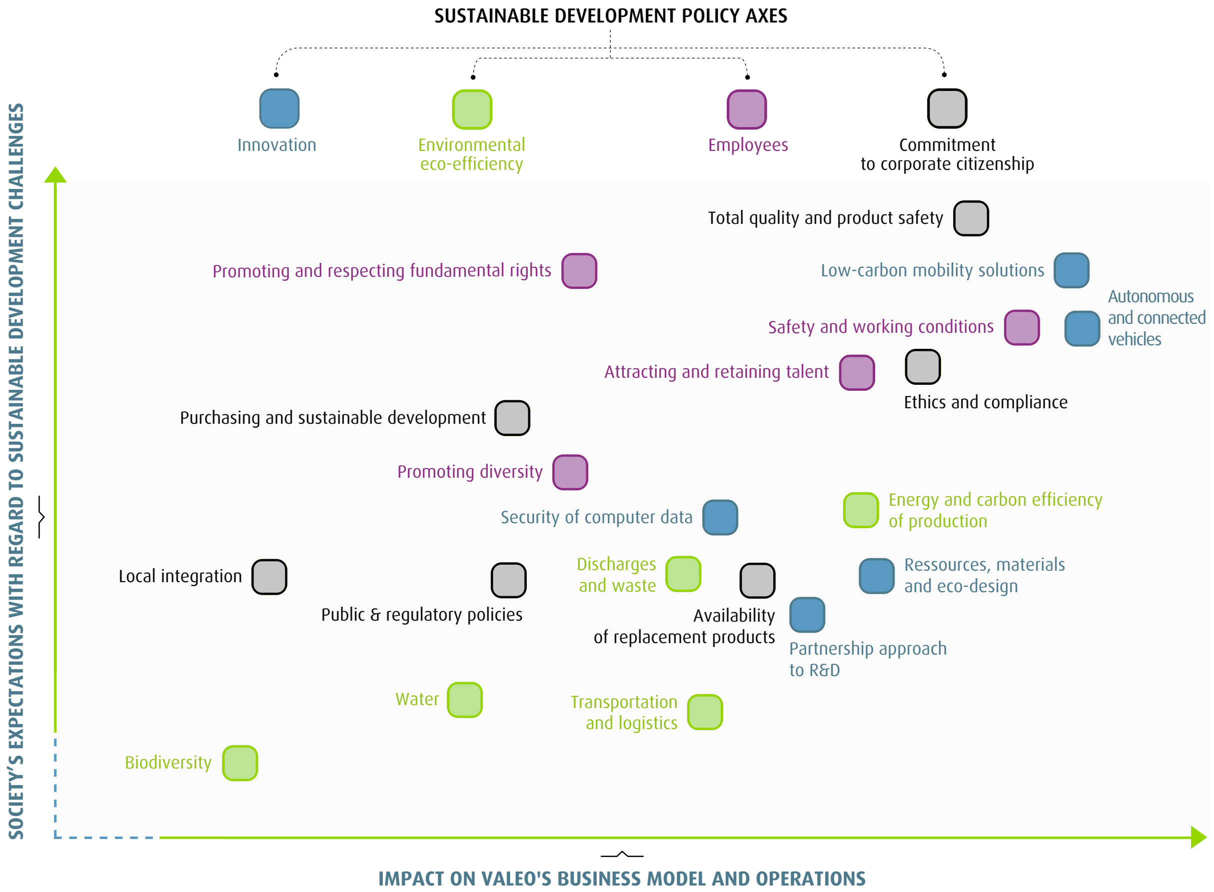
- a series of interviews with Valeo's various departments (Purchasing, Health, Safety and Environment (HSE), Research and Development, Human Resources, Sales and Business Development) and country management teams;
- a documentary review (non-financial questionnaires, survey results, etc.);
- specific interviews and requests from the Group's stakeholders in respect of sustainable development (automakers, civil society, specialist press, non-financial analysts, etc.).

The identification of relevant or so-called material challenges resulted in the preparation of a materiality matrix (below) built around the following four axes: **innovation, environmental eco-efficiency, employees and commitment to corporate citizenship.** A total of 20 challenges have been identified. This chapter describes the relevance, approach, performance, and achievements of the year and outlook for each of these challenges. It provides a description of all key sustainable development performance indicators and the main tools used within the Group.

In 2017, Valeo submitted its materiality matrix to be thoroughly examined by various stakeholders in order to continue the process of comparing the challenges identified by the Group with the perception that external stakeholders have of them. This approach led Valeo to modify some of the challenges relating to the employee axis compared with 2016 by:

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

▶ **Materiality matrix plotting the sustainable development challenges**



4.1.2 Sustainable development governance and structure

The organization of sustainable development at Valeo

Sustainable development policy spans all of the Group's functions and networks and is designed to dovetail with Valeo's business objectives and policies.

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

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

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

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

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

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

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

The interview was an opportunity to:

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

4.1.3 Non-financial risks AFR

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

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

Non-financial risks: identification, analysis and definition

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

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

Risks and opportunities related to the impacts of climate change

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

In 2009, Valeo drew up a strategy aimed primarily at positioning the Group on technologies that reduce CO_2 emissions and promote autonomous and connected mobility (see the "Strategy" section of the Integrated Report, paragraph "The three automotive revolutions, offering Valeo new growth opportunities", page 14). This strategic choice aims to enable the Group to seize the opportunities offered by the mass-market penetration of technologies promoting low-carbon mobility.

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

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

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

(1) Law no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization.
(2) Law no. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.
(3) Article L.225-100-1 of the French Commercial Code.
(4) Including CDP Climate Change, a non-financial questionnaire assessing the transparency and performance of the sustainable development of enterprises, organizations and other bodies, which has developed one of the leading methodologies for monitoring risks and opportunities related to climate change.
(5) Established as a forum in 1999 at the initiative of the G7, the Financial Stability Board (FSB) was institutionalized by the G20 Heads of State at the 2009 London Summit. Its main purpose is to strengthen the international coordination of reform in respect of financial regulations. To this end, the FSB monitors the implementation of such reforms, notably through mutual assessments, by promoting cooperation between authorities and assessing financial sector vulnerabilities, including vulnerabilities to climate change.

Changes in regulations regarding reductions in greenhouse gas emissions

Keeping up with such changes and developing products that meet increasingly demanding environmental standards can directly affect the Group's future sales, as can failure to do so (see Chapter 2, section 2.1.1 "Risks relating to the development and launch of new products", page 73).

To guide the Group's strategic choices, the Product Marketing teams seek to anticipate medium- and long-term market trends stemming from regulatory changes and changing consumer expectations.

In addition, for many years Valeo has had dedicated teams by product and by country who monitor regulatory developments. This monitoring is integrated into product development tools, and allows R&D and Projects teams to anticipate and comply with new regulations.

The ability to anticipate such changes has enabled the Group to become an expert in vehicle hybridization (micro-, mild-, full-, plug-in hybrid) and as such to offer technological solutions essential to powertrain electrification and battery thermal management (see the "Strategy" section of the Integrated Report, paragraph "The three automotive revolutions, offering Valeo new growth opportunities", page 14). Thus, products that directly or indirectly contribute to reducing CO_2 emissions accounted for more than 50% of Valeo's original equipment sales in 2017.

Changes in consumer behavior

Climate change, increasing urbanization in many countries, the determination of consumers and the development of regulations to reduce CO_2 emissions are prompting greater demand for new types of vehicles (hybrid, electric, etc.) and new forms of vehicle use (shared mobility, on-demand mobility, etc.).

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

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

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

Intensification of natural events

Some of Valeo's operations are located in areas at risk of exceptional natural events. This has prompted the implementation of the preventive measures described in Chapter 2, section 2.1.1 "Environmental or accidental risks", page 78.

4.1.4 Sustainable development policy in the Group's business AFR

General sustainable development policy

Valeo's sustainable development approach is based on:

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

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

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

Valeo's commitment to the circular economy

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

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

Measuring the Group's overall sustainable development performance

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

Measuring progress involves identifying a major challenge for each theme, and evaluating the achievement of the associated targets through one or more key performance indicators. The following performance chart sets out the Group's main objectives and key performance indicators.

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

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

Performance chart showing the key objectives and performance indicators of the Group's sustainable development policy

AXES	CHALLENGES	KEY INDICATORS	UNIT	2015 RESULTS	2016 RESULTS	2017 RESULTS	TARGETS (2020)
INNOVATION	Low-carbon mobility solutions/ Autonomous and connected vehicles	■ Share of innovative products in order intake(1)	■ % of order intake	37%	50%	50%	>40%
		■ Share of products contributing to the reduction of CO_2 emissions (as a % of sales)	■ as a % of sales	N/A	50%	50%	N/A
ENVIRONMENTAL ECO-EFFICIENCY	Energy and carbon efficiency of production	■ Energy consumption (divided by sales)	■ MWh/€m	143	137 (-4%(2))	134 (-6%(2))	132 (-8%(2))
		■ Direct (scope 1) and indirect (scope 2) emissions (divided by sales)	■ Mt CO_2/€m	56.3	56.6 (+0.5%(2))	55.6 (-1%(2))	51.8 (-8%(2))
		■ ISO 50001 certification (energy management) of sites	■ % of sites	8%	12%	13%	20%
	Discharges and waste	■ Production of hazardous and non-hazardous waste (divided by sales)	Mt/€m	16.4	17.0 (+4%(2))	16.6 (+1%(2))	15.6 (-5%(2))
	Water	■ Water consumption (divided by sales)	cu.m/€m	198	184 (-7%(2))	175 (-12%(2))	186 (-6%(2))
EMPLOYEES	Safety and working conditions	■ Frequency rate of occupational accidents with lost time (FR1)	Number of lost-time accidents/million hours worked	2.4	2.3	2.0	<2
	Attracting and retaining talent	■ Voluntary turnover of managers and professionals	% of the M&P workforce	6.7%	7.0%	7.3%	≤7%
	Promoting and respecting fundamental rights	■ Share of employees who acknowledged receipt of the Code of Ethics and who were trained on its content	% of total workforce	N/A	95.0%	95.0%(3)	100%
	Promoting diversity	■ Share of women in new hires during the year	% of new hires during the year	32.4%	31.2%	32.0%	>33%
COMMITMENT TO CORPORATE CITIZENSHIP	Purchasing and sustainable development	■ Share of production purchases for which the suppliers' sustainable development practices were assessed during the year	% of the amount of purchases	60%	63%	67%	80%
	Local integration	■ Organization of initiatives and events by the Valeo sites with the elementary and secondary schools in the regions where they operate	% of sites	N/A	N/A	48%	80%

(1) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.
(2) Change compared with 2015.
(3) 100% not yet achieved, mainly due to the integration phase following recent external growth transactions.

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

For the "innovation" commitment, the Group has not set a target for the "share of products contributing to the reduction of CO_2 emissions in the Group's sales" indicator (see the above chart).

This is because of the ongoing diversification of Valeo's product portfolio, in line with the current and future growth of products inspired by the two other automotive industry revolutions identified by Valeo, namely the autonomous vehicle and digital mobility, for which reducing CO_2 emissions is not a decisive factor (see section 4.2.1 of this chapter, "From analysis of megatrends to the vehicle concept of tomorrow", pages 181 to 182).

Valeo's duty of care plan

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

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

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

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

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

Identification and definition of risks

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

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

Regular assessment of the situation of subsidiaries, subcontractors and suppliers

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

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

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

Initiatives to mitigate risks or prevent serious threats

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

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

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

(1) Law no. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.
(2) Pursuant to the provisions of Article 1 of the aforementioned law.
(3) Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

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

A whistleblowing and reporting mechanism

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

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

Recognition of Valeo's commitment to sustainable development

Valeo saw its non-financial performance acknowledged by various rating agencies in 2017, reflecting the successful cross-functional deployment of sustainable development and communication that respects the principles of transparency, rigor and relevance.

Organization	Rating
Carbon Disclosure Project (CDP)	A- Leadership[2]
MSCI ESG Rating	A Ranked no. 3 among automotive suppliers
OEKOM	B-, prime Industry leader[2] (ranked no. 1 among automotive suppliers)
RobecoSAM (DJSI)	79/100 Industry leader[2] (ranked no. 1 among automotive suppliers)
Sustainalytics	84/100 Leader[2]

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

RobecoSAM[3] assessed Valeo's sustainable development initiatives (governance, risks, R&D, environment, labor issues, and corporate citizenship, etc.), placing the Group at the forefront of the automotive suppliers sector for the second consecutive year, with a score of 79 out of 100 in 2017. Valeo is also part of the DJSI (Dow Jones Sustainability Index) World and Europe indices.

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

Valeo also featured in several non-financial indices in 2017, in particular:

- DJSI (Dow Jones Sustainability Index) Europe
- DJSI World
- Ethibel Sustainability Index (ESI) Excellence Europe
- Euronext Vigeo Europe 120
- Euronext Vigeo Eurozone 120
- FTSE4Good Global Index
- Low Carbon 100 Europe
- MSCI ACWI Sustainable Impact Index
- STOXX® Global ESG Leaders

ROBECOSAM
Sustainability Award
Bronze Class 2018

(1) *Law no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization, known as the Sapin II law.*
(2) *Status conferred by the rating agency during the year.*
(3) *See Sustainable Development Glossary, page 267, for a description of each agency.*

4.1.5 A sustainable development policy based on strong relationships with stakeholders

A multi-stakeholder approach

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

Valeo offers a comprehensive picture of its sustainable development policy based on an analysis of its relationships with stakeholders. The analysis states the type of stakeholder, the objectives and the form of dialog. The table below underscores the Group's responsible approach, taking into account changes in the automotive industry, demand from stakeholders and the Group's determination to meet the highest expectations laid down in the major international standards in this area.

▶ Types of dialog with stakeholders

	Stakeholders	Objective of dialog	Sample responses and types of dialog undertaken
Customers	■ Automakers ■ Distributors	■ Design, develop, manufacture and market innovative products and systems for sustainable mobility	■ Technology steering committees ■ Customer meetings ■ Market trend studies
Employees	■ Valeo employees ■ Professional organizations ■ Administrative and governmental authorities ■ Employer representative bodies ■ Employee representative bodies and labor unions ■ Social security organizations	■ Ensure ongoing dialog with employees ■ Ensure ongoing dialog with the leaders of various labor unions and professional organizations	■ Annual survey of employee commitment ■ Diversity program ■ Well-Being at Work program ■ Collective bargaining ■ Dialog with labor unions and employers' associations
Research and Development partners	■ Research partners and subcontractors ■ Start-ups and accelerators ■ Venture capital firms ■ Laboratories ■ Universities ■ Independent public bodies ■ Certification and control bodies	■ Establish cooperative and industry-oriented Research and Development ■ Organize transfers and exchanges of competences, techniques and know-how	■ Scientific events (conferences and congresses) ■ Collaborative research ■ Partnerships with universities and competitiveness clusters ■ Organization of technology days ■ Participation in technology platforms
Partners and suppliers	■ Lessors/tenants ■ Suppliers ■ Innovative SMEs	■ Cooperate and co-construct in compliance with competition law	■ Supplier integration ■ Selection committees ■ Calls for tender ■ Working groups
Institutions	■ Public authorities (governments) ■ European Commission ■ International organizations (UN, ITF, IFC, OECD, etc.)	■ Conduct economic, industrial and labor dialog in compliance with national, European and international laws and regulations	■ Communication on Progress of the UN Global Compact (once annually) ■ Dialog with national authorities ■ Dialog with the European Commission
Regions	■ Local authorities ■ Local government ■ Associations ■ Civil society	■ Ensure positive development interaction between the Group and its local ecosystem	■ Dialog with employment agencies ■ Dialog with local authorities ■ Dialog with local stakeholders (associations, NGOs, etc.)
Financial community and individual shareholders	■ Shareholders/institutional investors ■ Individual shareholders ■ Credit and non-financial rating agencies ■ Banks ■ Insurers ■ Statutory Auditors	■ Adopt a dialog-based approach building on the relevance, rigor and transparency of information relating to the Group	■ Meetings with investors and analysts (including SRI(1)) ■ Financial results presentations ■ Shareholders' Meeting ■ Dialog with financial and non-financial rating agencies ■ Website and digital resources (webzine, flash e-newsletter, shareholders' letters, etc.)

(1) SRI: socially responsible investors.

Dialog with industry stakeholders

Within the Automotive Industry Platform (*Plateforme de la filière automobile* – PFA), Valeo supported entering into dialog with stakeholders, drawing on a panel of various French and European public bodies and international organizations, representatives of local authorities, private automotive companies, infrastructure managers and urban planning agencies, as well as representatives from civil society and environmental NGOs.

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

Valeo has furthered this dialog through several stages:

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

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

Valeo, a key driver of a sustainable automotive industry

As a responsible player within the French automotive industry, Valeo contributes to the Automotive Future Fund (*Fonds Avenir Automobile* – FAA), formerly the Tier 2 Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Équipementiers Automobiles Rang 2)*.

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

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

- in France, Valeo took part in creating the Automotive Industry Platform (*Plateforme de la Filière Automobile* – PFA), which works to improve customer-supplier relationships and in turn to better align research and production;
- in Germany, Valeo participates in working groups of the *Verband der Automobilindustrie* (VDA), the German automotive industry body;
- in Europe, Valeo is involved in collaborative, precompetitive research through the European Road Transport Research Advisory Council (ERTRAC), the European Commission's technology platform for research on road transportation (see section 4.2.4 of this chapter, "European Road Transport Research Advisory Council (ERTRAC)", page 193);
- Valeo is also a member of the French-Chinese automotive industry working group coordinated by the two countries' respective ministries of industry;
- in the United States, Valeo works with research teams from the National Highway Traffic Safety Administration (NHTSA);
- Valeo seeks to maintain relationships with major cities as a provider of solutions for smarter, low-carbon mobility facilitating the emergence of smart cities.

Valeo, a responsible partner

In 2013, Valeo surveyed its suppliers with a view to gaining a better understanding of their overall sustainable development initiatives, based on economic (plant optimization), environmental (certification) and labor-related (labor law) criteria.

This assessment involved work to identify and support suppliers in their sustainable development approach and their business relationships with the Group (see section 4.5.3 of this chapter, "Application of sustainable development principles in purchasing processes", pages 243 to 248).

Valeo and the United Nations Sustainable Development Goals

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

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

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

- **sustainable cities and communities** (goal no. 11), through the attention paid by Valeo to its plants' initiatives in favor of host communities. To this end, the Group's sites have forged numerous partnerships with local stakeholders, particularly in the world of education (see section 4.5.6 of this chapter, "Voluntary commitment to local communities", pages 250 to 252);
- **climate action** (goal no. 13), where initiatives have been closely monitored for many years, particularly in terms of reducing the plants' carbon footprints and water consumption. Since 2009, Valeo has reduced its direct and indirect CO_2 emissions as a proportion of sales by 7% (see section 4.3 of this chapter, "Environmental management and performance of Valeo's sites", pages 198 to 219); and
- **life on land** (goal no. 15), through Valeo's commitment to respect biodiversity in the areas surrounding its sites. Specific measures are put in place depending on the location and needs of the various sites. These measures are an integral part of the site's environmental certification (ISO 14001). In 2017, 95% of sites were ISO 14001-certified (see section 4.3.6 of this chapter, "Biodiversity", page 219).

4.1.6 Methodology

In the interests of transparency, the methodology of environmental, labor and social reporting is set out in the methodology section of this chapter (see section 4.6.1 of this chapter, "Sustainable development reporting methodology", pages 253 to 255).

Article 225 of the Grenelle II law of July 12, 2010, decree No. 2012-557 of April 24, 2012 on companies' obligation of transparency in respect of social and environmental issues, and the ruling of May 13, 2013 on audit engagements by independent third-party bodies provide for the verification of the non-financial information published by French companies by an independent third party.

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

- review of reporting processes: review of the scope, definitions of indicators, methods of calculation, consolidation processes and controls performed;
- site audits to verify the proper implementation of reporting procedures and the relevance of the information reported. This stage was rounded out by a review of consolidated information (review of the completeness and accuracy of the information);
- summary of the independent auditor's findings in the form of a limited assurance report including a statement of completeness and an opinion as to the accuracy of the information contained in the Management Report in respect of 2017. The report can be found in section 4.9 of this chapter, "Independent verifier's report on consolidated social, environmental and societal information presented in the management report", pages 268 to 270.

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

To make the report easier to understand and to show the Group's sustainable development accomplishments within the broader framework of major international standards in the field, Valeo decided in 2016 to review its action on the basis of the Core reporting option of the GRI 4 (Global Reporting Initiative) guidelines. A cross-reference table between the Global Reporting Initiative (GRI 4) standards and transparency requirements in respect of environmental, labor and social issues (Grenelle II) is also provided in section 4.6.2 "Cross-reference with national and international guidelines", pages 256 to 262.

4.2 Research and Development at Valeo: from megatrends to innovation

Effectively meeting market demand today, designing the car of tomorrow, anticipating users' future needs and inventing new needs through innovation and technology are the fundamental principles of Valeo's Research and Development strategy.

4.2.1 Group Research and Development policy

Challenges

The fundamental principles and challenges of the Group's Research and Development policy

Research and Development policy guidelines

To ensure that its products meet market expectations and anticipate future needs, Valeo bases its Research and Development (R&D) policy on predefined and complementary criteria aimed at making it:

- **far-sighted:** through the study and analysis of major social trends, Valeo is working on ten-year technology roadmaps, which anticipate future consumer demand and, as such, serve to establish the Group's key development thrusts;
- **integrated:** every Research and Development project is conceived and managed in response to megatrend studies. The latest innovations factor in social benefits and eco-design criteria, reduce the consumption of energy and raw materials, cut greenhouse gas emissions and offer tools helping to prevent accidents in the context of sustainable and safer mobility;
- **local:** trends and customer needs are studied from a local perspective. Accordingly, through the study of test groups of consumers, Valeo is able to adapt to the specific needs of certain markets (e.g., emerging markets) and to offer innovation that provides significant value-added to its customers;
- **customer-centric:** Valeo conducts regular in-depth surveys of groups of consumers to gauge the future consumption patterns of its end customers. In analyzing the results, the Group determines areas of work permitting these changes in society to be anticipated, thereby allowing it to respond to future demand;
- **collaborative:** Valeo develops collaborative solutions with numerous stakeholders. It focuses on multi-party development programs that make it possible to share expertise, reduce development costs and drive the commitment of its technical teams through partnerships with other players in the automotive industry or with universities and research centers, either within public/private partnerships or as part of European or French research programs.

Valeo's aim through this all-encompassing strategy is to be a catalyst, fostering the emergence of innovative technological solutions across its value chain.

From analysis of megatrends to the vehicle concept of tomorrow

Global trends indicate that the world population is set to grow, age and become more urban. Analysis of these upcoming trends determines Valeo's future strategy. It allows the Group to anticipate structural change in the industry and to develop its ability to respond to this change.

Urban mobility is also set to change in the coming years. Vehicles will be used differently (frequency, distance, autonomy, sharing), leading to different forms of user interaction with the vehicles of tomorrow.

Other factors must also be taken into account, such as new and tighter legislative requirements worldwide, especially in Europe (CO_2 emissions capped at 95 g/km by 2021) (see the "Trends" section of the Integrated Report, paragraph "Increasingly stringent regulations aimed at reducing air pollution", page 10).

These analyses have allowed Valeo to identify the following three major shifts in the automotive industry:

- **powertrain electrification,** which stems in large part from the following trends:
  - technologies contributing to the reduction of emissions of greenhouse gases and other pollutants are seeing growing demand from automakers as a means of complying with future legislation and avoiding financial penalties for non-compliance. Moreover, standards governing emissions of CO_2 and other pollutants such as nitrogen oxides and particulate matter are being reinforced in the major industrialized economies, particularly in North America and the European Union. In addition, cities across the world are lining up as new regulators, adapting urban infrastructure and encouraging new mobility behaviors through coercive regulations and "nudges" intended to curb noise and air (CO_2, nitrogen oxide [NOx] and fine particle emissions) pollution as well as the number of road accidents. Automotive suppliers, especially Valeo's Powertrain Systems (internal combustion engines, electric motors and transmissions) and Thermal Systems (climate control and engine cooling) Business Groups, can play a critical role alongside automakers in rising to these new challenges and meeting regulatory targets. Thus, products that directly or indirectly contribute to reducing CO_2 emissions accounted for more than 50% of Valeo's original equipment sales in 2017,

4

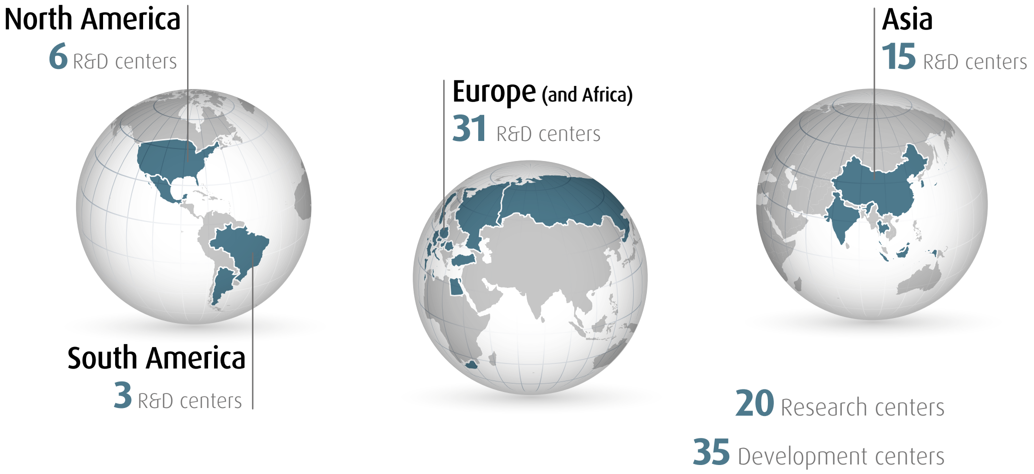
- the optimization of internal combustion engines, primarily through transmission automation (dual-clutch transmissions, etc.) and the development of new powertrain electrification solutions, helps to reduce fuel consumption. With this in mind, 48 V medium-voltage hybrid solutions offer powertrain electrification possibilities at a competitive price. High-voltage (over 60 V) electrification for electric vehicles and plug-in hybrids offer a significant reduction in CO_2, NO_x and fine particulate emissions, as well as the option of driving in zero-emissions mode, with a positive impact on public health, especially in urban areas,
- reducing fuel consumption is not the only way to reduce a vehicle's overall environmental footprint. Controlling energy and raw material consumption is currently the backbone of product development in the automotive industry, where vehicle eco-design is central to Research and Development. Using recycled materials and fewer scarce materials as well as reducing the carbon footprint of the supply chain are the teams' constant focus, as is reducing the weight of all products designed by Valeo. The aims in this respect are to achieve the CO_2 emissions reduction and environmental footprint objectives;

- **autonomous, connected and intuitive driving:**
  - like powertrain electrification, vehicle automation will spread gradually (though it already partially exists in the form of automated parking systems and advanced driver assistance features such as adaptive speed control, driving assistance in traffic jams, automatic emergency braking and lane departure warning systems). Automation must evolve to address increasingly complex urban driving situations as well as the lack of internet coverage assisting vehicles in their autonomous mobility in certain areas,
  - automated driving requires vehicles to become increasingly connected to their environment (other vehicles, urban infrastructure, etc.). As was the case with the rise of mobile telephony, connectivity will lead to the emergence of new services, such as remote, secure maintenance and updates of onboard software. Vehicle connectivity is one of the key avenues of support for full vehicle autonomy (levels 4 and 5 of autonomy),
  - to inform and reassure drivers, particularly when switching between automated and manual mode, automakers need to provide simple, fluid human-vehicle interfaces to make automation features easy to use. Such features enabling information and communication between the driver and the vehicle (also known as human-machine interfaces) also facilitate other activities (reading emails, etc.) during phases of autonomous driving;
- **new mobility-based services,** resulting in:
  - the implementation of digital platforms designed to meet growing mobility needs, especially by putting users in touch with mobility players offering more efficient mobility services, notably to optimize travel time, price and accessibility,
  - the development, especially in urban areas, of new forms of mobility, both in the type of use of the means of transportation (on-demand mobility, mobility services, etc.), but also in the combination of types of transportation (public transportation, individual vehicles, bicycles, etc.).

Approach

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

Research and Development worldwide in 2017



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

- the 20 research centers are dedicated to fundamental research, advanced engineering and the development of new product standards;
- the 35 development centers adapt standards in line with customer requirements and coordinate the work of launch and support teams together with front office personnel;
- project launch teams are tasked with managing the shift of new products to the manufacturing phase, while Research and Development teams can provide support in response to specific needs throughout the production phase;
- front office personnel work alongside customers, assisting with product definition and providing back-up for project teams;
- technical service centers possess specific cross-disciplinary competences, especially for the development of software and electronics.

In 2014, Valeo opened a research center in California. Located in the heart of the San Francisco Bay Area, it operates as a base for prospective monitoring by automakers and many other industries including consumer electronics, as well as universities and local start-ups. Its activities are focused on aspects related to intuitive driving, particularly research and innovation through advanced studies, collaborative projects and partnerships. Since 2016, the Group has also had a Mobility Tech Center in San Mateo, California.

In 2017, Valeo's Research and Development teams managed 2,800 projects – a direct result of the sharp rise in Valeo's order intake and the Group's strong presence in all automotive markets worldwide.

Valeo maintains a high level of effort in Research and Development in order to offer its customers, year after year, the best technological innovations to meet identified needs. In 2017, the Group's gross Research and Development expenditure totaled 1,895 million euros, representing almost 12% of its original equipment sales.

Promoting talent dedicated to Research and Development by providing ongoing training and adapting locally

Globally, the number of people working in Research and Development increased by 31% from 13,700 in 2016 to 17,900 in 2017. The Group's longstanding presence in France, where a significant portion of its research centers are located, meant that there were 3,858 employees dedicated to Research and Development in France in 2017.

A network of Experts and key training to foster innovation

Valeo has set up its own three-level network of Experts: Expert, Senior Expert and Master Expert. It has a total of 1,151 Experts (products and production processes). This corresponds to an increase of 26% compared with 2014 (835 Experts). It issues them with "research warrants" for periods of three years. They are tasked with defining best practices that will be incorporated into design standards and explaining them to newcomers. They are a driving force within the team, and are expected to spread their expertise throughout the network.

On top of its network of Experts, Valeo provides its engineers with ongoing training intended to foster innovation at all levels. As a result, the number of hours of training received by engineers recorded yet another year-on-year increase in 2017.

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

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

Valeo has stepped up the technical training program for its technicians and engineers, with hours of training increasing by 5.7% from 205,208 in 2016 to 217,045 in 2017. The increase in the technical training effort in 2017 came in support of the large-scale global deployment of new product life management (PLM) tools. It was made especially necessary by growth in the workforce, which requires constant integration to ensure that newly hired engineers are equipped with the R&D and industrial management standards and tools needed for Valeo projects. The extent of the increase reflects the key role of Research and Development training at Valeo, which has become one of the world's most innovative automotive suppliers by tirelessly instilling its best standards and practices among its teams, particularly through the Valeo Technical Institutes. Courses are now increasingly taught in e-learning format. They are run mainly through the Group's strong network of Experts. They are designed to provide advanced training on Valeo products, technologies and manufacturing processes. Calling on internal and external experts, and offering a large spectrum of training to Valeo Research and Development teams, the Technical Institutes are now a major part of the Group's innovation strategy, in the same way as the network of Valeo Experts.

Local expertise to meet the demands of new markets

Valeo prefers to hire its engineers locally. The idea is that local engineers can use their first-hand knowledge of local society, lifestyles and consumption patterns to analyze the needs of local customers and consumers. This is true in all countries where the Group operates, and particularly so in areas with high growth potential such as Central and Eastern Europe, Turkey, China, India, Southeast Asia, the United States and Mexico.

Valeo assists automakers and develops innovation aimed specifically at meeting demand from these new markets in a manner that is mindful of sustainable development challenges. The Group's capacity to adapt to local markets and their needs is a strong focus of its expansion.

Valeo focuses its Research and Development activity on competitively priced design solutions in countries with strong growth potential, using standardized practices that boost both efficiency and quality. As such, engineers at the VIPL (Valeo India Partnership Limited) Technical Services Center in India aim to develop low-cost projects designed for specific markets (Russia, India, Brazil, China, etc.).

Performance

The Group's key Research and Development performance indicators

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

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

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

An acknowledged Research and Development process: Valeo boasts a leading patent portfolio

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

Awards: a PACE award in 2017

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

This prize extends the list of PACE awards won over the years, including those for the high-output alternator in 2015, the Innovative Back-Over Protection System in 2014, the Air Intake Module in 2013, the AquaBlade™ wiper systems in 2012, the Park4U™ autonomous parking system in 2008, the Multi-Beam Radar – MBR system in 2007, the i-StARS micro-hybrid module in 2006 and the LaneVue™ lane departure warning system in 2005.

2017 highlights

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

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

4.2.2 Solutions that contribute to CO_2 emission reduction and to autonomous and intuitive driving

Challenges

To meet changing and increasingly stringent laws globally (in Europe, emissions capped at 95 g of CO_2/km in 2021, tougher safety regulations with Euro NCAP[(1)]), and stay abreast of market trends (see section 4.2.1 of this chapter, “From analysis of megatrends to the vehicle concept of tomorrow”), Valeo designs, develops, manufactures and markets products and solutions that help reduce CO_2 emissions and promote intuitive driving. Its activities are split between the four Business Groups (see Chapter 1, section 1.4 “Operational organization”, pages 42 to 59).

Approach

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

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

- reduced CO_2 and pollutant emissions (environmental aspect): products that directly or indirectly contribute to CO_2 emissions reduction accounted for more than 50% of Valeo’s original equipment sales in 2017;
- driving assistance for a safer, more connected and more autonomous vehicle (driving comfort and safety).

► **Summary of the main innovations in series production in 2017 and their impacts**

Innovation and technical features	Description	CO_2 impact or eco-design	Driving assistance for a safer, more connected and more autonomous vehicle
48 V belt-driven alternator-starter 	Hybridization combining traditional powertrains (gasoline and diesel) with a low-voltage (48 V) electric motor. Energy is recovered when the driver reduces speed or brakes. Cost per gram of CO_2 avoided using this system halved compared with hybrid vehicles currently available on the market.	5% to 10% reduction in fuel consumption depending on the application and measuring cycles. All-electric mode over short distances and in urban traffic jams.	
Electric supercharger 	A key element in downsizing and downspeeding (two related techniques to provide maximum low-end torque and optimize combustion) gasoline and diesel powertrains. Coupled with a micro- or mild-hybrid system, it uses electrical energy recovered in braking phases.	With 12 V architecture, fuel savings of between 8% and 10% through engine downsizing. Combined with a 48 V mild-hybrid system, the saving can be as high as 20%.	Faster acceleration, safer overtaking.
Very high-efficiency filter 	High-efficiency filter combating fine particles (< 2.5 μm) and allergens (when impregnated with active polyphenol in its anti-allergen version).	Reduction in the concentration of toxic pollutants in the vehicle cabin by means of a high-efficiency PM2.5 filter that traps almost 100% of ultrafine particles (< 2.5 μm).	
Air intake module of internal combustion engines 	Improved management of combustion through lower temperature, with variations better controlled.	Potential reduction of 2% to 3% in NO_x emissions on diesel vehicles through better distribution of the gas mixture from cylinder to cylinder.	Reduction of turbo lag (and greater driving pleasure) of up to 500 ms.
Battery thermal management modules 	Optimization of thermal management solutions for batteries designed for hybrid and electric vehicles.	Increased vehicle driving range and battery life.	

(1) *Euro NCAP provides consumers with a realistic and independent assessment of the safety performance of European cars.*
(2) *Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.*

Innovation and technical features	Description	CO_2 impact or eco-design	Driving assistance for a safer, more connected and more autonomous vehicle
BiLED™ headlamps 	100% LED headlamp technology with one lens used for both low- and high-beam headlamps.	Reduced electricity consumption.	Enhanced visibility and driving safety.
Remote Clean4U™ 	Improved windshield washing by a remote-controlled system that de-ices the windshield in less than one and a half minutes, and a debugging system to wash away insects with a specific cleaning fluid and adjusted movement of the wiper blades.	This function uses the AquaBlade™ wiper system, which halves the volume of cleaning fluid required, resulting in a weight gain of 2 kg.	Improved visibility in rainy conditions, reduced braking distance. Automated function.
Valeo Mov'InBlue™ 	Start-access system to lock, unlock and start the car, with remote control of applications (using Bluetooth®) combined with a car-sharing service for corporate fleets.	Impact on vehicle use and ownership. Simplification of car-sharing solutions.	Remote control of functions, key sharing.
Back-over Protection System 	Rear-view vision and maneuver support system combining ultrasonic parking assistance sensors and a rear-view camera.	Compact box for reduced weight and cost.	Obstacle detection within a field of four meters of the rear of the vehicle to ensure earlier warning of obstacles/hazards.
Remote Park4U™ parking assistance system 	A parking assistant that can perform both perpendicular and parallel parking, or enter and exit garages. Drivers can initiate and supervise the maneuver using their smartphone.	Reduction in traffic.	Parking assistance. Detection of obstacles. Automated parking.

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

Achievements

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

Valeo XtraVue

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

Valeo XtraVue uses a telematics antenna installed on the car, combined with a laser scanner and Valeo's vision camera system linked to a video stream of cameras from other connected vehicles and cameras on the road infrastructure. This information is merged to produce a clear and enhanced field of vision. External data is integrated using existing public 4G and V2V (Vehicle-to-Vehicle) networks.

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

The 48 V powertrain system for light electric vehicles

Valeo has designed a prototype full electric vehicle operating at low voltage (48 V). As countries and major cites become increasingly intent on reducing CO_2 emissions, this system, which made its debut at the CES in Las Vegas, offers a new angle on the future shape of urban mobility.

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

4

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

Kinetic rear light

Kinetic rear lights communicate with the surrounding environment by displaying pictograms and personalized messages. A car in automated driving mode equipped with the Kinetic system can inform the vehicle behind it whenever its sensors detect a hazardous situation, such as the need to make an emergency stop or a pedestrian about to cross the road.

Kinetic technology can also be used to personalize vehicles. For example, users will be able to choose a scenario that plays out when they unlock their car (activation of rear light effects when they open the doors) by selecting a pictogram or predefined moving pattern.

Valeo Nebulizer

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

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

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

CO_2 emissions related to the use of Valeo products (scope 3)(1)

In accordance with the new recommendations on identifying and reporting the volumes of indirect CO_2 emissions related to Valeo's business(2), in 2017 the Group undertook vast work to lay down a methodology for calculating emissions relating to the use of its products, in the absence of existing methodology in the industry:

- in view of the wide range of uses offered by Valeo products, varying depending on the choices made by automakers, on which Valeo only has a certain amount of information, this work drew on the modeling of its products' carbon impacts and was based on the parameters set out below;
- the work benefited from scientific and technical advice from EMISIA SA, an offshoot of the Applied Thermodynamics Laboratory of the University of Thessaloniki (Greece) and a recognized expert in modeling transportation-related CO_2 impacts in Europe(3).

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

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

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

Valeo estimates the CO_2 impact of the selected products sold in 2017, in their phase of use over their entire lifecycle, at 108,000 kMt CO_2.

(1) The two other indirect emissions (scope 3) sources relating to products (i.e., emissions related to the installation of our products in vehicles and to processing end-of-life vehicles) are not dealt with by Valeo as they are not considered material (see section 4.2.3 of this chapter, "Reducing greenhouse gas emissions", page 210).
(2) Article 173 of law no. 2015-992 of August 17, 2015 relating to the energy transition for green growth.
(3) EMISIA is notably in charge of managing the European TRACCS database, resulting from a European project financed by the Directorate-General for Climate Action of the European Commission, DG-CLIMA (TRACCS, for "Transport data collection supporting the quantitative analysis of measures relating to transport and climate change").

4.2.3 Resources, materials and eco-design

Challenges

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

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

In connection with the goal of reducing vehicle CO_2 emissions (and reducing vehicle weight), Valeo is committed to a process of eco-design and to reducing its consumption of raw materials.

Approach

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

Tools for integrating eco-design

Valeo uses internal documents such as the EcoDesign Standard and eco-design guidelines for each Product Line. These documents enable engineers to assess the major environmental impacts of products at all stages of their life cycle during project development:

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

Above all, the EcoDesign Standard makes it possible to factor in sustainable development constraints during the use of the product, a phase that accounts for 90% of the total impact.

To ensure the directive's circulation and implementation, Valeo has published an EcoDesign Checklist designed to monitor the application of the criteria in new projects. This easy-to-use tool ensures that eco-design criteria are observed from the upstream phase. This means that products are consistently engineered from the outset with an eye to sustainable development criteria.

The EcoDesign Checklist has been rolled out at every level of the Group's Research and Development activities over the past three years. Its purpose is to:

- reduce CO_2;
- increase the recyclability of materials or systems;
- ensure that materials are safe.

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

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

As well as working closely with automakers, Valeo has for many years been committed to identifying second life solutions for some of the Group's key products (see section 4.5.4 of this chapter, "Availability of replacement products", page 248).

EXAMPLES OF RECYCLABILITY OF TWO VALEO PRODUCTS

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

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

In the automotive industry, the automaker or order-giver is responsible for performing the Life Cycle Assessment (LCA). Consolidated data on components and modules are available through the LCAs performed by automakers.

Based on the information listed and monitored in its EcoDesign Checklist database, the Group estimates that it has now identified and made available nearly 80% of the data required for a product LCA. This information is used to create and develop products with less impact on the environment.

Compilation and use of the information is managed in the Product Lifecycle Management (PLM) system, which lists the components of products and systems used in their design, and requires compliance with clearly defined standards. Any departure from the standards (in particular when using non-documented materials) must be justified. By systematically referring to the standards, Valeo demonstrates its determination to embed eco-design (including CO_2 impact analysis) as far upstream as possible in the product development phase.

(1) See Sustainable Development Glossary, page 267.
(2) The recovery rate is defined as the sum of recycling and energy recovery rates.

A Life Cycle Assessment (LCA) was carried out on LED fog lights. The aim was to assess their environmental impacts throughout their lifecycle: production phase (LEDs and electronic controls), use phase (fuel consumption, CO_2 emissions) and end-of-life or recycling/reuse phase. The Group has gained considerable expertise in performing this analysis.

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

RAISE Methodology

In 2010, the Group introduced methodology that is now an integral part of Valeo's Research and Development policy. It is based on a collective approach known as RAISE, for:

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

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

- set standards that are easy to identify, understand, learn, implement and verify. This is essential for ensuring that they are properly applied in a group like Valeo, whose employees speak a variety of languages and come from different cultural backgrounds;
- communicate on the standards and circulate them within the Group. Knowledge-sharing involves ensuring that standards are available in a single, global database (the PLM or Product Lifecycle Management database), and providing training provided at the Valeo Technical Institutes;
- verify that standards are implemented. To this end, the RAISE teams regularly visit sites to review project design. They do this to ensure that standards are applied correctly and to obtain any feedback that can be used to improve them.

At the end of 2017, over 8,000 product and process standards were in place and maintained in the various Product Groups. They are applied day-to-day in designing new products and manufacturing processes.

Special training programs (core RAISE training courses on design reviews, risk analysis and reliability) are continuously provided for Research and Development and Industrialization teams to extend their reach even further.

REACH regulation

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

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

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

For REACH purposes, Valeo is generally considered to be a downstream user of chemicals. This means that Valeo must list the substances used in manufacturing its products and those required to operate its industrial facilities to ensure the safety of its supply chain and its operations.

Valeo has introduced a special structure to comply with REACH regulations.

This organization works under the REACH manager and a team including a representative in each division. They set the list of hazardous substances and decide on whether to eliminate them from Valeo's products and processes. REACH representatives are in place within each entity affected by REACH regulations and at every Valeo plant. This has created a network of REACH managers covering each Group site and Technical Services Center. The Research and Development, Purchasing and Customer Quality Departments are required to have a full understanding of Valeo's products, and are responsible for communicating with external parties (suppliers, customers and competent authorities), in particular via the International Material Data System (IMDS).

The Group issues a set of standardized documents from local REACH network correspondents to enhance the spread of Research and Development standards in this field and to support prevention and response work regarding the substances used.

These documents include a reference database created by Valeo of banned or restricted substances in the automotive industry. The database was updated in 2015, 2016 and 2017. It summarizes the regulations applicable in the different countries where Valeo operates, and the requirements of its automaker customers concerning the substances used in the composition of parts, and in manufacturing and repair processes.

Valeo has long conducted in-depth research into the potential presence of SVHCs in its products, and has begun to replace them with substances with less environmental impact. It has set an ambitious target of eliminating any substance requiring authorization from its products and markets. It will work with its suppliers to systematically find alternatives to using SVHCs, and has a substitution plan in place for products containing DEHP[(1)], a phthalate widely used as a plasticizer.

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

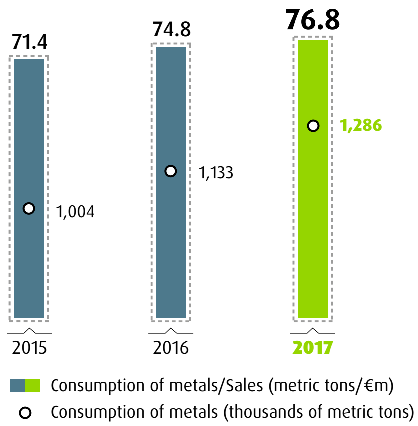
Valeo actively participates in the work of professional associations in Europe and internationally. The Group follows the recommendations of the Automotive Industry Guide issued by the French Federation of Automotive Suppliers (*Fédération des industries des équipements pour véhicules* – FIEV). It took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

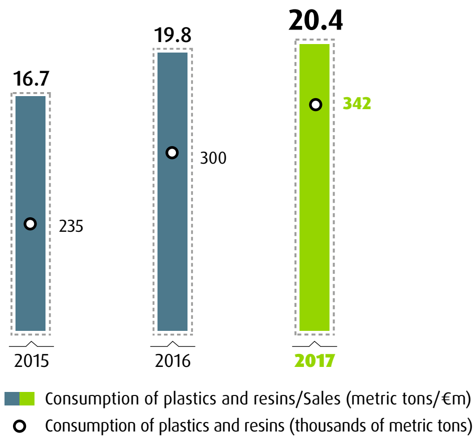
The purpose of this work is to anticipate regulatory change and to modify choices in respect of materials and/or substances upstream.

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

Performance

Consumption of raw materials





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

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

Consumption of heavy metals

The Group's consumption of heavy metals has fallen by 50% since 2012 to 7.7 metric tons in 2017. The Group's consumption of heavy metals stems solely from the presence of lead in welding materials used by certain Valeo activities. Determined to phase out the use of lead in the development of its products, Valeo has worked on optimizing its industrial welding process in order to reduce the consumption of materials used for this purpose. Its medium-term objective, depending on change in industrial processes and their acceptance within the industry, is to completely replace the lead used in welding with tin.

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

Consumption of chemicals

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

Consumption of carcinogenic, mutagenic and reprotoxic (CMR) substances as a proportion of sales decreased by 70% from 24.1 kg/€m in 2016 to 7.2 kg/€m in 2017, and from 365 to 121 metric tons in absolute terms. This is the result of extensive work to update safety data sheets as well as inventories of CMR usage by each site. These updates then made it possible to identify potential avenues for reducing the use of CMRs.

Use of recycled input materials

To reduce its environmental footprint, Valeo pays particular attention to the use of recycled materials. Purchases of recycled plastics totaled 10,947 metric tons in 2017.

4.2.4 A partnership approach to Research and Development

Challenges

A global player in Research and Development (R&D), Valeo has adopted a partnership approach with various stakeholders. With its strong position as a tier-one supplier in the value chain, the Group strengthened its partnerships in 2017 in an automotive industry where the scope of services and products is constantly expanding.

Approach and achievements

Valeo is involved in numerous research programs, at national, regional and international levels. These programs involve public and private actors with a view to advancing Research and Development in the automotive industry.

Valeo's partnership approach is precompetitive; it is rooted in a research ecosystem that is both industrial and academic.

Strategic industrial partnerships

Valeo is involved in this economic and industrial approach for the automotive industry alongside the industry's committed players.

In the field of autonomous and connected mobility, Valeo has been involved in a research partnership on driving assistance and autonomous vehicles with Safran since 2013. The two groups pool their skills and know-how in a research program dedicated to human-machine-environment interfaces and automation. The program aims to involve research institutes and universities, as well as innovative SMEs. In 2017, Valeo and Safran worked jointly on the full range of projects identified within the framework of their cooperation, including the Aware project for the development of a vision sensor in difficult weather conditions, and the development of facial recognition software to detect the driver's face. For Valeo, this joint work is aimed at developing civil applications for autonomous vehicles.

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

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

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

The open innovation strategy[1] and links with start-ups

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

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

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

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

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

Valeo, an actor in the governance of institutional collaborative organizations

European Road Transport Research Advisory Council (ERTRAC)

ERTRAC, the European Commission's official technology platform dedicated to collaborative research in the automotive industry, is responsible for directing and coordinating land transportation research policy (excluding railroads) with EU bodies. Valeo is its co-chair alongside German automaker BMW.

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

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

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

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

ARTEMIS, the European Technology Platform

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

Competitiveness clusters

Valeo is involved in the governance of competitiveness clusters and other cooperative structures of which the Group is an active member, such as the French competitiveness cluster Mov'eo which covers all the Group's strategic areas.

In France, Valeo is also a member of SystemX, an Institute for Technological Research, and a founding member of the Institute for Energy Transition. These two institutions launched several projects involving Valeo in 2014, in the fields of vehicle electrification (reducing CO_2 emissions) and automated driving.

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

Collaborative projects

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

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

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

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

Valeo also continued its involvement in the VeDecoM Institute (Energy Transition Institute set up by the French government in the field of low-carbon, communicating vehicles), contributing to four projects: delegated-driving vehicles, robust system design, acceptability of delegated driving, and new physical spaces for eco-mobility.

VELOCE project

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

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

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

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

Multifaceted academic partnerships

Valeo plays a role in cross-sector initiatives, making its expertise available to various partnerships and bodies. These partnerships help create and promote standards of quality and environmental performance that are both demanding and stimulating for the industry.

Diversified academic partnerships

Valeo attaches growing importance to collaborative research. The different systems that make up a vehicle today are expanding into new scientific and technological domains, and new fields must be taken into consideration.

Collaborative research involves academic and scientific cooperation, primarily in the form of:

- supervision and funding of doctoral theses;
- bilateral projects;
- government-funded multi-partner collaborative projects;
- university chairs.

Many of these scientific alliances (with universities, engineering schools or research bodies) are in Europe, primarily in France and Germany, but they are also emerging in other regions where Valeo has set up new local Research and Development centers (most recently in India, China and Egypt).

The academic and scientific partnerships established by Valeo in 2017 are in line with the comprehensive mobility challenges identified by the Group (CO_2 emissions reduction and intuitive driving).

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

Funding of doctoral theses

The Group is providing funding for more than 50 doctoral theses dealing, among other things, with new materials or technologies, new calculation and simulation tools and methods, new system architectures and component optimization.

Support for and creation of academic chairs

Partnerships formed through academic chairs aim to promote research and innovation activities with high value-creation potential. For Valeo, they offer the opportunity to deepen research and innovation activity close to academic centers, offering them subjects and areas of thinking focused on strategic areas for the industry.

Valeo has accordingly partnered with universities and public research bodies for the creation of the following research and teaching units:

- an international research chair on automated driving, called "Automated Driving – Drive for You", bringing together teams from the Center for Robotics at Mines ParisTech, Shanghai Jiao Tong University (China), the University of Berkeley (California) and Ecole Polytechnique Fédérale de Lausanne (Switzerland), in partnership with PSA Peugeot Citroën and Safran. With a budget of 3.7 million euros funded by manufacturers, this chair aims, in the field of automated driving, to advance knowledge on automated vehicles, to develop embedded intelligence devices and to put automated vehicles on the road on three continents (Asia, North America and Europe);
- an industrial teaching and research chair on embedded lighting systems (ELS), known as the ELS Chair, which brings together the following schools and partners around ESTACA (Graduate School of Aeronautical and Automotive Technology): Institut d'Optique Graduate School, Strate School of Design, Renault, PSA Peugeot Citroën and Automotive Lighting Rear Lamps. This chair aims to develop expertise and skills in the field of indoor and outdoor lighting applied to transportation;
- an academic chair under the name "IoT" (Internet of Things), launched in 2016 by the ESCP Europe business school in partnership with Valeo and Schneider Electric. Its aim is to develop a better understanding of the business and managerial challenges associated with changes in digital technology and the development of connected objects. It aims to develop high-level teaching and research in line with business expectations. Through a partnership between ESCP Europe and a Chinese university, the chair's activities (teaching, projects, forums, etc.) will span both Europe and China. Having presence in two areas provides the opportunity for multicultural comparisons of expectations, usages and conceptions of connected objects;
- two chairs, one on big data and the other on connected vehicles and cybersecurity, have been established by Valeo and other technology partners with the Télécom ParisTech engineering school. The latter of these chairs focuses on cybersecurity challenges in terms of the operational safety of vehicles, data protection and flows, and user identification technologies in vehicles. It also aims to address the legal and social aspects of the management of personal data and guarantees as to their security.

Valeo Innovation Challenge

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

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

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

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

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

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

4.2.5 Security and use of computer data

Challenges

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

Approach

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

Today, information system security is of paramount importance as it provides a good guarantee of data integrity, confidentiality, availability and traceability of computer processes, and also because it reassures customers and partners by providing the ability to anticipate, reduce vulnerabilities and manage any major incidents and risks that may arise. To address these risks and threats, IT system security was strengthened by the recruitment of a Group Chief Information Security Officer in 2016 (see Chapter 2, section 2.1.1 "Cybersecurity and IT systems failure risk", page 75).

The protection of this asset – information technology or simply information itself – relies on the most advanced technical measures being implemented and continuously updated. These technical measures are only relevant if Valeo employees individually contribute on a daily basis to the approach through their understanding of the challenges and threats, their vigilance, discretion and commitment to reducing vulnerabilities, and by exercising their duty to blow the whistle. With the emergence of new uses (social networks, smartphones, mobility, etc.) and new risks (cyber attacks, criminalization of attacks of all kinds, etc.), Valeo must take into account the human factor in all its dimensions. Valeo personnel only have access to the information they need to perform their duties within the company (segregation of access).

Achievements during the year

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

Outlook

In 2018, Valeo will further intensify work on the issues of data and IT system security, in line with the gradual automation and connectivity of its production lines ("Plant of the Future" or "Industry 4.0"), described in Chapter 1, section 1.6.4 "Automation and digitalization", page 67), and the development of programs initiated in the field of information protection, among which the protection of networks and the resources entrusted to staff who work outside the Group's premises. A training plan will be launched across the Group in 2018, drawing on the strategy set out in the security policy revised in 2017. A project aimed at improving the detection of security incidents (from vulnerability to the threat represented by hackers) will also be launched. It will be run over 2018 and 2019.

Protection of personal data

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

This work was performed over the whole of 2017.

(1) Regulation no. 2016/679, known as the General Data Protection Regulation.
(2) See Chapter 2, section 2.1.1 "Cybersecurity and IT systems failure risk", page 75.

4.3 Environmental management and performance of Valeo's sites

4.3.1 Environmental policy

For nearly 30 years, Valeo has demonstrated its commitment to limiting the impact of its activities on the environment. The Group sets out its environmental commitments in its Environmental Charter, drawn up by the Health, Safety and Environment Department (HSE). These commitments also appear, as follows, in the Valeo Sustainable Development Charter:

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

KEY DATES IN THE GROUP'S ENVIRONMENTAL COMMITMENT

- Early 1990s: Definition of the Environmental Policy
- 1991: Launch of the environmental audit program
- 1997: First Group site receives ISO 14001 certification
- 1998: Risk Management Manual and Environmental Charter
- 2001: Introduction of centralized environmental reporting
- 2004: Signature of the UN Global Compact
- 2008: Sustainable Development Charter
- 2013: First Group sites receive ISO 50001 certification
- 2015: Setting of new environmental targets for 2016-2020
- 2016: Valeo named to the Dow Jones Sustainability Index (DJSI World and DJSI Europe)
- 2017: Creation of a Governance, Appointments & Corporate Social Responsibility Committee within the Board of Directors

Mapping of the main environmental issues facing sites

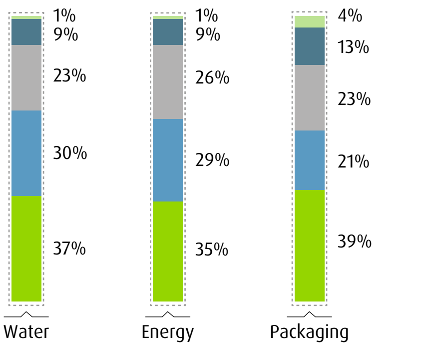
The industrial activities of the Group's sites differ in nature. The risks they pose to the environment accordingly vary as well. In 2017, as part of its risk management policy, the HSE Department updated the map of Valeo's industrial activities and the major emissions and consumptions of the Business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

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

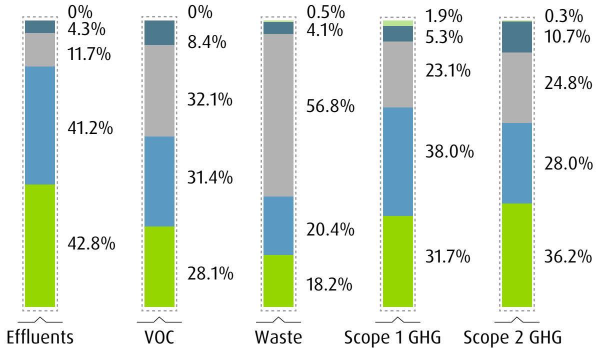
* *See Sustainable Development Glossary, page 267.*

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

▶ **Breakdown of resource consumption**



▶ **Breakdown of emissions, discharges and waste**



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

Key environmental challenges for Valeo

The issues identified during the materiality analysis (see section 4.1.1 of this chapter, "Sustainable development challenges", page 170) are broken down between the various Business Groups as follows:

Challenge/Business Group	Comfort & Driving Assistance Systems Business Group	Powertrain Systems Business Group	Thermal Systems Business Group	Visibility Systems Business Group	Valeo Service
Energy and carbon efficiency of production		▪ Energy consumption ▪ Indirect GHG emissions*	▪ Energy consumption ▪ Direct and indirect GHG emissions*	▪ Energy consumption ▪ Direct and indirect GHG emissions*	▪ GHG emissions* related to the transportation of goods
Discharges and waste	▪ VOC emissions*	▪ VOC emissions* ▪ Management of chlorinated solvents ▪ Waste production	▪ Management of refrigerants	▪ VOC emissions*	
Transportation and logistics				▪ Packaging consumption	▪ Packaging consumption
Water		▪ Water consumption	▪ Water consumption	▪ Water consumption	
Biodiversity					

* *See Sustainable Development Glossary, page 267.*

4

Commitment to transparency

In the interests of transparency and openness toward its stakeholders, including shareholders and investors, Valeo's General Management presents the Group's main environmental results at the Annual Shareholders' Meeting. Valeo also regularly responds to requests related to its non-financial performance from national and international bodies.

Valeo's environmental performance is assessed by international non-financial rating agencies (see section 4.1.4 of this chapter, "Recognition of Valeo's commitment to sustainable development", page 177).

The Group pays close attention to shifts in its ratings from one year to the next, with a view to achieving continuous improvement in its environmental reporting.

Resources devoted to the prevention of environmental risks and pollution

The Group has developed working and assessment tools to ensure that sites comply with both the prevailing regulations and internal standards, in order to rein in their environmental impacts and improve their performance.

Valeo's environmental management organization

Valeo's environmental management is based on continuous improvement driven by the Health, Safety and Environment (HSE) Department, reporting to the Industrial Department, which has its roots in an **organization structured around the Business Groups, countries and sites:** a network of Health, Safety and Environment managers therefore ensures compliance with Valeo's environmental policy and fulfillment of its objectives.

The **Health, Safety and Environment Department** develops and implements the HSE policy, which involves defining Group-wide standards and tools in respect of workplace health and safety, the environment, and the security and safety of buildings and facilities. These standards result in the development of written operational guidelines, which are applicable across all of the Group's sites.

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

HSE managers working in each of the four Business Groups and at Valeo Service provide technical assistance to the site HSE managers who report to them. Their role, in a process of continuous improvement, is to assist the sites in applying the Group's operational directives and complying with regulations in force. It is also to foster the implementation of best practices between the sites of their respective Business Groups and to back requests for investment aimed at meeting environmental objectives set by the HSE Department.

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

Country HSE managers are appointed at the national level after being selected from among the site HSE managers. They coordinate national environmental projects, such as translation of the Group's operational directives into local languages, and promote exchanges between HSE managers in the relevant country. Their proximity to the sites further strengthens the sharing of best practices and enables cross-disciplinary work, such as the monitoring of local regulations, to be conducted. Country HSE managers also take part in induction programs for new site HSE managers, providing information on Valeo tools and standards.

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

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

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

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

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

(1) See Sustainable Development Glossary, page 267.

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

- dedicated articles in the Group's quarterly internal newsletter – *Valeo Info* – translated into 15 languages;
- training to teach site management committees about the risk of accidents and the procedures and resources to be implemented to avoid them. This training was provided in e-learning format, supplemented by a quiz to check the participants' understanding;
- information for site employees on environmental procedures and respect for the environment, particularly as part of the onboarding of new arrivals;
- awareness-raising for all site staff on measures aimed at controlling environmental risks and impacts through ISO 14001, ISO 50001 and OHSAS 18001 management systems;
- information for employees through newsletters and dedicated displays, and at task force meetings;
- dedicated events such as "Sustainable Development Week", featuring local initiatives.

In 2017, the HSE network provided nearly 65,102 hours of environmental training across all sites.

High risk-control standards

Sites' compliance with the prevailing regulations is an essential requirement for the Group. As such, each site is required to keep abreast of HSE regulations. The HSE Department promotes the development of national monitoring tools by the network of country HSE managers.

The **Risk Management Manual** contains all of Valeo's standards (known as operational directives) with respect to the environment, workplace health and safety, and the safety and security of installations. In 2017, the Group drafted a certification process for certain critical topics such as lockout. It also made efforts to simplify tools such as the safety briefings.

The HSE Department aims to maintain binding requirements that meet or exceed the most stringent local regulations. These directives are mandatory for all Group sites.

The Risk Management Manual includes a specific chapter on **crisis prevention and emergency response plans.** The Group requires each site to have an emergency response and business recovery plan. Several years ago, Valeo established the Valeo Emergency and Recovery Management system (VERM) to assist in the design and implementation of emergency response, crisis management and business recovery plans. The tool sets mandatory drills for on-site events such as fires, explosions and accidental pollution, leaving each site scope to identify other relevant scenarios such as earthquakes or floods. Each site is then required to implement procedures, response sheets or lists of contacts to use in the event of a crisis, for each phase from triggering the alert to business recovery, including intervention and securing people and the site.

Maintaining a high level of operational safety

The Group's policy has always enabled it to ensure the highest possible level of prevention and protection against **natural events** and **technological risks,** throughout the life cycle of a site. As such:

- whenever it builds or acquires a site, as well as when closing or selling a site, Valeo commissions an audit to identify the potential existence of environmental liabilities, hazardous surroundings or potential natural risks;
- the vast majority of Valeo's sites are HPR (Highly Protected Risk) classified, and are equipped with automatic fire-protection sprinkler systems. Furthermore, employees receive regular training in dealing with all kinds of risk situations;
- Valeo sites are either located outside of flood zones or equipped with flood protection systems and emergency response plans;
- sites located in areas exposed to heavy snowfall or strong winds systematically conduct roofing resistance studies and, in some cases, reinforcement work to reduce the risk of collapse;
- all sites in seismic risk zones have been purpose-built or upgraded to comply with the most recent seismic standards;
- new Valeo plants are located as far as possible from high-risk potential sites (Seveso sites[1], etc.) that could have a knock-on effect;
- in 2011, tsunami risk was added to the document used to select potential locations and to the risk management policy;
- Valeo is continuing to reinforce the quality of security systems at its facilities (access control, video surveillance and intrusion detection). The Group also commissions intrusion tests to verify their effectiveness.

Adapting to the consequences of climate change

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

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

Noise and other forms of pollution

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

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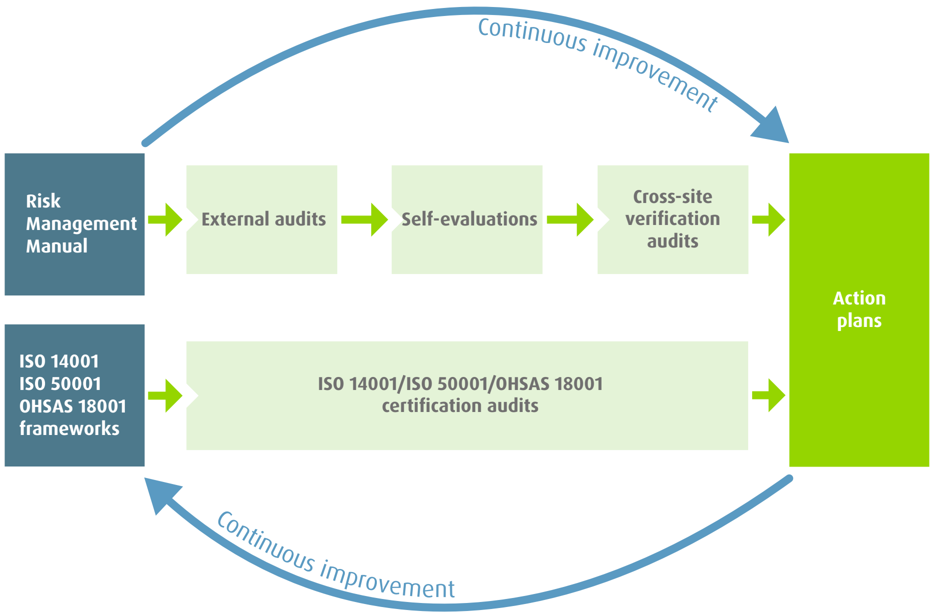
(1) See Sustainable Development Glossary, page 267.

Evaluation and certification processes

An ambitious global audit program

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

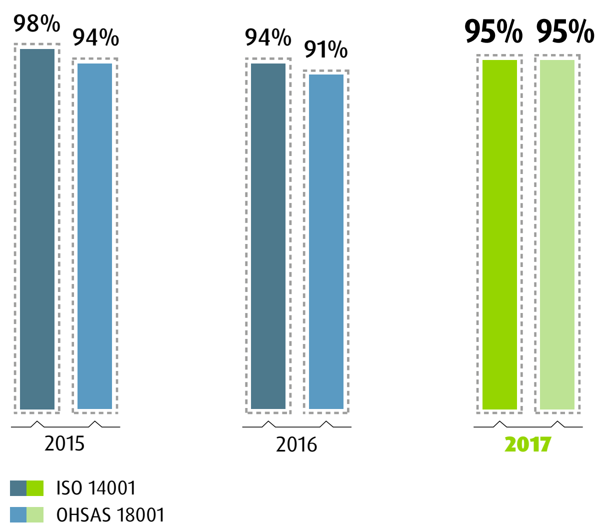


ISO 14001, ISO 50001 and OHSAS 18001 certification audits

More than 20 years ago, the Group undertook a process to obtain certification for its management systems in order to meet its commitment to reduce its environmental impacts and improve health and safety conditions for its employees. ISO 14001 environmental certification, OHSAS 18001 workplace health and safety certification and ISO 50001 energy management certification provide assurance to stakeholders of the Group's firm commitment to HSE issues. The current practice is to obtain certification for individual sites. Certification may also be obtained for product lines, across all the sites concerned.

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

► **PERCENTAGE OF PLANTS CERTIFIED ISO 14001 AND OHSAS 18001**



The Group aims to bring newly acquired or created sites into the certification process as quickly as possible. All new sites are required to obtain certification from the third year of their inclusion in the Group's scope.

In 2017, several sites already certified ISO 14001 obtained OHSAS 18001 certification:

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

ISO 50001 certification

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

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

Three additional sites received ISO 50001 certification in 2017:

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

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

External audits worldwide

At the initiative of the HSE Department, the Group's sites are regularly audited by external consultants to ensure compliance with and proper implementation of the Risk Management Manual in respect of the environment, workplace health and safety, and the safety and security of buildings and facilities. In place for nearly 20 years, this audit program is a major component of Valeo's policy of reducing risk and improving the performance of its sites, which are audited every two years on average. At the beginning of each year, the HSE Department determines the sites to be audited, taking this average into account.

Audit standards based strictly on the HSE requirements laid down in the Group's operational guidelines ensure that sites address all of Valeo's HSE requirements, and also provide a sounder basis for cross-site comparison and generate a greater amount of feedback.

A detailed report is presented at the end of each audit, and a score is given based on objective criteria periodically revised by the HSE Department.

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

Self-evaluations

In addition to external audits, a self-evaluation tool has been in place since 2008. Self-evaluations allow sites to monitor their compliance with Group directives. The tool also provides the Business Groups' HSE managers and the HSE Department with an overview of the degree of compliance with the directives at the operational level.

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

Cross-site verification audits

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

Centralized environmental reporting

Valeo uses a centralized reporting tool, Valeo Risk Indicators (VRI), via an Internet platform, to measure environmental performance across all of its sites. Quarterly, or annually for some parameters, this tool is used to collect over 200 indicators, allowing regular measurement of the environmental performance of the Group's sites and ensuring that Group objectives are met. Among the many indicators available in VRI, every year the Group selects those to be published in the Registration Document in view of its key environmental challenges, its performance objectives, the relevance of the indicator to the automotive supplier industry, and the expectations of its stakeholders. These indicators are presented in a manner consistent with the guidelines of the Global Reporting Initiative (GRI).

Responses from all sites are consolidated and undergo in-depth verification by an external service provider to ensure their quality. This approach involves asking sites to document significant year-on-year changes in data, in order to make the final indicator more reliable. In all, nearly 100,000 data items are processed and validated.

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

The procedures for defining the reporting scope and validating indicators are described in the methodological note provided in section 4.6.1 of this chapter, "Environmental reporting methodology", pages 253 to 254.

External audit required by the "Grenelle II" law

Article 225 of the Grenelle II law of July 12, 2010, decree no. 2012-557 of April 24, 2012 on companies' obligation of transparency in respect of social and environmental issues, and the ruling of May 13, 2013 on audit engagements by independent third-party bodies provide for the verification by an independent third party of information disclosed by French companies.

There were three stages to this engagement:

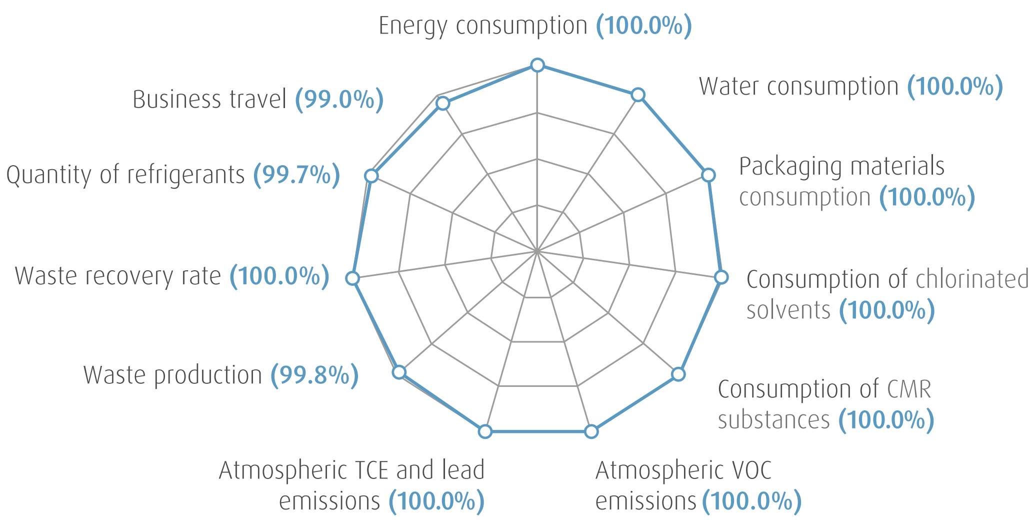
- in the first stage, the reporting process (scope, definitions of indicators, methods of calculation, consolidation process and controls) was reviewed;
- in the second stage, site audits were performed to verify the proper implementation of reporting procedures and the relevance of the information reported. This stage was rounded out by a review of consolidated information (review of the completeness and accuracy of the information);
- in the third stage, the independent verifier produced a summary of observations in the form of a limited assurance report including a statement of completeness and an opinion as to the accuracy of the information contained in the Management Report in respect of 2017. The report can be found in section 4.9 of this chapter, "Independent verifier's report on consolidated social, environmental and societal information presented in the Management Report", pages 268 to 270.

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

The goal of excellence: 100% response rate expected for each indicator

The representativeness of each indicator is measured by a response rate. The rate is expressed as sales of the sites that responded to the indicator divided by total sales of all sites in the reporting scope. In 2017, the response rate per indicator was generally good, the aim being to reach 100% on each of the indicators.

▶ Response rates for main indicators in 2017



Achievements

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

Review of the 2016-2020 performance

Objectives	Unit	2020 target (base = 2015)	2015 results	2016 results	2017 results	Change 2015/2017
Sustainable use of resources						
Water consumption	*cu.m/€m*	-6%	198	184	175	-12%
Energy consumption	*MWh/€m*	-8%	143	137	134	-6%
Waste production						
Production of hazardous and non-hazardous waste	*Mt/€m*	-5%	16.4	17.0	16.6	1%
Carbon emissions						
Direct and indirect greenhouse gas emissions (Scopes 1 and 2)*	*Mt tCO_2/€m*	-8%	56.3	56.6	55.6	-1%
Management systems						
ISO 50001 certification (energy management)	*% of sites*	20%	8%	12%	13%	+5 pts

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

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

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

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

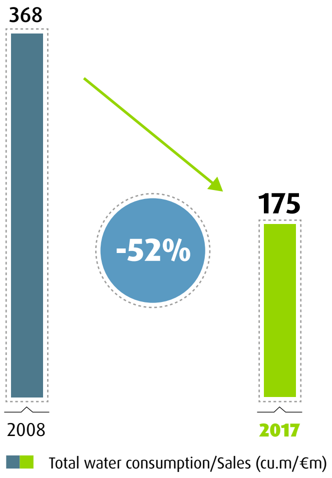
- continue reducing consumption of raw materials;
- improve development time in the launch phase for new projects (products and processes);
- establish monthly monitoring of the main producers of waste. For example, the Valeo plants in Taegu (Powertrain Systems Business Group, South Korea) and San Luis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

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

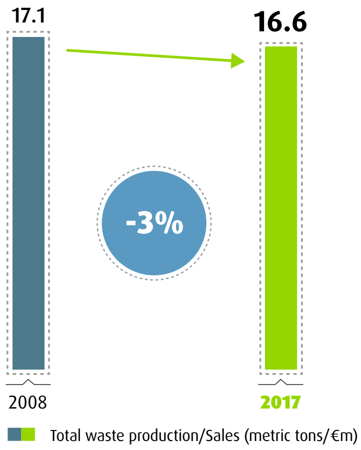
In line with its commitments, the Group pursued its ISO 50001 energy management certification target, bringing the proportion of ISO 50001 certified sites to 13% of the total at the end of 2017.

Review of the 2008-2017 performance

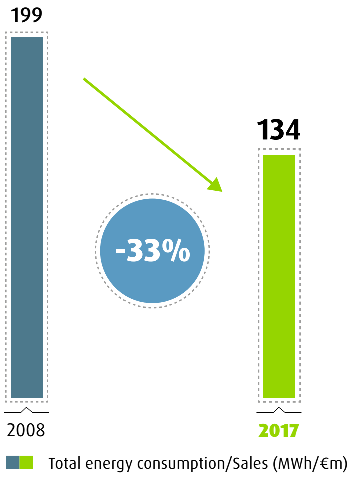
Water consumption



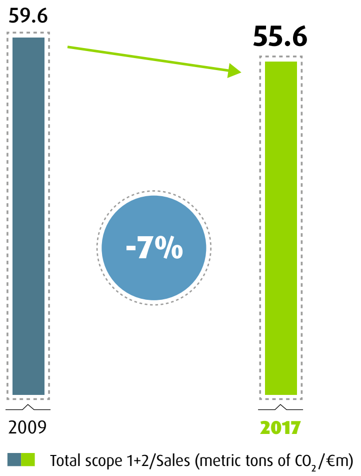
Waste production



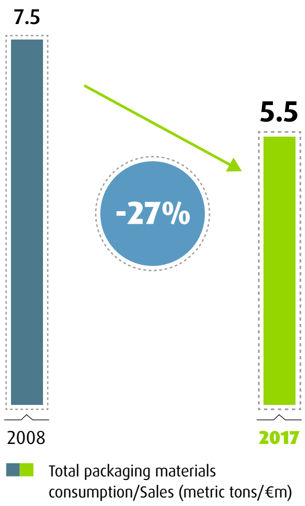
Energy consumption



Direct and indirect CO_2 emissions



Packaging consumption



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

Since 2009, Valeo has reduced its direct and indirect CO_2 emissions as a proportion of sales by 7%.

Environmental expenditure and investment

Total environmental protection expenditure and investment

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

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

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

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

Amount of provisions and guarantees for environmental risks

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

4.3.2 Reducing energy consumption and greenhouse gas emissions

Reducing energy consumption

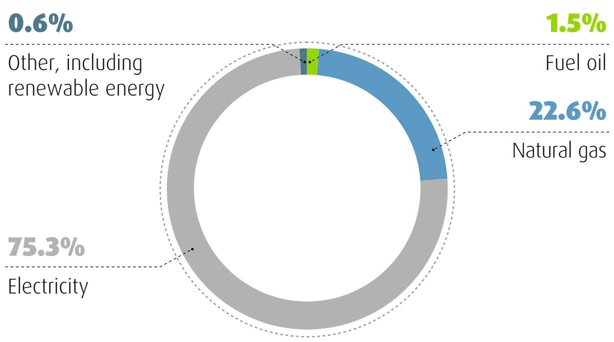
Challenges

Valeo sites use the following three types of energy for industrial and domestic purposes:

- direct energy in the form of primary energy sources (fuel oil, natural gas);
- indirect energy in the form of electricity, steam and compressed air;
- direct renewable (solar) energy generated on site, which currently provides only a very small amount of energy.

Electricity and natural gas have for several years been the two main sources of energy used by sites. Together, they account for nearly 98% of the Group's total energy consumption.

▶ **Breakdown of energy sources in 2017**



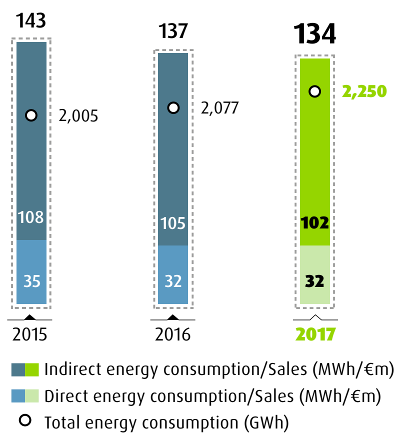
Approach

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

Performance

Total energy consumption as a proportion of sales was down 2.2% compared with 2016. This calculation includes an additional 12 sites in 2017.

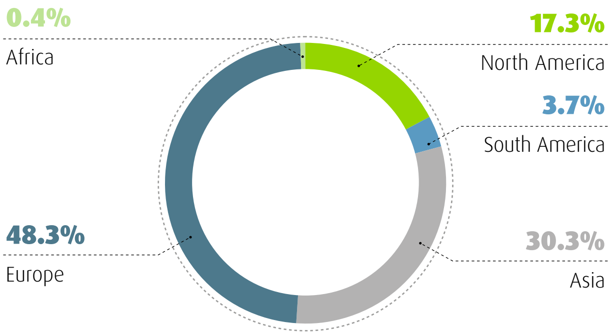
▶ **Total direct and indirect energy consumption in 2017**



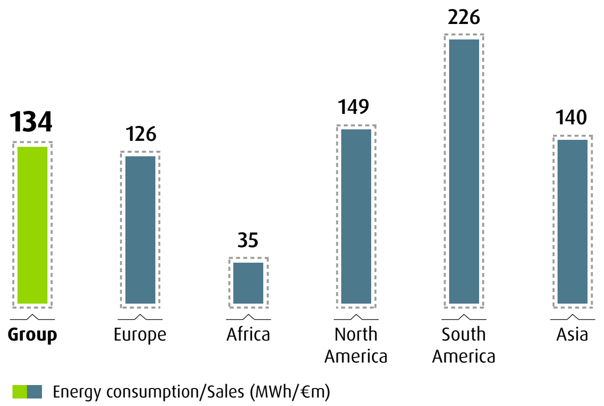
Analysis of the geographic breakdown of energy consumption

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

► **Geographic breakdown of total energy consumption in 2017**



► **Energy consumption as a proportion of sales by geographic area**



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

Achievements during the year

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

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

- **replacement of lighting systems** using conventional fluorescent or metal-halide lights with more energy-efficient **LEDs.** Sites generally stagger the replacement of this equipment over several years. In 2017, 45 sites reported having begun or continued this process;
- **optimization of lighting and air conditioning systems** through the implementation of **automation mechanisms** such as timers, motion detectors and other more complex systems, as was the case in 2017 at Meslin-l'Evêque (Visibility Systems Business Group, Belgium), where the site installed temperature sensors in each part of the plant and developed a program to automatically trigger the plant's boiler;
- installation of **systems to recover heat from compressors or furnaces** for reuse in other plant areas (showers, production hall, etc.). The sites in Bursa (Powertrain Systems Business Group, Turkey), Czechowice (Powertrain Systems Business Group, Poland) and Jingzhou (Thermal Systems Business Group, China) began this process in 2017;
- **optimization of compressed air systems** by such means as the reduction of pressure in air networks, implementing an organizational procedure for switching on and off compressors supplying the compressed air network, the detection of leaks and the replacement of old compressors that consume too much energy. Examples of sites that took measures regarding this equipment in 2017 include Akita (Comfort & Driving Assistance Systems Business Group, Japan), La Suze (Thermal Systems Business Group, France), Chrzanow (Visibility Systems Business Group, Poland) and Seymour (Visibility Systems Business Group, United States);
- replacement of constant-speed engines with **variable-speed engines,** which consume less energy. The following sites carried out this replacement in 2017: Bursa (Powertrain Systems Business Group, Turkey), Châtellerault (Visibility Systems Business Group, France), Chennai (Visibility Systems Business Group, India) and Gyeongju (Powertrain Systems Business Group, South Korea);
- **insulation of buildings:** the sites in Abbeville (Powertrain Systems Business Group, France), Châtellerault (Visibility Systems Business Group, France), Czechowice (Powertrain Systems Business Group, Poland) and Issoire (Visibility Systems Business Group, France) launched projects of this nature in 2017;
- installation of **insulation systems** on machines that need to be maintained at a given temperature, such as injection presses and cooling water circuits: the insulation of hot or cold parts serves to reduce the loss of heat or cold and in turn the energy consumption needed to heat or cool them. Systems of this nature were installed in 2017 in Martos (Visibility Systems Business Group, Spain) and Sainte-Florine (Powertrain Systems Business Group, France), two ISO 50001-certified sites wishing to go a step further in reducing their energy consumption;
- lastly, **awareness campaigns** at the majority of the Group's sites on the responsible use of energy, especially during Sustainable Development Week in early June.

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

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

Outlook

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

Valeo has set itself the goal of reducing its total energy consumption as a proportion of sales by 8% between 2016 and 2020.

Reducing greenhouse gas emissions

Challenges

Since 2009, Valeo has made progress in the analysis of its carbon footprint by evaluating the direct and indirect greenhouse gas (GHG) emissions resulting from its activities. In 2017, the following operations-related emissions sources (excluding product use) were included the review:

- **direct GHG emissions:** combustion emissions from stationary sources on sites, emissions from fuel combustion by Group vehicles, direct emissions from non-energy processes such as the incineration of VOCs[1], and direct fugitive emissions relating to refrigerant leaks (included in Scope 1 of the international framework);
- **indirect GHG emissions** associated with energy consumption, related to the consumption of electricity, steam, compressed air and other sources (included in Scope 2 of the international framework);
- **other indirect GHG emissions** related to purchases of products used in industrial processes, and the transportation of goods and people (included in Scope 3 of the international framework).

Approach

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

Performance

Scope 1

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

Direct GHG emissions *(kMt CO_2eq.)*	2015	2016	2017
Emissions generated by fuel oil and gas combustion at sites *(kMt CO_2eq.)*	118.0	119.3	132.8
Direct emissions from non-energy processes *(kMt CO_2eq.)*	1.9	2.8	7.4
Emissions caused by Valeo's vehicle fleet *(kMt CO_2eq.)*	7.4	8.9	10.4
Fugitive emissions (refrigerant leakage) *(kMt CO_2eq.)*	14.5	14.9	16.3
TOTAL DIRECT EMISSIONS *(kMt CO_2eq.)*	**141.8**	**145.8**	**166.9**
TOTAL DIRECT EMISSIONS/SALES *(Mt CO_2eq./€M)*	**10.1**	**9.6**	**9.9**

Scope 2

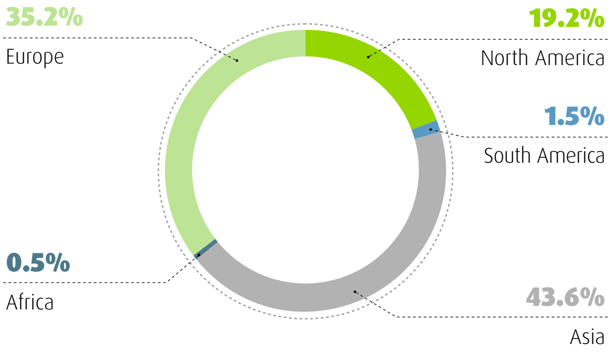
Indirect GHG emissions as a proportion of sales decreased by 3% between 2016 and 2017.

Indirect emissions related to electricity consumption[(1)] and other energy such as steam, compressed air, etc.	2015	2016	2017
TOTAL INDIRECT EMISSIONS *(kMt CO_2eq.)*	**649.8**[(2)]	**710.9**	**763.9**
TOTAL INDIRECT EMISSIONS/SALES *(Mt CO_2eq./€m)*	**46.20**[(2)]	**46.97**	**45.60**

(1) The calculation takes into account the primary energy sources used to generate electricity in each country.
(2) The 2015 data have been updated using the new 2015 emission factors issued by the International Energy Agency in mid-2016.

(1) See Sustainable Development Glossary, page 267.

▶ **Geographic breakdown of direct and indirect greenhouse gas emissions (Scopes 1 and 2) associated with the Group's energy consumption in 2017**



The chart opposite shows the geographic breakdown of direct emissions related to gas and fuel oil combustion at sites and indirect emissions related to electricity consumption. The comparison of this chart with that of the geographic breakdown of total energy consumption (see this section, "Analysis of the geographic breakdown of energy consumption", page 208) shows that while Valeo's European sites consume around 48% of the Group's total energy, the associated GHG emissions account for approximately 35% of the Group total. By contrast, sites in Asia consume nearly 30% of the Group's total energy but emit almost 44% of its total GHG emissions. The difference stems from the fact that the power plants that provide energy to Valeo's sites in Asia are mainly fired by coal, which emits substantial quantities of GHG. The Group's growth in Asia therefore results in an increase in absolute terms in indirect emissions of greenhouse gases.

Scope 3

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

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

- emissions linked to purchases of materials used in industrial processes (steel, aluminum, copper, zinc, plastics, electronic components, chemicals and packaging);
- emissions related to the use of the Group's products (see section 4.2.2 of this chapter, "CO_2 emissions related to the use of Valeo products (Scope 3)", page 188).

Indirect GHG emissions (Scope 3) regarded as not material are:

- emissions related to waste management in the relevant channels;
- emissions from Valeo's assets used by third parties (e.g., loans of molds to suppliers);
- emissions from energy production (e.g., extraction of gas or fuel oil);
- emissions from the installation of our products in vehicles by our customers;
- emissions related to the processing of end-of-life products;
- emissions from downstream product transportation. Transportation of this nature is mainly handled by our customers.

Although they are not considered material, Valeo has elected to publish the following emissions related to its activity:

- emissions related to the upstream transportation of goods and raw materials;
- emissions from employee travel (commuting and business trips).

Other relevant indirect GHG emissions *(kMt CO_2eq.)*	2015	2016	2017
Emissions generated by the production of the main materials used in industrial processes of which:	**5,614**	**6,904***	**7,770**
Materials (metals)	3,416	4,274*	4,817
Materials (other)	2,198	2,630*	2,953
Emissions generated by upstream logistics:	**237**	**223**	**296**
Road/rail/maritime transportation	174	106	164
Air/express transportation	63	117	132
Emissions generated by employee travel of which:	**139**	**169**	**195**
Commuting	108	136	153
Business trips	31	33	42
TOTAL OTHER INDIRECT EMISSIONS *(kMt CO_2eq.)*	**5,990**	**7,296**	**8,261**
TOTAL OTHER INDIRECT EMISSIONS/SALES *(Mt CO_2eq./€m)*	**426**	**482**	**493**

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

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

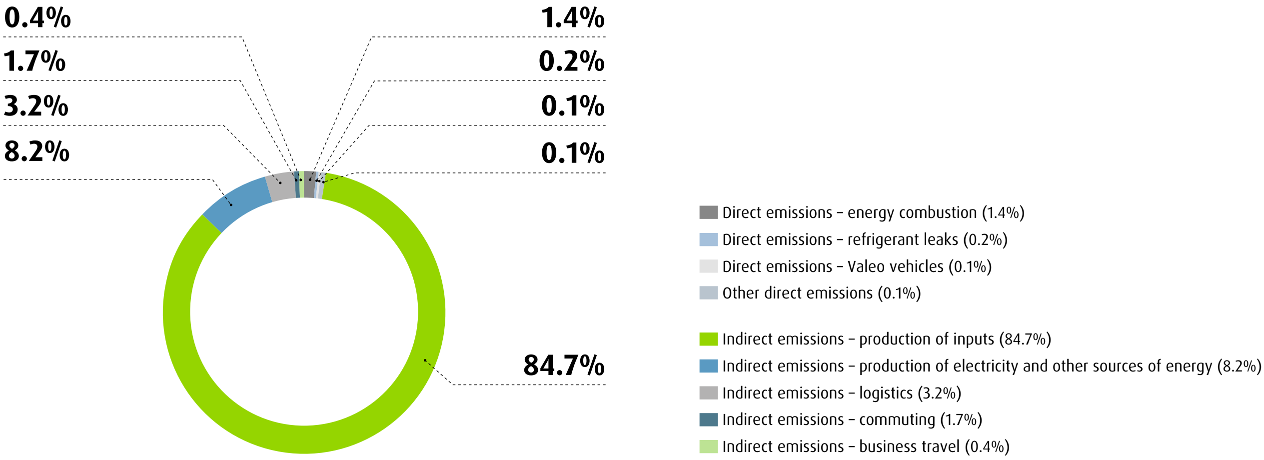
Emissions related to products (installation in the end vehicle, use, end of life) are described in section 4.2 of this chapter, "Research and Development at Valeo: from megatrends to innovation", page 188.

The Group's industrial carbon footprint

In 2017, the Group's overall carbon footprint (scopes 1, 2 and 3, excluding emissions from the use of its products) was 9.2 million metric tons of CO_2.

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

▶ 2017 BREAKDOWN OF GHG EMISSIONS



Achievements during the year

The Chennai site (Powertrain Systems Business Group, India) stood out in 2017 after forming a partnership with a wind farm company in order to source its electricity from wind power. In return for a stake in the company, the site receives green energy at a reduced price, resulting in savings of 15,000 euros per month and lower indirect CO_2 emissions (Scope 2).

Outlook

Valeo has set itself the goal of reducing its direct and indirect greenhouse gas emissions (Scopes 1 and 2) as a proportion of sales by 8% between 2016 and 2020.

4.3.3 Discharges and waste

Valeo's activities are liable to generate the discharge of substances into the air or soil that could impact the environment. Such discharges must be tightly controlled to avoid pollution.

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

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

The Group also prohibits the use of the following substances:

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

Valeo has for several years sought to take a proactive approach to reducing emissions of ozone-depleting substances. Its commitments on the subject are set out in a dedicated directive in the Risk Management Manual. Chlorofluorocarbons (CFCs) and halons are prohibited substances at Valeo. For hydrochlorofluorocarbons (HCFCs), the Group's objective is to stay ahead of the elimination deadlines set under the Montreal Protocol. To comply with this directive, the sites have taken action to service equipment containing refrigerants.

Because of the hazard they represent and their longstanding use in industrial processes on its sites, the Group is also working to reduce the consumption of heavy metals (lead, mercury, chromium VI, cadmium), chlorinated solvents and substances classified under European regulations as carcinogenic, mutagenic and reprotoxic (CMR).

Prevention of atmospheric emissions

Approach

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

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

- identifying the sources of atmospheric emissions based on a comprehensive review of the site's processes and activities, and facilities for the treatment of these emissions;
- describing the nature of emissions based on their origin (emissions from combustion plants or production processes);
- quantifying emissions in order to determine whether operating permits need to be obtained in accordance with applicable regulations.

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

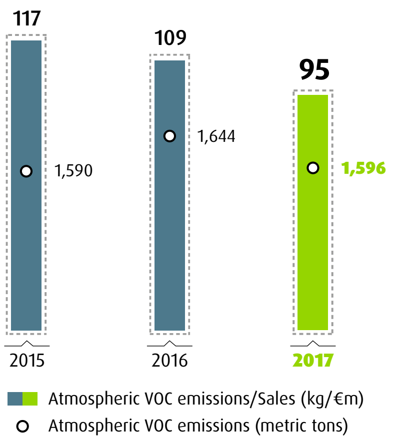
As far as possible, the Group provides standardized tools to be used by all Valeo sites to ensure that these indicators are calculated in a consistent manner.

Performance

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

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

Atmospheric VOC emissions

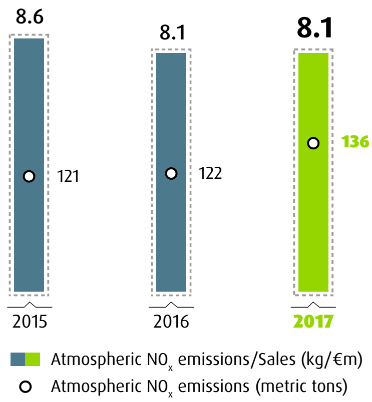


VOC emissions fell by a further 12.8% as a proportion of sales in 2017.

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

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

Atmospheric NO_x emissions



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

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

Lead and TCE emissions

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

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

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

Emissions of ozone-depleting substances

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

Achievements during the year

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

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

Prevention of discharges into the soil

Approach

Although Valeo's industrial wastewater does not contain large amounts of pollutants, **each site is required to manage its effluents.** Management of effluents is addressed in a specific directive. The main requirements are as follows:

- effluents whose composition exceeds the regulatory thresholds must go through **treatment plants located directly on Valeo sites** so as to limit their impact on the receiving environment;
- as far as possible, effluent networks are connected to the public network;
- sites' rain-fed networks receive only rainwater;
- the direct discharge of industrial effluents into groundwater is strictly prohibited;
- water from fire extinguishers must be separated and analyzed prior to proper disposal.

As part of their environmental management system, and in accordance with Group directives, **sites are equipped to prevent accidental spills into the natural environment:**

- the **loading/unloading of tankers** can cause numerous accidents with serious consequences for the environment. To prevent spillage during these operations, Valeo sites are required to draft a specific transfer procedure appropriate to the nature and risks of the products in question, notably including a vehicle circulation plan, a list of people approved for unloading, the method for verifying the nature of the product and its compatibility with the recipient container, and instructions in case of spillage;
- the **storage of hazardous products** can be another source of accidental spillage. The Group has laid down rules for designing and building retention systems and tanks, specifying notably minimum volumes, what materials to use to ensure the sealing of tanks and retention systems based on the nature of products stored, and how to structure warning systems in case of overflow;
- **underground tanks** have been banned within the Group since the early 1990s, with the aim of eliminating the risk of significant pollution of soil and groundwater associated with such facilities;
- **internal landfills** are prohibited on all sites regardless of their location;
- for cases of **accidental spillage,** the Group has published a directive entitled "Means of intervention and limiting the consequences", which focuses on the human and material resources to be put in place on sites to prevent, detect and limit the consequences of emergencies liable to have a direct impact on human health or the environment;
- when a **business is sold or shut down,** the Group systematically commissions an audit, generally accompanied by an examination of the soil and groundwater, to determine whether any pollution occurred during its operational phase. If pollution is discovered, the necessary measures are taken;
- if a site is **closed permanently,** all waste, raw materials, products and equipment are removed and site maintenance continues until it is sold.

Performance

No significant spills have been reported since 2015.

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

Achievements during the year

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

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

Waste

Challenges

The main challenges in respect of waste are first to optimize the manufacturing process in order to limit its production, and second to recycle everything that can be reused in the manufacturing process, without compromising on quality or customer requirements as regards the end product.

Each site is responsible for:

- collecting and storing waste in conditions that minimize risks to the health and safety of people and the environment;
- ensuring that elimination channels comply with local regulations and guarantee safe waste treatment.

Approach

The main waste products generated by the Group's facilities, in descending order of weight, are metal, wood and plastics.

Almost all metal waste is sold for recycling.

Wood is recycled or used to generate heat.

Some plastic is sold for recycling.

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

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

- ensuring the traceability of waste: each shipment must be accompanied by a waste tracking form summarizing:
  - the characteristics of the waste being shipped,
  - the company responsible for transportation,
  - the company responsible for disposal and processing.

  To ensure systematic monitoring of waste, each site has a "waste production and disposal register";
- controlling and monitoring waste storage areas.

  Valeo prioritizes waste disposal as follows:
  - first, recycling,
  - if this is not possible, recovery,
  - failing recycling and recovery, disposal.

In the absence of a reliable sector in the country in question, Valeo exports its waste.

The Valeo Risk Indicators reporting tool is used to track the amount of waste sent to each of these sectors.

Performance

Quantities of waste produced

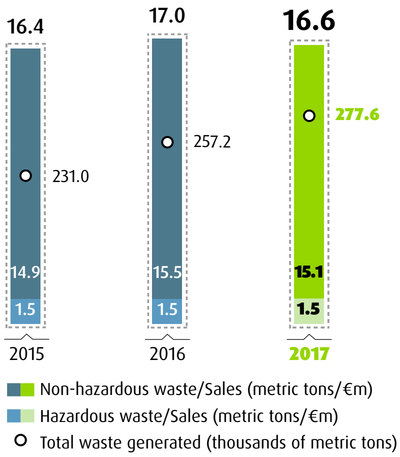
In 2017, the total amount of waste as a proportion of sales decreased by 2.4% compared with 2016.

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

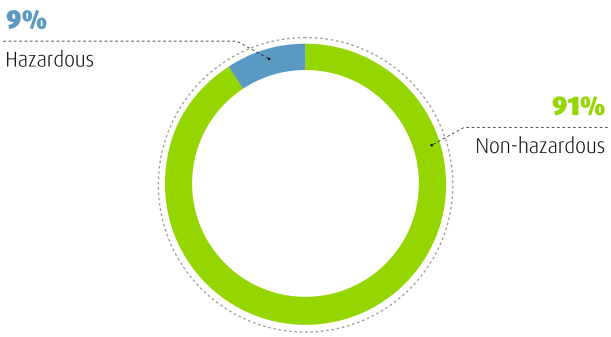
- first, an 11% increase in the Group's industrial activity compared with 2016;
- second, the opening of new sites, which generate more waste during the start-up phase, and the development of new products at existing sites, which also generate more waste during the launch phase due to a higher reject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

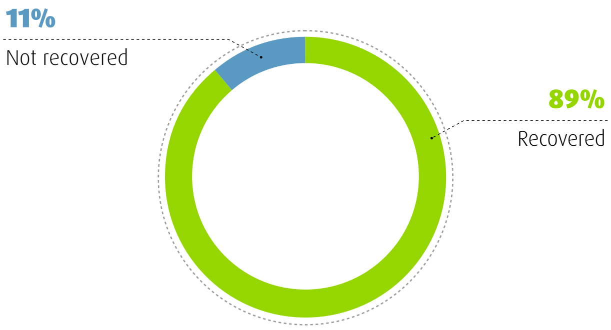
The Powertrain Systems Business Group alone generates almost 60% of the Group's total waste.

▶ PRODUCTION OF HAZARDOUS AND NON-HAZARDOUS WASTE



Characteristics of waste produced in 2017





The share of recycled waste compared with non-recycled waste was broadly stable, as was the share of hazardous waste compared with non-hazardous waste.

Exported waste

In 2011, the Group began monitoring the amount of hazardous and non-hazardous waste exported by its sites.

The sites reporting waste exports were:

- Juarez (Visibility Systems, Mexico), which exports the majority of its waste to the United States;
- Rio Bravo (Comfort & Driving Assistance Systems, Mexico), which also exports some of its waste to the United States;
- La Suze-sur-Sarthe site (Thermal Systems, France), which exports a small amount of waste to a company specializing in solvent regeneration in Germany;
- Tuam (Comfort & Driving Assistance Systems Business Group, Ireland), which exports its waste to Germany, the Netherlands and other parts of Ireland;
- Meslin-L'Évêque (Visibility Systems Business Group, Belgium), which exports a small amount of waste to France.

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

Achievements during the year

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

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

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

Outlook

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

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

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

4.3.4 Transportation and logistics

Transportation

Challenges

Valeo's operations require inbound supplies of raw materials and parts, the transfer of parts between sites, and outbound deliveries to automaker-customer premises, plants and dealer networks. The main environmental impacts of these logistics flows result from emissions of greenhouse gases attributable to the use of non-renewable fuels.

Approach

In line with its product development strategy aimed at reducing the impact of vehicles on the environment, in 2017 Valeo pursued its transportation optimization strategy to reduce associated CO_2 emissions.

Performance

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

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

In 2017, emissions related to air transportation for the delivery of parts from suppliers amounted to 132,416 metric tons of CO_2. Emissions related to air transportation for the delivery of Valeo products to customers amounted to 2,042 metric tons of CO_2.

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

- load consolidation by the use of logistics platforms to collect as many parts as possible from multiple sources, which are then re-routed in fully loaded trucks to each plant;
- development of new solutions for packaging parts for customers, to guarantee the quality of deliveries and ensure optimum truck fill rates;
- where technically feasible and as permitted by domestic law, use of dual-capacity trailers (double deck in a single trailer or double trailer) to further improve fuel consumption ratios per part delivered and, therefore, CO_2 emissions.

Emissions related to road transportation for the delivery of parts from suppliers amounted to 127,738 metric tons of CO_2. Emissions related to road transportation for the delivery of Valeo products to customers amounted to 18,221 metric tons of CO_2.

The increase in CO_2 emissions from road transportation had three main causes:

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

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

In 2017, emissions related to maritime transportation for the delivery of parts from suppliers amounted to 35,586 metric tons of CO_2. Emissions related to maritime transportation for the delivery of Valeo products to customers amounted to 476 metric tons of CO_2.

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

In 2017, emissions related to rail transportation for the delivery of parts from suppliers amounted to 520 metric tons of CO_2. Emissions related to rail transportation for the delivery of Valeo products to customers amounted to 33 metric tons of CO_2.

Achievements during the year

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

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

Outlook

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

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

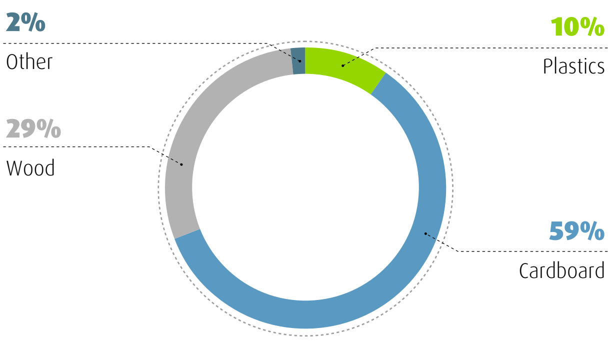
For maritime transportation, the logistics teams of the different plants will continue to pool their shipments. Valeo also plans to continue its efforts to transport its goods by rail wherever possible.

Packaging

Challenges

Packaging is essential to the handling of Valeo products. It is required for transporting, storing and protecting products and, in the case of aftermarket products, selling them. For these various purposes, Valeo uses many different kinds of packaging materials, mainly cardboard, wood, plastics and metal. Cardboard and wood together account for approximately 90% of packaging materials used.

▶ BREAKDOWN OF PACKAGING MATERIALS CONSUMPTION IN 2017



Approach

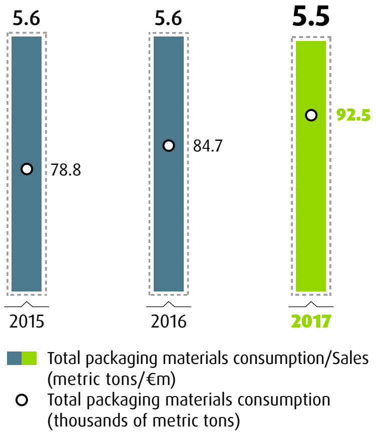
For several years, Valeo has worked to reduce its consumption of packaging materials in two main ways:

- using reusable containers or pallets, made from either cardboard, wood or plastic;
- improving the fill rate of the packages containing the products.

This work is being conducted in partnership with Valeo's suppliers and customers.

Performance

▶ **Packaging materials consumption**



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

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

Achievements during the year

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

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

Both initiatives have been widely adopted within Valeo sites.

4.3.5 Water

Challenges

Because of the importance of this resource, the Group's objective is to limit and control its water consumption, reduce the risk of pollution of supply sources and ensure the supply of good quality water for its staff.

Approach

To control and minimize their consumption as much as possible, the sites implement appropriate human and material resources:

- each water supply source is equipped with systems for determining the volume of water consumed and its uses (domestic, industrial and fire);
- the use of water for cooling in open circuits is prohibited, with the exception of heat pumps for heating or air conditioning;
- sites regularly update their map of water supply and distribution networks.

The plan distinguishes between:

- drinking water;
- domestic use (if distinct from drinking water);
- industrial uses;
- water used to extinguish fires:
  - external drinking water supply wherever possible (preferably the public network),
  - drinking water networks protected from contamination by other networks,
  - the site monitors its water consumption at least quarterly.

The objective of this monitoring is to:

- identify the respective needs in regard to each of the main uses of water;
- identify any variation in water consumption and take swift action in the event of leaks in the network;
- draw up a water consumption reduction plan to achieve or better the objectives set for each site by the Group;
- as far as possible, the site reserves the use of potable water for domestic purposes and favors the use of non-potable water wherever possible (e.g., toilets, watering, cleaning, extra water for closed water cooling circuits and fire extinguishing).

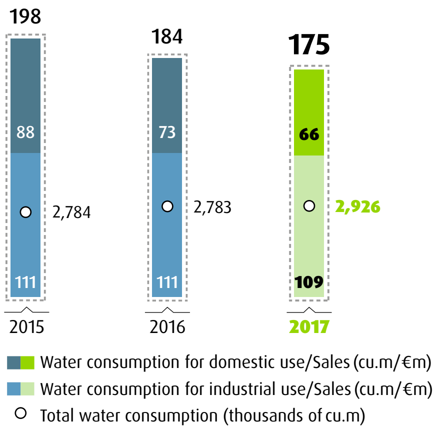
To minimize their water consumption, sites are urged to take action on the following key points:

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

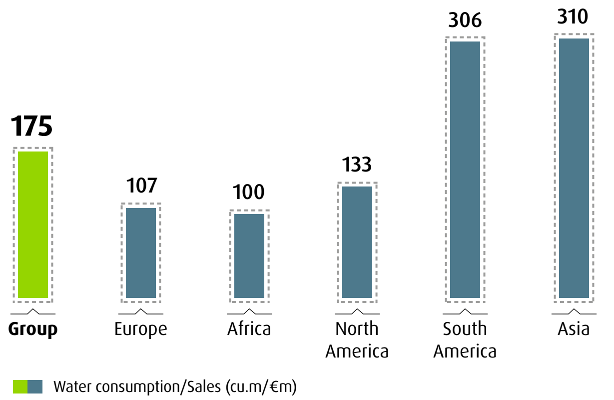
4

Performance

Water consumption



Water consumption as a proportion of sales by geographic area in 2017



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

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

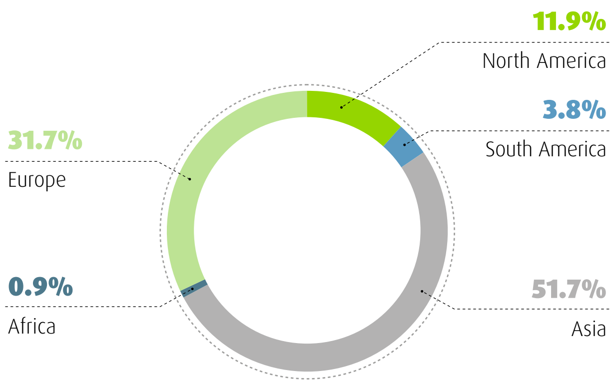
The reduction in consumption as a proportion of sales between 2016 and 2017 was most visible in the Thermal Systems (11%) and Propulsion Systems (8%) Business Groups; see "Achievements during the year", page 219.

Geographic breakdown of water consumption in 2017

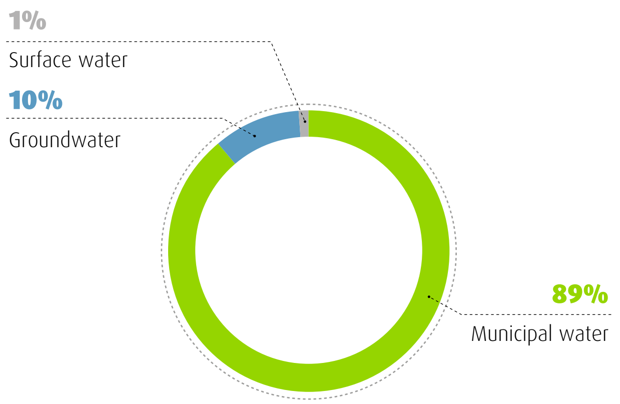
Sites in Europe and Asia account for slightly more than 83% of total water consumption. Water consumption as a proportion of sales at the Group's Asian and South American sites is markedly higher than in Africa, Europe and North America.

Progress was nevertheless made on optimizing water consumption at the Asian sites, especially by detecting and repairing leaks, which are a major source of water wastage.

Geographic breakdown of total water consumption in 2017



Sources of water in 2017



To measure the overall impact of its activities on water resources, Valeo measures its consumption, distinguishing between the various sources (municipal water, groundwater, surface water) and uses of water on its sites (industrial water, domestic water).

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

Water restrictions

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

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

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

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

Water reuse

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

Achievements during the year

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

Sites may adopt such technical measures as:

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

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

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

Outlook

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

4.3.6 Biodiversity

Challenges

The 132 sites in the reporting scope occupy a total area of approximately 718 hectares, of which a little less than 8% are left in their natural state. The rest is used for buildings, traffic areas and gardens.

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

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

Approach

The precise identification of significant direct impacts on biodiversity is conducted across sites through environmental analysis. This step is crucial in the implementation of an ISO 14001-certified environmental management system.

The **"Biodiversity" Directive** lays down guidelines to regulate practices in terms of biodiversity conservation during selection, construction, operation and closure of plants.

Achievements during the year

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

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

(1) See Sustainable Development Glossary, page 267.

4.4 Valeo and its employees

Valeo's Human Resources strategy plays a key role in the Group's international expansion and positioning as a company developing and manufacturing high-tech products and systems.

It is based on a comprehensive approach, taking into account specific cultural, economic and market conditions, thereby allowing the Group to deal with a broad range of situations in the various countries where it operates.

Valeo applies this strategy in tackling the many challenges it encounters worldwide in developing and managing human resources, from engaging in the fight for talent, to building and sharpening advanced skills and sustaining employability. The Group aims to add 6,000 employees to its global workforce each year over the next five years.

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

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

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

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

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

▶ Change in the total headcount over three years

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

(1) *The registered headcount corresponds to permanent and fixed-term employees.*
(2) *Employees on internships,* Volontariat International en Entreprise *(VIE) programs and combined work-study arrangements (apprenticeship or professional training contracts) are counted as technicians.*

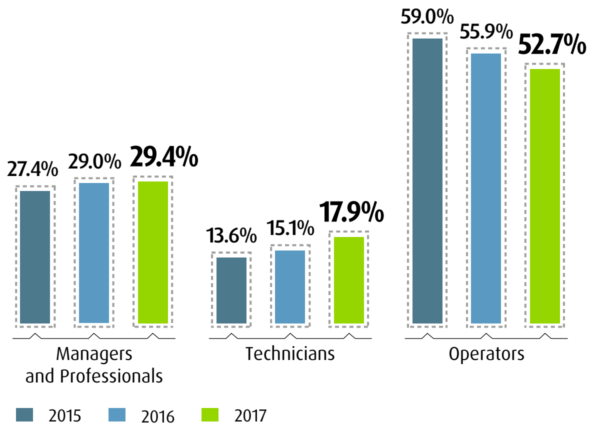
At December 31, 2017, the Valeo Group had 111,600 employees, an increase of 21.6% compared with 2016, resulting from:

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

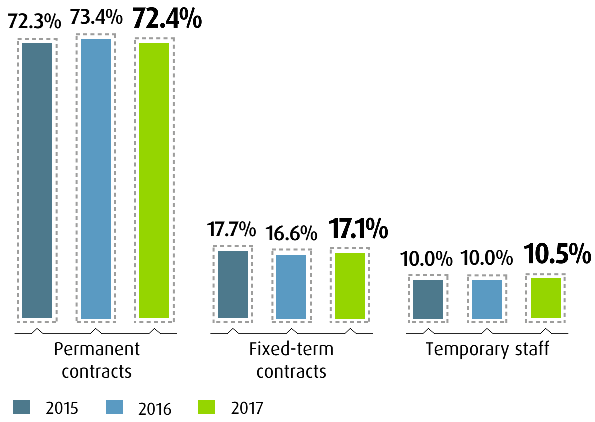
One of the key challenges for 2017 and future years will be to integrate these 10,387 new employees following acquisitions in 2017.

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

▶ Breakdown of registered headcount by socio-professional category



▶ Breakdown of registered headcount by contract type



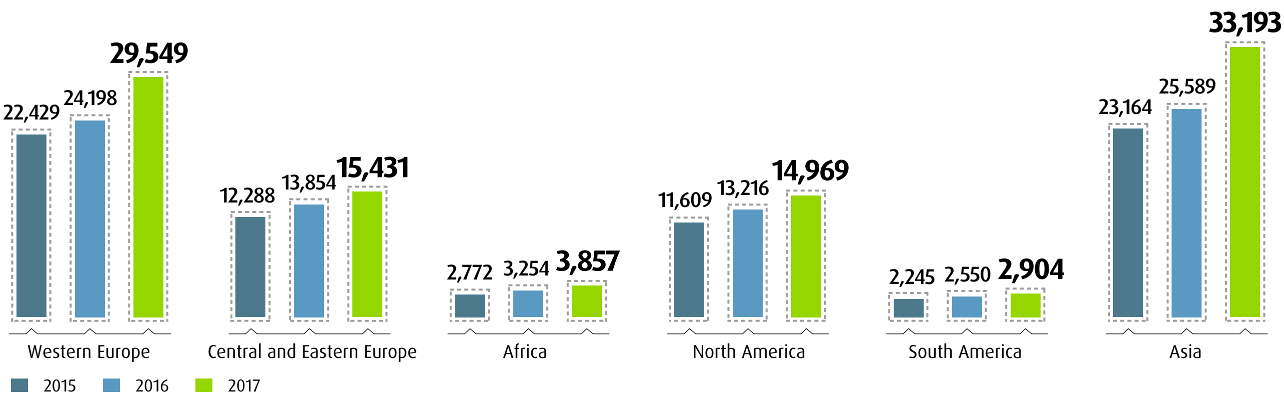
Valeo's activity requires a variety of skills for the development and production of its products and systems. These skills are constantly evolving in line with changes in the automotive industry, and to meet the challenges of automation and digitalization.

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

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

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

▶ Breakdown of registered headcount by geographic area

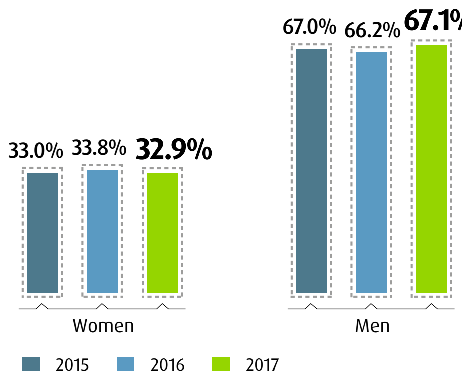


The breakdown of Valeo's workforce needs to be consistent with the Group's growth strategy worldwide, especially as regards industrial development in high-growth countries.

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

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

▶ **Breakdown of registered headcount by gender**



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

4.4.1 Safety and working conditions

Workplace health and safety

Challenges

Valeo's Human Resources policy is built on its commitment to enable all employees to work in an environment free of risk of industrial accidents. It is consistent with the Group's Values and with the aim shared by employees and management to continuously improve the Group's safety performance.

Approach and achievements during the year

Valeo is responsible for ensuring an accident-free environment for its employees. This requires the commitment of the General Management and the participation of all staff. Progress is monitored by the Group Safety Committee chaired by the Chief Operating Officer, assisted by the Industrial Director, the Health, Safety and Environment Director and the Senior Vice-President, Human Resources.

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

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

- the QRQC methodology ensures that accidents or instances of non-compliance with safety standards trigger the implementation of a measure designed to avoid further incidents;
- a thorough analysis of the cause of the incident is made to prevent it from reoccurring;
- a description of the incident and an analysis of its causes are published on a dedicated intranet page to which all health and safety staff, and management as a whole, have access;
- each site manager must inform the head of his Business Group or activity of the occurrence of a workplace incident within four hours so that they can be addressed properly.

In 2017, health and safety guidelines were expanded to provide the best response to operational needs. For each area, they lay down minimum risk management requirements. Each member of the site Management Committees receives e-learning training, and each module ends with a quiz to ensure that the directive has been properly understood: at end-2017, 2,568 members of the Management Committees had completed these training modules.

Prevention is also managed in accordance with internal rules and procedures related to the involvement of personnel, which contains a section devoted entirely to preventing and managing safety issues and ergonomics (Roadmap IP01). This section is the most important aspect (by number of themes and issues) of the "Involvement of Personnel" axis.

In 2017:

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

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

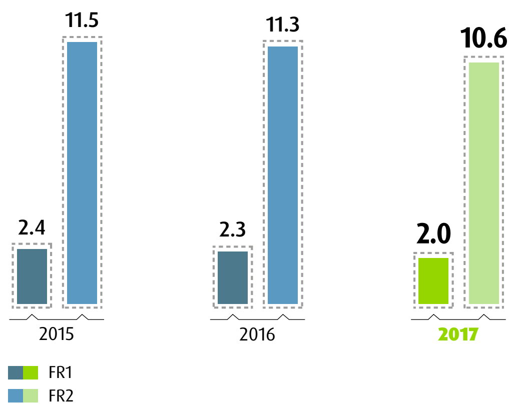
Safety and ergonomics are essential levers of commitment and motivation among our employees. This is why the Group has developed specific training modules to foster awareness of these issues. A training program entitled "Safety First" was created in 2015 to improve the conduct of employees at work, 57,520 employees have been trained since the program began. This approach has served to train very different populations within the Group, from operators to managers.

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

- frequency rate 1 (FR1): number of accidents with lost time per million hours worked. In 2017, the Group's objective was to reduce FR1 to a level equal to or less than 2. In 2020, the Group's objective is for FR1 to be strictly below 2;
- frequency rate 2 (FR2): number of accidents with or without lost time per million hours worked;
- severity rate 1 (SR1): number of days lost owing to an occupational accident per thousand hours worked.

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

▶ Frequency rate (FR1[(1)] and FR2[(2)]) of occupational accidents

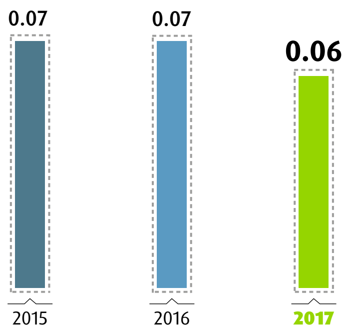


(1) *Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year.*
(2) *Calculation of FR2: number of occupational accidents, with or without lost time x 1,000,000/number of hours worked during the year.*

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

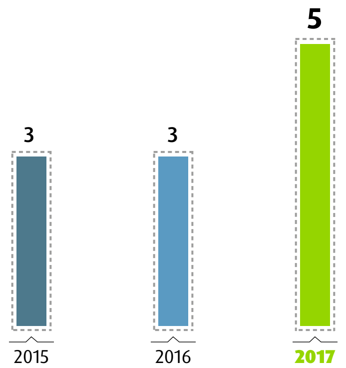
- the improvement in FR1 recorded in 2016, with a reading of 2.3, was confirmed in 2017, with an FR1 of 2.0. In 2017, Valeo achieved its target of reducing FR1 to 2.0;
- the continuous improvement in both FR1 and FR2 reflects tighter control of safety risks;
- FR1 performance varied between countries. In Argentina[(1)], France[(2)] and Italy[(1)], the rate was 13.9, 10.4 and 9.5 respectively. It was 2.0 in Germany, 0.3 in China and 0.5 in Mexico;
- the number of accidents with or without lost time has also eased, as shown by the FR2 reading of 10.6 in 2017.

▶ Severity rate (SR1[(1)]) of occupational accidents



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

▶ Number of category 1 accidents[(1)]



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

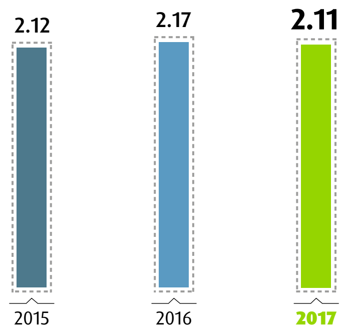
Although the severity rate improved between 2015 and 2017, the number of category 1 occupational accidents increased. A total of 11 category 1 accidents were noted between 2015 and 2017. They involved an interim member of staff, four Valeo employees and six service provider employees.

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

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

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

▶ ABSENTEEISM RATE[(1)]



(1) *Calculation of absenteeism: actual hours of absence expressed as a proportion of total possible working hours. Possible working hours are equal to the number of days worked in the month x the daily working hours (excluding overtime) x month-end registered headcount.*

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

The absenteeism rate includes absences for illness, unjustified absences, authorized absences (unpaid leave, etc.), absences due to occupational and commuting accidents, strikes, suspensions or other reasons.

Although Valeo applies a consistent policy for tracking absenteeism, the level of social security coverage and cultural differences has a strong bearing on national rates.

Outlook

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

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

Well-Being at Work

Challenges

Well-Being at Work is an integral part of Valeo's Human Resources strategy to attract, develop and retain talent.

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

- a work environment free of risk of accidents: Valeo ensures the health and safety of employees, offers ergonomic workstations and prevents psychosocial risks;
- work-life balance: Valeo promotes the "right to disconnect" and work remotely;
- recognition and fulfillment of employees: the need for recognition, consideration of work done, fair pay and career prospects are essential to promoting the well-being and commitment of Valeo employees;
- prevention of harassment and discrimination: Valeo defends the right of employees to work in a positive environment, and fights against harassment and discrimination;
- employee autonomy: Valeo believes that autonomy in decision-making fosters employee recognition and enhances individual performance.

Approach and achievements during the year

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

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

They are tasked with establishing a Well-Being at Work policy that is tailored to the site's challenges and ensuring that it is communicated to employees. The policy must comply with guidelines established by Valeo and reflect the results of the "Engagement Survey" and analysis of employees' annual appraisals.

Valeo uses two distinct processes to monitor its Well-Being at Work policy and evaluate actions implemented locally:

- the "Well-Being at Work" Involvement of Personnel roadmap, which is based on 13 questions to monitor the achievement of the Group's well-being objectives. Each year, Valeo's internal auditors check that the action plans drawn up as part of the roadmaps are properly implemented. By 2017, Valeo sites had achieved 40% compliance with the roadmap, compared with 32% in 2016;
- in addition to these audits, the Well-Being at Work policy set up at each site is assessed through annual labor-related CSR reporting.

In 2017, considerable progress was made in terms of quality of life in the workplace at Valeo:

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

Outlook

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

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

- response rates of 85% from managers and professionals and 75% from non-management employees to the "Engagement Survey". In 2015, the survey (formerly known as the "Employee Feedback Survey") was given to managers and professionals in 36 countries, with an 85% response rate. In 2014, the Well-Being at Work survey was given to non-management employees, with a 69% response rate;
- achieve a site compliance rate of 45% with the Well-Being at Work roadmap, compared with 40% in 2017.

4.4.2 Attracting and retaining talent

Attracting talent

Challenges

Attracting top talent is a major challenge for the Group, as a means of consolidating its market share and supporting the growth of its business worldwide.

Valeo's success hinges on attracting top international talent in fast-growing markets and emerging countries, and in fields of advanced technology, such as CO_2 emissions reduction and intuitive driving technologies. Competent teams ensure that Valeo can offer its customers added-value and support their technical and regional development around the world.

To support its rapid growth, Valeo aims to add 6,000 employees to its global workforce each year over the next five years.

Valeo bolsters its appeal by conveying an image and employer promise in keeping with its corporate values and culture. To strengthen its "Top Employer" reputation, Valeo regularly communicates on employment and career opportunities, as well as on its activities and professions through various communication channels. For the fourth consecutive year, the quality of Valeo's Human Resources policies and practices was recognized with the "Global Top Employer" label. In 2017, it obtained "Top Employer" certification in 24 countries, mainly on three continents (North America, Asia and Europe).

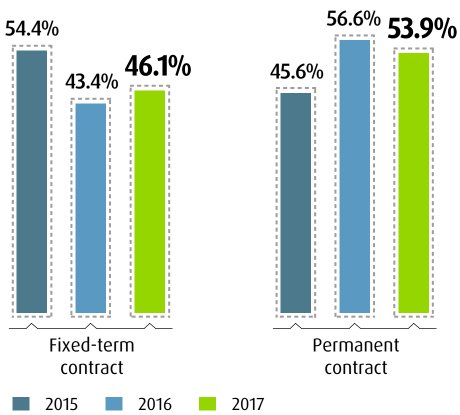
Approach and achievements during the year

To ensure that both internal and external recruitment is managed consistently and professionally, all managers are trained using a recruitment kit. This kit combines the various communication and recruitment tools developed by the Group, such as the employer brand, the Internal Mobility Charter and the competences evaluation system. A recruitment guide describes the Group's operating culture, and sets out the key messages to pass on to applicants. By offering a standard recruitment policy based on objective selection criteria, the recruitment guide helps to promote diversity at Valeo and to eliminate all forms of discrimination.

In 2017, Valeo continued work to develop a comprehensive IT solution to manage the hiring process. It was rolled out in all Group entities in the second quarter of 2017. Its main objective is to enhance the effectiveness of hiring (hiring time and cost reduction), but also to improve the quality of hiring (based on a powerful database of candidates), to anticipate needs and, above all, to give greater visibility to available employment opportunities.

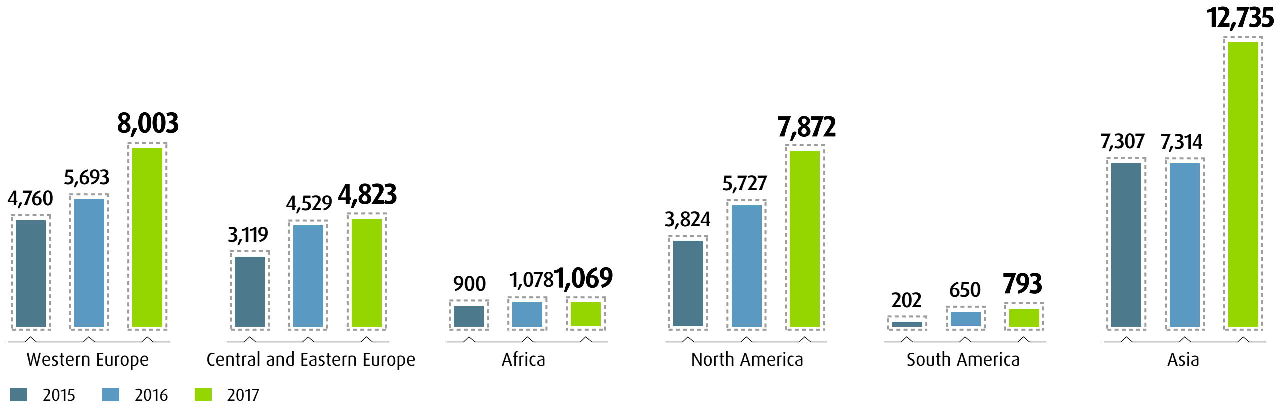
To accommodate strong growth in a highly volatile market and recruit individuals with scarce skills, the Human Resources teams have been reorganized, grouping recruitment specialists by country. Today, 70% of countries have teams fully dedicated to hiring and to promoting the employer brand.

▶ **BREAKDOWN OF NEW HIRES BY CONTRACT TYPE**[1]



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

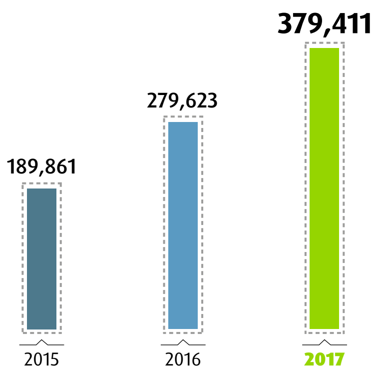
▶ Breakdown of new hires by geographic area(1)



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

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

▶ Change in the number of LinkedIn followers



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

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

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

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

- throughout the academic year, Valeo takes part in events held by engineering and business schools, as well as selected universities. Such events include job fairs, school visits, technical presentations and testimonials from graduates, and collaborative projects. In 2017, 82% of Valeo's plants maintained relationships with universities, engineering schools or business schools. Encounters of this kind are opportunities to increase awareness of Valeo's role and innovative positioning in the automotive market. The Group continues to develop special partnerships with schools and universities offering training programs in line with the skills needed by teams (among others, the Engineer-Managers program at Audencia Nantes and Shanghai Jiaotong University in China);
- 2017 saw the fourth edition of the Valeo Innovation Challenge, offering students in higher education from around the world the opportunity to play an active role in automotive innovation by imagining equipment that will create smarter and more intuitive cars by 2030. Students were able to compete in two categories, "Technological innovation" and "New ways of using cars". For the first time, each team was allowed to include a university teacher. More than 1,600 teams from 80 countries and 748 universities, including some of the world's most prestigious institutions (MIT, Berkeley, HEC, Supélec, Tokyo University, British Columbia, etc.), registered to propose and develop bold and revolutionary solutions for the car of tomorrow.

Outlook

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

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

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

Communication on recruitment will be intensified to increase the volume of targeted applications and to attract the new profiles the Group will need to support its development. In 2018, the internal community of members of the "Employee Advocacy" program will double, with 1,000 employee ambassadors on social networks.

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

Retaining talent

Challenges

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

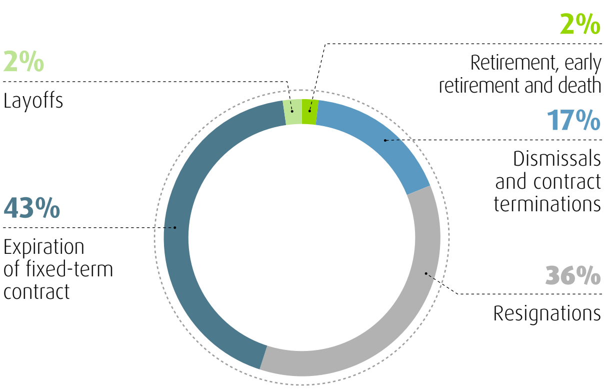
To this end, it is essential to be able to develop a policy that promotes loyalty among employees and to capitalize on their expertise and knowledge. This is critical to ensuring operational excellence.

Approach and achievements during the year

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

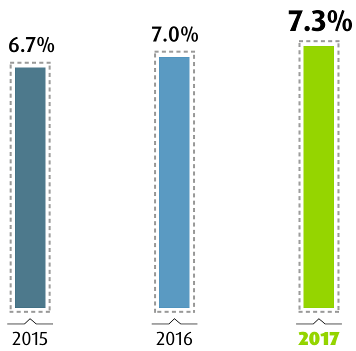
Voluntary turnover represents the number of voluntary departures of managers and professionals expressed as a percentage of the total number of managers and professionals on the payroll (retirements and contract terminations are not taken into account). Turnover of managers and professionals is analyzed in detail every month, by Business Group, network, function, age, country, gender, level in the organization and length of service. The aim of this analysis is to identify the reasons for departures and initiate measures to address them, and to build a strategy for the long-term retention of employees.

▶ **Breakdown of turnover by cause in 2017**



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

▶ **Voluntary turnover of managers and professionals**



In 2017, the turnover of managers and professionals in the Group was 7.3%. In a highly competitive industry focused on new technologies, the low rate of voluntary turnover demonstrates the engagement of the Group's managers and professionals, their confidence in the Company's strategy and their loyalty to the Valeo Values.

Other than for personal reasons, the two main reasons cited by both men and women when resigning were visibility concerning career development and compensation.

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

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

Valeo also conducts regular competitiveness analyses of salaries in major markets to ensure the appropriateness of pay scales in the countries where the Group operates. It has implemented various types of compensation in order to retain its employees (see section 4.4.2 of this chapter, "Compensation", pages 228 to 229). This has given rise to a number of initiatives such as an individual wage assessment in France to facilitate individual communication on the full extent of direct and indirect benefits received by employees (wages, contribution to health insurance/pension, paid vacation, bonuses, etc.).

Outlook

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

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

Employee compensation

Challenges

The challenge for Valeo is to define a compensation policy that is competitive with regard to the job market in each of the Group's businesses in order to attract and retain talent and motivate teams, while complying with all the laws, regulations and collective bargaining agreements to which each institution is subject, and with internal equity principals.

Approach and achievements during the year

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

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

► Payroll costs and personnel expenses

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

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

► Breakdown of payroll by geographic area in 2017

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

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

Social security contributions grew more slowly, due to the ceiling reached in some countries. Pension costs increased by 40% over the year, with defined contribution plans accounting for nearly 65% of these expenses. The contribution rate edged up slightly to 27.6%, thereby impacting personnel expenses as a proportion of sales (up 0.8% to 21.0%). It is nevertheless important to note that the social security contributions paid in France represent 40.2% of total personnel expenses paid across the Group as a whole (for 16% of the Group's workforce).

Management compensation policy

Valeo aims to incentivize and retain managers through a competitive compensation policy. Overall compensation generally depends on the individual's level of responsibility. It comprises a fixed portion, and can include short- and long-term variable portions, as well as certain employee benefits. A higher level of responsibility will increase the weighting of the variable portion in the total package.

The fixed portion is determined based on external market practices and internal equity. Progression depends on objective market factors, the individual's experience, skills and performance, in line with the Group's wage policy.

Valeo's compensation policy also includes short-term variable compensation, for which the amount and performance criteria depend on the manager's level of responsibility. Variable compensation for senior managers and executives is based on collective financial performance criteria aligned with the scope of responsibility, as well as measurable functional and/or individual objectives. Any employees not mentioned above, in particular other high-potential managers and specialists, may also be eligible for variable compensation, based on quantitative criteria.

To allow all of the Group's employees to benefit from improvements to which they contribute, a system of improvement bonuses allows the redistribution of between 5% (in mature markets) and 10% (in growth markets) of the payroll of each site.

Valeo has also implemented long-term incentive plans to encourage both senior management and key/high-potential employees to take a long-term approach to their duties, and to retain them and align their interests with those of the Company's shareholders. Such plans take the form of performance shares, free shares or long-term monetary compensation, depending on the type of beneficiary, and are subject to long-term performance criteria (for 2017, average of operating margin[(1)], ROCE[(1)] and, in certain cases, ROA[(1)] over three years), except in the case of exceptional free share grants to key players and fast trackers when no performance criteria are applicable. The vesting period is between three and five years, depending on the applicable plan regulations and the country in which the beneficiary carries out his or her duties. When making such grants, the Group endeavors to ensure increasing diversity among beneficiaries by nationality and gender.

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

With regard to employee benefits, specific plans exist at local level (e.g., company car, pension plan, health insurance). Such plans are compliant with local market practices, rules and culture.

Employee share ownership

Since 2010, Valeo has had a policy of allotting free shares to promote the development of employee share ownership over time. Under the policy free shares have been regularly allotted to all eligible employees of the Group, thereby strengthening employee commitment to value creation at all levels of the organization.

In 2016, the Group decided to give new impetus to its employee share ownership policy by setting up Shares4U, a share subscription plan reserved for employees. The offer was extended in 2017 under similar conditions. Through such offers, Valeo's management team sought to acknowledge the personal involvement of employees and give them a greater share in the rewards of the Group's performance. Around 80,000 Group employees were eligible for the offering carried out in 20 of the major countries where Valeo operates in 2017. At the end of the subscription period, which began on June 6 and ended on June 19, 2017, 509,990 new shares were subscribed at a price of 51.62 euros each. Employees received a discount of 20% compared to the reference share price. Employees purchasing their shares within the scope of the Group Employee Savings Plan (*Plan d'Epargne de Groupe* – PEG) also benefited from an employer contribution. Outside France, employees were granted free shares subject to certain conditions.

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

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

Outlook

To support the Group's international development strategy, Valeo must be able to attract and retain the best talent. To this end, it has decided to strengthen its expertise in terms of compensation and benefits, matching needs in individual countries as closely as possible.

Valeo intends to continue to promote employee share ownership in order to involve employees more closely in the Group's performance. Its aim is for 45% of employees to be shareholders by 2020.

(1) *See Financial Glossary, page 36.*

Training

Challenges

The Group has set itself the following strategic objectives:

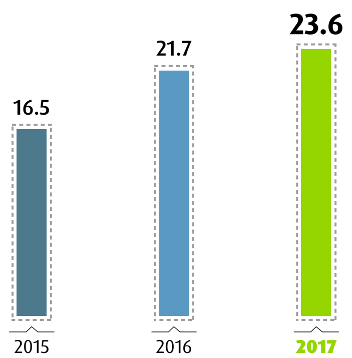
- strengthen the professionalism and commitment of employees;
- support the Group's Research and Development efforts and expand industrial capacity;
- reinforce the 5 Axes culture throughout the Group;
- raise awareness among teams about security, Well-Being at Work and ergonomics;
- raise awareness and prepare teams, especially managers, to meet the challenges associated with diversity;
- provide training in compliance and ethics to all managers and professionals;
- encourage the adaptation of training programs and actions to local needs.

The Group aims to ensure that 100% of employees take part in at least one training course each year.

In 2017, each Valeo employee received an average of 23.6 hours of training. The ratio increased by a significant 7.1 points between 2015 and 2017.

In 2017, 98.1%[1] of employees attended at least one training course.

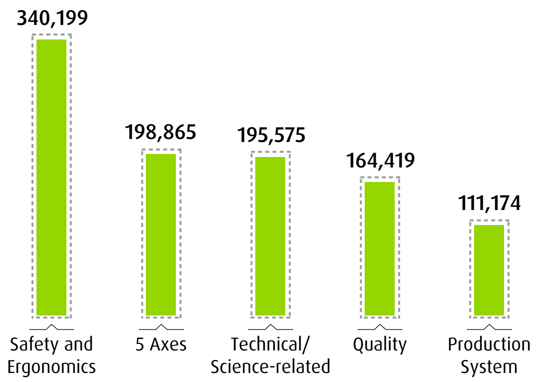
► AVERAGE HOURS OF TRAINING PER EMPLOYEE[1]



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

It is essential for all new employees joining the Group to have the opportunity to discover the tools and methodologies that characterize Valeo's operational excellence. The Business Group Academies and the Technical Institutes help with the onboarding of new employees and facilitate mobility.

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



- Safety and ergonomics are essential levers of commitment and motivation among our employees. This is why the Group has developed specific training modules to foster awareness of these issues, in classroom settings (Safety First) and digital formats (23 e-learning modules setting out Health, Safety and Environment guidelines).
- The volume of training hours devoted to safety was up more than 6.9% to 340,199 compared with 2016.
- The induction of new employees is a key element of the training process at Valeo. Training allows employees joining the Group to understand working methods and tools, and to be rapidly operational. The 5 Axes course was offered to over 28,681 employees in 2017, representing 198,865 hours of training. These courses are dispensed by certified regional trainers.
- New employees also receive training in ethics and compliance, through e-learning modules available in 13 different languages.
- Management training is designed as a long-term development path, helping employees to progressively develop the competences needed in their area of responsibility. The modularity of the programs (structured by themes) and teaching methods (such as case studies) enable the acquisition of skills based on the needs of each employee. Training programs developed in cooperation with the European Center for Continuing Education (CEDEP) serve to prepare future senior management in the Group's main growth areas (Asia, North America and Eastern Europe). These training programs represented 13,795 hours in 2017.

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

Outlook

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

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

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

Development and transmission of competences

Challenges

Throughout the world, the Group seeks to develop the competences of its employees in order to promote engagement and develop more innovative products, and thereby stimulate growth.

Strengthening technical expertise is also central to Valeo's innovation strategy. The investment made each year by the Group in its network of Experts does more than allow technological monitoring to be implemented and Research and Development efforts to be coordinated; it streamlines the transmission of knowledge within the Group's sites throughout the world. The role played by the Experts is critical in today's highly competitive environment and in a context of vigorous international expansion.

Approach and achievements during the year

To prepare employees for success in their future careers, Valeo has established standard Individual Development Plans and career interviews for managers and professionals:

- The Group has set up a repository of competences by network and function, describing each skill and the level expected for each function. Each year, employees meet with their manager to assess their cross-functional (general), managerial and professional competences, and to draw up an action plan to reduce the skills gap.
- The Group has also defined career paths for all positions existing within its organization. These paths can be viewed by all employees using a Google application, and are also available to external applicants. The goal is to empower each employee in his or her own career development.

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

Moreover, during their mid-year or year-end appraisal, all managers and professionals are made aware of succession plans and the possible next steps in their career paths identified by management and Human Resources teams, taking into account the employee's aspirations.

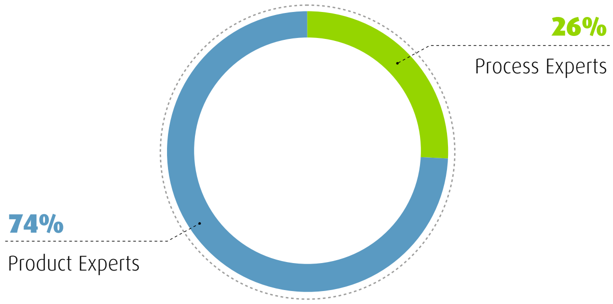
To ensure consistency between identified career paths and vacant positions, a meeting designed to review talent and competences, known as the "People Review", is arranged by entities and networks at different levels of the organization. This meeting helps encourage transfers between entities, countries and networks. This, along with the active internal mobility policy, allows the Group's employees to develop throughout their career by working in different functions in other networks or entities.

Furthermore, each year, Valeo offers international career opportunities in the form of assignments of less than one year or expatriation to ensure the transfer of competences to new locations, the strengthening of certain essential skills to support the growth of Valeo's activities internationally, and the individual development of the employees concerned.

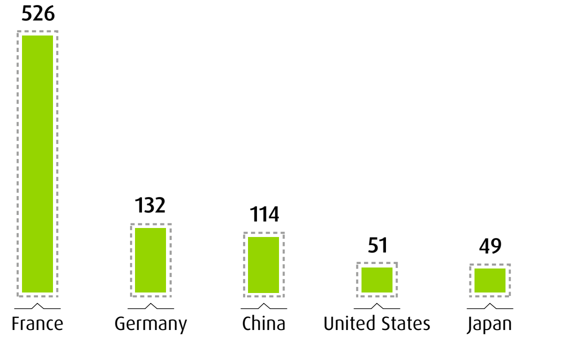
This dynamic policy and these tools have allowed Valeo to create a pool of internal talent to fill vacant positions. As a result, a total of 2,924 managers and professionals benefited from career development opportunities in 2017 (up from 2,312 in 2016). The average length of service of Valeo managers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

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

▶ **BREAKDOWN OF EXPERTS BY EXPERTISE IN 2017**



▶ **Top 5 countries with the most Experts in 2017**



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

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

Outlook

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

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

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

4.4.3 Promoting and respecting fundamental rights

Organization of labor relations

Challenges

Valeo is convinced that sound labor relations are vital if the Company is to adapt to the increasingly vast, swift and deep-seated changes affecting the automotive industry.

It further believes that the unions are a key extension of management for explaining, discussing and adjusting the Company's action plans. With this in mind, various representative bodies and trade unions have been established within the Group. Procedures in respect of information, consultation and/or negotiation have been implemented within these bodies, to foster labor relations giving employees the best information possible.

Approach and achievements during the year

European level

In 1999, Valeo concluded an agreement to set up a European Works Council. The agreement was renegotiated and signed unanimously by the unions in 2016.

The Works Council provides a forum for exchanging views and establishing dialog between management and the 16 employee representatives from each European country in which Valeo has more than 150 employees. A nine-member committee meets quarterly at a European site.

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

International level

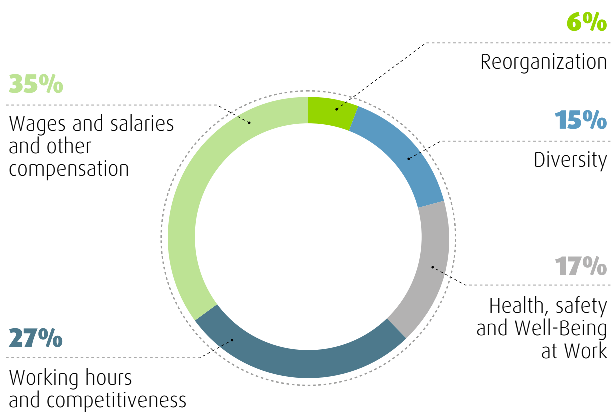
Each country sets up specific bodies in line with local laws and regulations.

In 2017, 91% of Valeo sites had formal bodies representing employees and unions.

This representation at different levels of the organization has allowed Valeo to develop an active bargaining policy with the unions. Valeo must continue promoting labor relations that provide a platform for exchanging points of view, fostering mutual understanding and finding well-balanced solutions that are in the interests of all stakeholders.

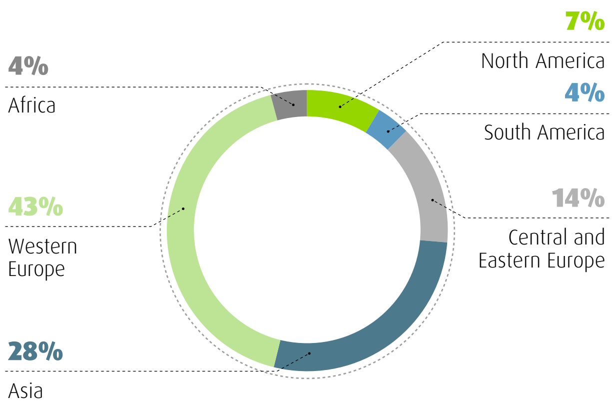
A total of 396 collective bargaining agreements were in force locally at Valeo's various sites worldwide in 2017. The topics covered by these agreements are as follows:

▶ **Breakdown of agreements in force by category in 2017**



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

Breakdown of agreements signed by geographic area in 2017



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

The Corporate Social Responsibility (CSR) agreement

A Corporate Social Responsibility (CSR) agreement was signed on July 10, 2012 and revised on November 4, 2016 between the Group's Management and trade unions. The purpose of this global agreement is to ensure that an appropriate labor framework is in place to accompany the Group's international expansion, in line with its principles of responsibility, Code of Ethics and sustainable development policy. The agreement also seeks to promote labor and environmental practices that go beyond legal and regulatory obligations, by:

- giving due consideration to employee health and safety issues from the product and process design phase;
- making one-on-one employee meetings standard practice in order to ramp up competences and adapt them to the working environment;
- anticipating, in the event of changes in the economic and industrial environment affecting its workforce, how employees will be impacted by strategic decisions;
- ensuring that adequate assistance is provided to those affected, in line with the best industry practices in the relevant local market, through informative meetings with employee representative bodies.

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

Outlook

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

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

Promoting and respecting human rights

Challenges

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

Valeo's corporate social responsibility policy therefore forms part of a universal framework of international commitments designed to guarantee the dignity of individuals and fundamental labor rights.

It is also consistent with Valeo's Code of Ethics and CSR agreement, which reflect the Group's culture of professional, individual and collective integrity.

Approach and achievements during the year

Core values upheld by international organizations

Valeo has participated in the UN Global Compact since 2004.

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

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

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

Valeo's commitment to promoting and respecting human rights

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

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

- the fight against child labor. The Company does not hire children aged under 16, and respects the ILO conventions on work by children aged between 15 and 18;
- the prohibition of forced labor. Valeo recognizes and protects the intrinsic value of each individual, and scrupulously complies with regulations on wages and salaries, minimum age requirements, the equal rights of men and women, and employee privacy;
- the recognition of Valeo employees' right to express themselves and to create or join trade unions in accordance with local laws;
- the rules, ethical principles and procedures to which employees and managers must adhere in order to enable every Valeo employee to work in a healthy environment, free from harassment and discrimination. It establishes the framework for sustainable and profitable growth, and applies to all employees, officers, subsidiaries and other entities managed or controlled by Valeo.

To ensure that all employees understand the commitments made by Valeo in its Code of Ethics, the document is given to all employees, who are required to sign a statement acknowledging receipt and pledging to uphold it. 95% of employees have signed a declaration acknowledging receipt of a copy of the Code of Ethics. In addition, each employee receives training on its content.

Valeo adheres to the UN Global Compact and reports each year to the United Nations on its progress in the area of corporate social responsibility at Group level. It accordingly publishes an annual document entitled "Communication on Progress" on the Global Compact website (available at the following address: https://www.unglobalcompact.org). In this way, Valeo reaffirms its commitment to the Ten Principles set out in the July 2000 Global Compact, which are echoed in its own Code of Ethics.

Valeo's policy on promoting and respecting human rights

Valeo has introduced a raft of procedures, training modules and internal control processes to ensure that the commitments made by the Group are rigorously respected and that its policy on promoting and respecting human rights is properly applied.

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

- Well-Being at Work (see section 4.4.1 of this chapter, "Well-Being at Work", pages 224 to 225);
- The promotion of diversity (see section 4.4.4 of this chapter, "Promoting diversity", pages 235 to 238);
- the prevention of harassment and discrimination;
- the fight against child labor;
- the fight against forced labor;
- the advancement of labor relations.

These procedures apply to all of the Group's employees. Each of them sets out Valeo's approach and commitments, specifies the roles of the various stakeholders, and determines the follow-up methods implemented by the Group, which are based on specific, quantifiable and auditable criteria.

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

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

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

Inappropriate behavior or breaches of the provisions of the Code of Ethics or Human Resources procedures are taken very seriously, and are grounds for disciplinary action, including dismissal. Moreover, Valeo does not tolerate any form of retaliation against people who blow the whistle in good faith, or who take part in investigations, proceedings or hearings.

Outlook

To promote and ensure respect for human rights, Valeo's goal by 2020 is to ensure that all of its employees have received the Code of Ethics and signed the relevant statements, and that they receive training on its content.

4.4.4 Promoting diversity

Valeo firmly believes in the importance and relevance of broader diversity at all levels and in every profession within the Company, not only as a question of social responsibility, but also as a tool for performance.

To meet these challenges, a Diversity Committee was established in 2012 at the initiative of General Management. Chaired by the Group Senior Vice-President, Human Resources, the Committee has four specialized sub-committees: Gender, Disability, Social and Cultural, and Generational. These committees, whose membership was completely renewed in 2016, comprise employees from different countries and with different functions, and are led by four managers with diverse backgrounds. Building on this organization, the Group has been committed since 2012 to:

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

Gender diversity

Challenges

As part of its continuous improvement approach, the Group promotes the skills and development of women and men, both internally and during the hiring process. Valeo is committed to respecting gender equality in terms of career development, training and compensation in comparable situations.

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

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

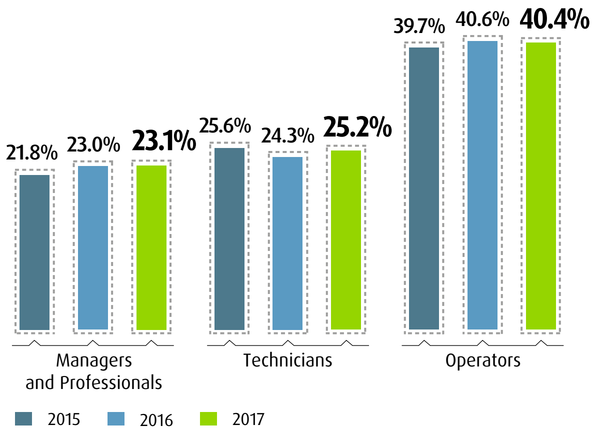
Approach and achievements during the year

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

In 2017, the following measures were implemented:

- to mark International Women's Day on March 8, 2017, 85% of Valeo sites held employee awareness campaigns on professional equality (compared with 73% in 2016). Such events ranged from conference-debates and the publication of articles to the organization of sports tournaments;
- 67% of sites have taken specific measures for pregnant women, such as adapting workstations, reducing or adapting working time or providing rest areas;
- to encourage girls in high school to consider careers in engineering, Valeo continued its partnership with *Elles Bougent* by participating in the actions undertaken by the association: 73 Valeo sponsors are currently working with *Elles Bougent*.

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

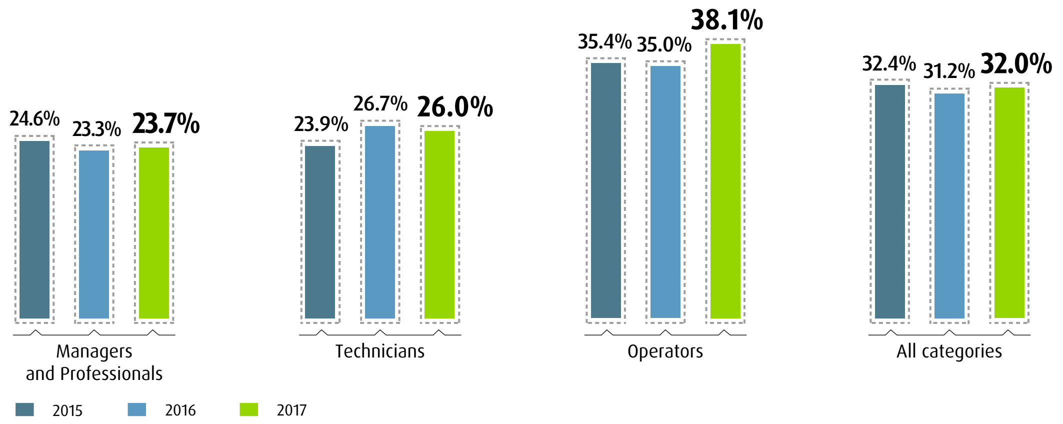


In 2017, women made up 32.9% of Valeo's workforce:

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

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

▶ PERCENTAGE OF WOMEN AMONG NEW HIRES



Women made up 32% of new hires.

Outlook

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

Disability diversity

Challenges

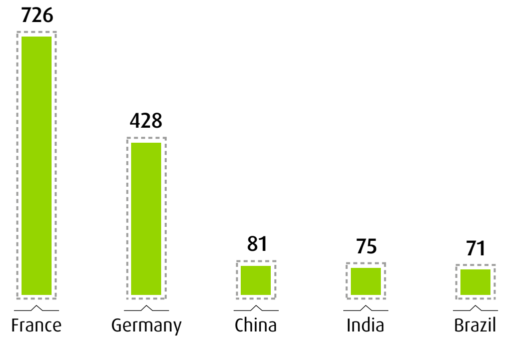
Promoting the employment of people with disabilities is a principle and a priority for the Group, as part of its process to provide equal access to employment and its approach designed to spur economic efficiency.

Approach and achievements during the year

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

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

▶ NUMBER OF EMPLOYEES WITH DISABILITIES WORLDWIDE (DIRECT EMPLOYMENT)



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

Top five countries with the most employees with disabilities

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

Valeo has two goals:

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

Cultural and social diversity

Challenges

Valeo recognizes cultural and social diversity as a real factor of performance that should be nurtured and structured. As such, Valeo has set itself two global objectives:

- succeed in naturally unifying multicultural teams through the respect and acceptance of differences of origin, religion, perceptions and feelings;
- ensure the cohesion and efficiency of multicultural teams and avoid potential conflicts by training management in this area.

Approach and achievements during the year

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

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

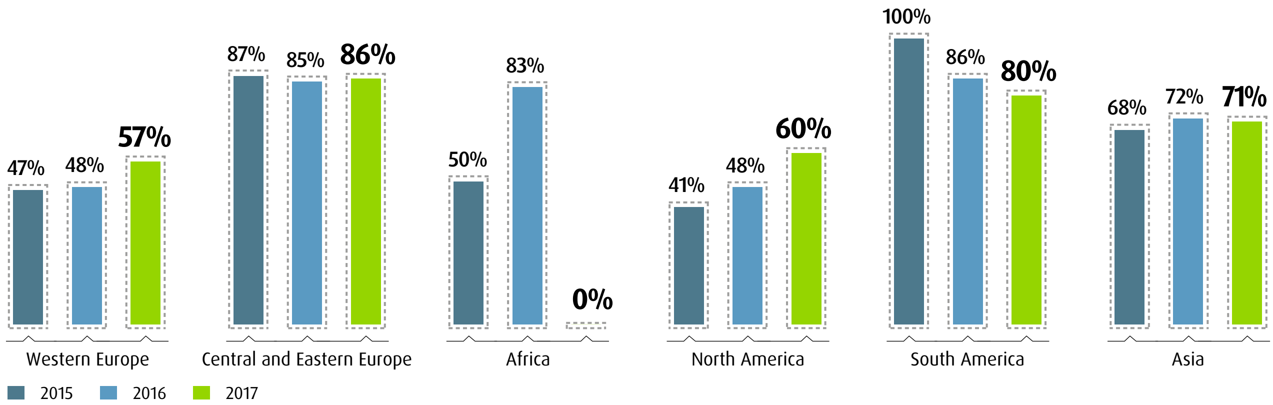
The proportion of expatriates in the total number of managers and professionals has fallen by 0.35 points over the last three years (1.43% in 2017 vs. 1.74% in 2014). French expatriates accounted for 58% of total Valeo expatriates in 2017, compared with 64% in 2014. This means that the proportion of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

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

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

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

▶ Breakdown of sites run by local directors (2017)



Outlook

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

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

Generational diversity

Challenges

The Group strives to attract young talent, before providing training and fostering motivation through tutoring and mentoring. At the same time, it takes care to create an environment in which four generations can work together as the retirement age increases and members of generation Z (people born between the mid-1990s and the late 2000s) arrive on the labor market. Between the youngest and the oldest generation, the challenge is to transfer know-how, which must be safeguarded to support the Group's growth ambitions and ensure its sustainability.

Approach and achievements during the year

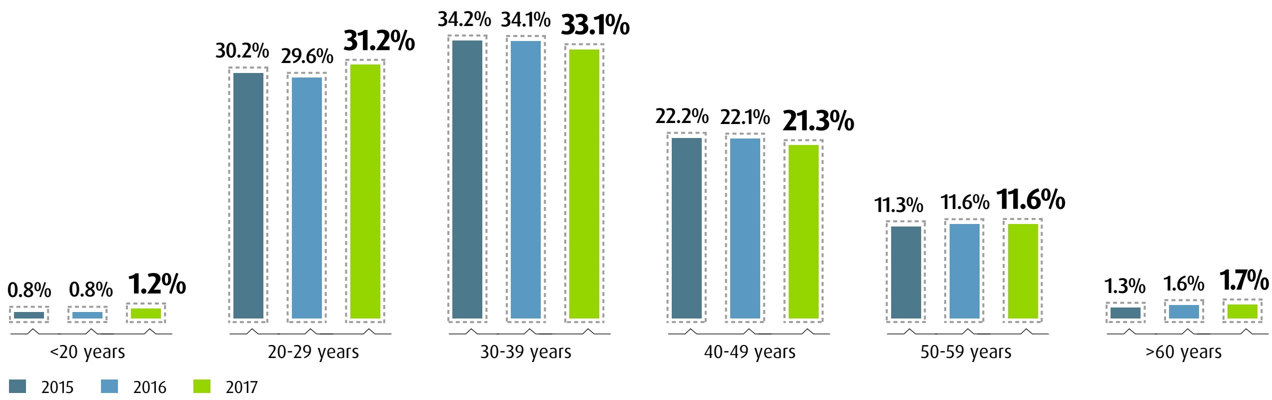
In 2017, Valeo implemented a number of measures in favor of generational diversity:

- 96 sites held at least one local event to mark generational diversity day in September. Such events took the form of school visits, photo contests, conference-debates and the publication of articles;
- Valeo also maintained its close relationships with higher education establishments, notably by nurturing selective partnerships with world-renowned schools and universities, while at the same time fostering diversity within its workforce. These initiatives in favor of youth employment and the integration of young people in the workplace allowed the Group to welcome: 1,959 interns, 1,195 apprentices and trainees, and 135 *Volontariat International en Entreprise* (VIE) program applicants.

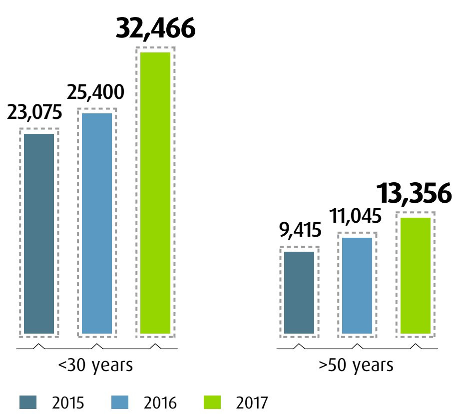
In 2017, Valeo had a total of 13,356 employees aged over 50, and 32,466 aged under 30, representing 13.7% and 32.5% of the registered headcount respectively. Valeo hired 14,953 employees aged under 30.

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

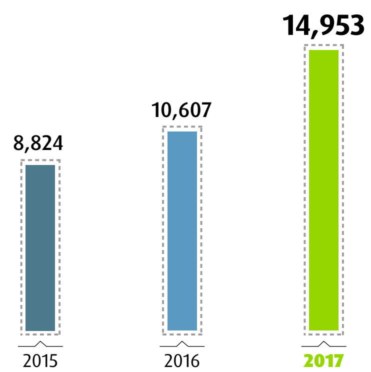
▶ BREAKDOWN OF REGISTERED HEADCOUNT BY AGE GROUP



▶ BREAKDOWN OF JUNIOR AND SENIOR EMPLOYEES – REGISTERED HEADCOUNT



▶ BREAKDOWN OF JUNIOR EMPLOYEES (UNDER 30)[1]



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

Outlook

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

4.5 Commitment to corporate citizenship

Valeo is a committed social actor, given the importance it attaches to its operational excellence and, product quality, vehicle and road user safety, ethics and compliance rules, its relationship with its supplier base, the availability of original equipment spares, and its relations with institutions and local communities.

Attentive to the demands of its stakeholders, Valeo seeks to understand and respond to them, notably by integrating these key issues in its 2016 materiality matrix and its update in 2017.

4.5.1 Total quality and product safety

Challenges

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

Every day, the Group's employees across all positions and departments aim to deliver robust, right-first-time and long-lasting products and services.

Approach and achievements during the year

The Quality network's specific roles are to:

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

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

- the 5 Axes system centered on customer satisfaction. This is what cements our corporate culture. Three new roadmaps were created in 2015 within the Total Quality axis. The goal is to achieve excellence in understanding customer expectations during the development and series production phases of products, and to regularly measure improvement through satisfaction surveys. The Quality network is responsible for providing managers with the 5 Axes framework and related tools, monitoring implementation at each entity, conducting site audits and continuously improving the system;
- the Quick Response Quality Control (QRQC) problem-solving culture ensures that every incident is factually documented by resident quality engineers by systematically comparing good parts and defective parts and by verifying the relevance of the standards (QRQC step 1). Speed of reaction, clarity of communication and validation of each problem-solving step are verified in real time in the shared Valeo Incident Management (VIM) system. A warning system gives management visibility and provides teams with the necessary support. Each problem is associated with at least one lesson learned to guarantee that standards are continuously improved. What is learned locally is shared across the Group to accelerate progress (QRQC step 2). Lastly, emphasis is placed on QRQC step 3, which aims to transform every manager into a certified QRQC trainer able to coach his or her teams;
- state-of-the-art methodologies and standards systematically integrated within a continuous improvement process in the following areas:
  - product/process development (generic FMECA – failure mode, effects and criticality analysis; RAISE – robustness, accountability, innovation, standardization and evaluation),
  - driving projects (review process by the Technical Committee),
  - supplier integration (StEDE – Standards Existence, Deployment and Enforcement; CCLs – Commodity Control Lists and SCPs – Standard Control Plans),
  - quality control in production (Standard Process Control Plan), and
  - monitoring guaranteed performance (advance detection of guarantee notifications). In 2017, Valeo implemented a specific methodology – Wings, Warranty INcident Getting Solved – enabling it to detect any incident in the customer network as soon as possible and to provide an immediate and appropriate response. The collection and enrichment of these data also enable the Group to develop effective action plans to extend product life.

The Quality network is in place at the Group's shared expertise center, GEEDS, which develops the necessary expertise in existing businesses and high-growth businesses such as electronics, software and calculation of predicted reliability. The Quality network sustains the Group's rapid growth by training new employees worldwide. The Quality Academy provides all new hires with an adapted training program;

- a structural organization by customer, supplier, region and Product Line:
  - every customer is represented in the Group by a "Champion" who continuously summarizes and reports on Valeo's global performance in line with the customer's measurement method, coordinates progress plans and provides Valeo employees with training modules on each customer's individual work methods, also known as the Customer Way. The Group has a network of resident engineers who continually analyze the performance of products delivered by Valeo on assembly lines or under warranty,

4

- improving the quality performance of partner suppliers, selected in conjunction with the Group Purchasing Department, involves the SD&P (Suppliers Development & Prevention) program and the RSQ (Recover Supplier Quality) program. More than 200 suppliers were involved in these activities in 2017. The central Supplier Relationship Management (SRM) platform recaps each supplier's performance and the initial and regular approval of initial samples. At site level, supplier quality assurance teams handle incidents and capitalize on the lessons learned in strict compliance with the QRQC culture,
- within a given region, the Quality Department fully integrates local requirements while ensuring consistent Group performance worldwide and recruiting the best local talent,
- for the Product Lines, the Quality Department oversees the robust development of products and processes through design approval (design reviews, approval plans), and the rollout of standard inspection plans based on generic FMECAs of products and processes, which are continually supplemented with customer feedback approved by Technical Committee Experts.

4.5.2 Ethics and compliance

Challenges

Due to its global presence and its growing number of employees, Valeo's Ethics and Compliance Office has set up a specific and comprehensive Compliance Program to combat corruption and anti-competitive practices. The program is gradually being extended into other areas, such as export control.

Approach

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

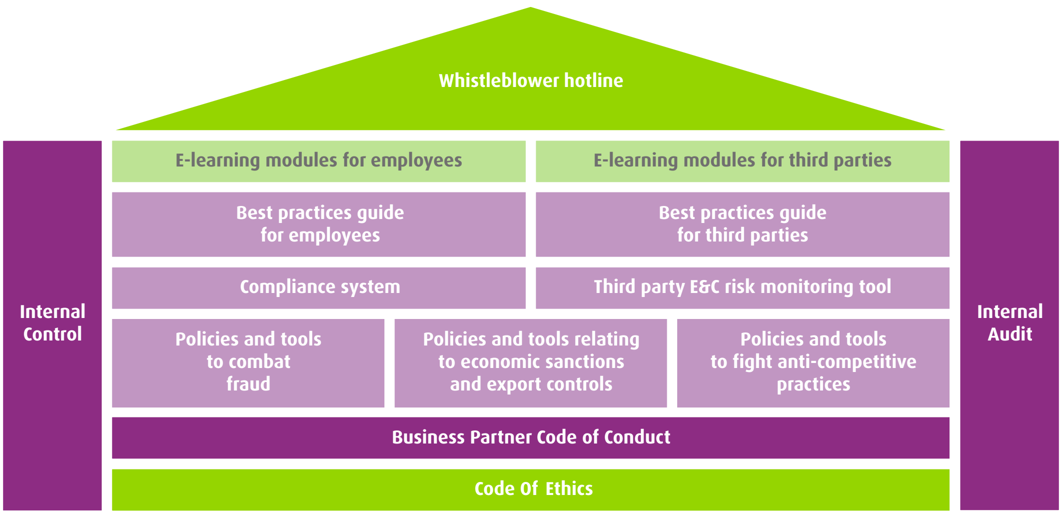
- concretely and operationally reflect Valeo's determination to comply with regulations;
- describe prohibited practices and lay down conditions and prerequisites governing certain business relationships and cooperative arrangements;
- establish procedures for implementing and monitoring the effectiveness of the Compliance Program in preventing and detecting risks, and implementing corrective action plans as appropriate.

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

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

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

▶ **Overview of Valeo's Compliance Program**



A program to combat corruption and anti-competitive practices

Since it was introduced, the Group's ethics and compliance policy has had the dual aim of fighting corruption and anti-competitive practices. Compliant with the highest international standards, it is based on a set of features and tools designed to raise awareness and train people on the relevant risks, and to manage them on a global scale.

A comprehensive framework

The Code of Ethics, first introduced in 1997, then updated in 2005 and 2015, is available to all employees and subcontractors in 22 languages. It is the primary reference for employee training and awareness and forms the cornerstone of the Group's ethics and compliance policy.

Since 2012, the Compliance Program has also included Valeo rules on combating corruption and anti-competitive practices, which are circulated along with manuals, definitions, practical examples, guides and short films designed to help Valeo employees apply them in their everyday work.

These resources are made available Group-wide and:

- are regularly updated to cover specific situations liable to arise in a major international group;
- take into account the legal specificities of the various countries in which the Group operates;
- aim to provide decision-making assistance, helping employees recognize non-compliance risks and determine who to contact in the event of doubt or difficulty, ensuring appropriate decision-making;
- are permanently accessible via the Ethics&Compliance intranet portal, with most available in 13 languages.

Practical, accessible education

Active awareness of ethics and compliance issues is an integral part of team and project management, and a key component of an awareness program supported by senior management and managers in the field.

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

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

Prevent and alert: the Valeo whistleblower hotline

Valeo has adopted a worldwide alert line enabling employees to alert management, through various channels (phone interviews, internet portal, email, letters) about actual or potential non-compliance with regulations or internal rules on anti-competitive practices, corruption and fraud.

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

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

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

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

Business relationships with third parties or intermediaries representing Valeo

Third parties liable to represent Valeo undergo a rigorous selection procedure with a view to forming long-lasting, trust-based partnerships. To this end, a strict procedure has been implemented.

In 2013, the Ethics and Compliance Office introduced an awareness-raising program specifically addressing third parties, to ensure that Valeo standards are known, shared and recognized by Valeo's various partners.

Two awareness handbooks have been prepared for third parties:

- the first is designed to raise their awareness about competition law and Valeo's Compliance Program;
- the second addresses intermediaries, and aims to raise their awareness about corruption risks and Valeo's program to fight corruption.

Since then, the Group has updated and regularly deploys awareness tools (via e-learning modules) to provide all third parties representing Valeo with a full understanding of the Group's expectations on integrity and the fight against anti-competitive practices and corruption.

These many initiatives seek to establish long-lasting, trust-based business relationships. Non-compliance with these rules represents grounds for withdrawal from all contractual relationships.

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

Achievements in 2017

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

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

- rollout of new ethics and compliance tools for operational and daily use. In 2017, Valeo introduced the Valeo Compliance Management System, an IT tool for managing employee requests relating to ethics and compliance. It enables employees to seek the necessary authorization in respect of various policies (gifts, invitations, donations, selection of intermediaries, management of conflicts of interest) from their computer, tablet or smartphone. The tool centralizes and tracks requests, and can be used to send our communications or surveys relating on compliance to all or part of the workforce. It makes it easier to monitor all cases and/or requests currently being reviewed by the Ethics and Compliance Office;
- renewal of support for management staff through both the reorganization of the Compliance Champions, whose number has been reduced (from 70 to 31 people) and whose function has been redesigned, and a specific awareness program for the Group's 300 main managers (or leaders). Given that reinforced application of the ethics and compliance tools requires the involvement of management teams in the Business Groups and Valeo Service, National Directorates and networks, they were asked to appoint a spokesperson, known as their Compliance Champion, tasked with strengthening the application of ethics and compliance tools within their respective areas. Drawing on their in-depth knowledge of the specificities of their network, country or National Directorate, Compliance Champions serve to facilitate the application of the Group's demanding requirements in this respect within their membership structure. In addition, the Group's main managers can now refer to a document setting out their roles and responsibilities (Valeo Roles and Responsibilities), issued in 2017. This document describes individual roles and responsibilities by level (Business Group and country management teams, managers and employees) and by key functions (Human Resources, Finance, etc.);
- development of tools necessary to bring the Valeo Group into compliance with European and French laws governing the fight against corruption(1). In this respect, Valeo has conducted a campaign to assess its specific risks. It has also extended the scope of its whistleblower hotline. The new hotline will be opened in 2018, after the tools ensuring the confidentiality and anonymity of alerts and complaints was validated by the competent French authorities, including the French National Data Protection Commission (CNIL) early in 2018.

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

Valeo's anti-corruption plan

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

- Valeo's anti-corruption policy has been reviewed and upheld;
- the internal whistleblowing system, allowing the collection of reports and complaints previously confined to certain types of alerts, now covers the entire scope provided for by the law(2);
- a specific corruption risk map was drawn up at the end of 2017;
- a number of additional measures to reduce these risks were implemented following this work;
- procedures for evaluating the situation of customers, suppliers and intermediaries have been defined; their rollout began in 2017;
- Valeo's longstanding internal and external accounting control procedures, which are regularly updated to comply with the latest professional and international standards and rules, have been reinforced;
- annual training courses for managers and staff most exposed to the risks of corruption and influence peddling, which have existed since the creation of Valeo's Ethics and Compliance program, are continuing. They are mandatory for all Group managers and professionals. In 2017, almost all managers and professionals were trained (see above);
- the existing anti-corruption program control and evaluation system was regularly reviewed by the Audit and Risks Committee of Valeo's Board of Directors in 2017.

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

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

Outlook

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

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

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

4.5.3 Application of sustainable development principles in purchasing processes

Key figures in 2017

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

Challenges

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

To anticipate growing demand from automakers, Valeo:

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

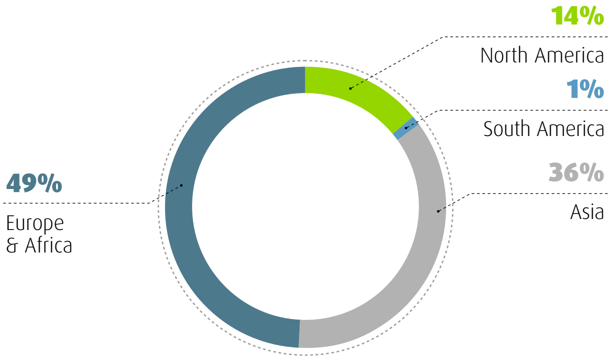
Therefore, since 2010, Valeo has opened up special dialog on this issue with certain customers, based on:

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

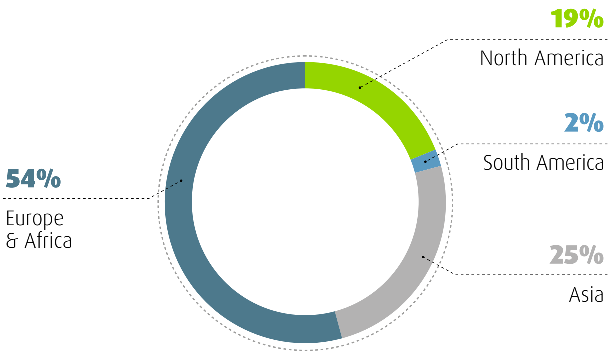
Purchasing location aligned with consumption area

Purchasing policy is one of the levers of the Group's operational excellence. It has the following characteristics.

▶ **Breakdown of direct purchases by geographic area of origin in 2017**



▶ **Breakdown of direct purchases by geographic area of consumption in 2017**



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

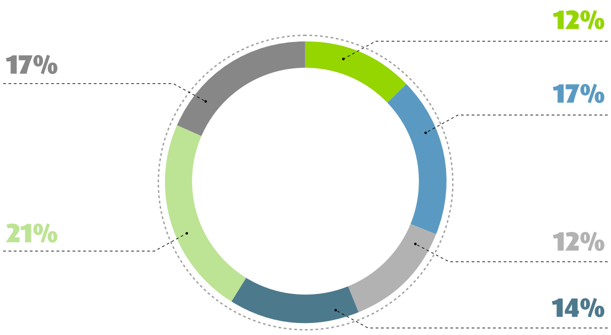
Due to its long-established presence in the region, Europe is Valeo's primary geographic area in terms of consumption (54%) and supply (49%) of purchases. As a direct result of the Group's growth strategy in emerging countries, Asia ranks second, in terms of both consumption (25%) and number of suppliers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

The breakdown of purchases by geographic area of consumption and origin shows that the Group generally favors a location strategy compatible with the demands of economic competitiveness, and that it participates in local economic integration. This strategy applies across all of the regions in which Valeo operates, and allows the Group to:

- reduce transportation-related CO_2 emissions;
- support local employment by developing competences;
- meet the expectations of local stakeholders (customers, local and national governments) that increasingly encourage local integration.

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

▶ **Breakdown of purchases by commodity in 2017**

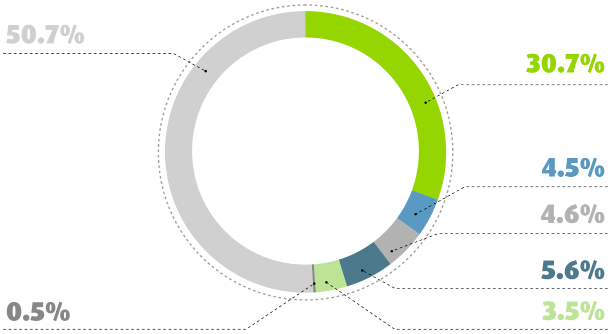


- Lighting and other components (12%)
- Electronic components (17%)
- Steel and processing (12%)
- Non-ferrous metals and processing (14%)
- Plastics and processing (21%)
- Electromechanical components (17%)

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

Subcontracting

▶ **Total subcontracting expenditure by category in 2017**



- General maintenance (30.7%)
- Security (4.5%)
- Cleaning (4.6%)
- Cafeteria (5.6%)
- Waste management (3.5%)
- Reception (0.5%)
- Technical support (50.7%)

Valeo engages subcontractors to perform specific services at its many sites. As a result, the Group ensures that its subsidiaries comply with the provisions of national labor law and ILO conventions in their dealings with subcontractors, requiring them to share the provisions of the Valeo Code of Ethics with subcontractors, and in particular the articles concerning fundamental human rights.

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

Approach

Structure of the purchasing function at Valeo, and supplier relations

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

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

- quality;
- industrial location;
- competitiveness.

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

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

Management of the supplier base

The Group's Purchasing Department has two major priorities:

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

Regional purchasing departments in each Group region (Europe, Middle East, Africa, China, India, Japan, ASEAN[1], North America and South America) interact continuously with the commodity/segment priority to ensure that efficient, meaningful purchasing strategies are applied.

Becoming a Valeo supplier

Selection and award meetings chaired by the global segment buyers are held to screen all proposals from suppliers based on a number of objective and rigorous award criteria.

The criteria for selecting suppliers and awarding bids and contracts include:

- economic factors;
- financial risks;
- logistics;
- corporate governance;
- environmental factors;
- social factors (respect for human rights, environmental protection, employee health and safety and quality).

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

Before any supply agreement is awarded, suppliers must undergo the following qualification process:

- each supplier is required to complete a detailed questionnaire to enable Valeo to identify potential risks and to determine the overall level of risk. Based on these evaluations, Valeo checks the main requirements, highlights potential weaknesses and decides whether it needs to examine certain issues further during a visit to the supplier's plant. If so, an audit team composed of Group buyers, quality specialists and engineers is selected and sent to the site to verify the information given by the supplier. Following the site visit, the team decides whether or not the supplier can be included on the supplier base, possibly following the implementation of an improvement plan jointly agreed with the supplier;
- after the meeting of the selection committee and the award of the contract, the supplier is officially listed, and the specific requirements for the deliverable components are set out in Valeo's specifications. A Supplier Quality Engineer from the project team monitors the development and industrialization of components and guides the supplier through final component qualification. If necessary, Valeo's laboratories perform interim design reviews, run tests and take any special measures required. In any event, Valeo always performs an on-site audit.

In order to be included in the supplier base, all suppliers must meet Valeo's ethics, integrity and sustainable development requirements. In 2015, these obligations were combined in the Business Partner Code of Conduct. This document incorporates all the fundamental principles of the UN Global Compact, the Valeo Code of Ethics and the fundamental principles of human rights, including the freedom of association, the elimination of forced labor, the fight against corruption and workplace health and safety. Any supplier that fails to respect these rules of conduct is likely to receive sanctions, ranging from temporary suspension from new Valeo projects to definitive exclusion from the supplier base. No sanctions of this type were imposed in 2017.

Without calling into question the principles of the Supplier Commitment for Sustainable Development (SCSD) deployed among the incumbent supplier base and supported by Valeo's adherence to the Global Compact principles, the Group is now rolling out its ethics, compliance and sustainable development commitments to all of its suppliers, using the same methods, through its Business Partner Code of Conduct (BPCC).

Valeo's supplier base breaks down into several categories based on the supplier's performance level in a given product family. In the event of critical performance or non-compliance with Valeo requirements, a supplier can be placed on "probation" for a maximum of one year and be required to implement an action plan. If the probation period is not successful, the supplier may be excluded from the supplier base.

New suppliers are also placed on probation for at least two years. During this period, the number of projects assigned remains under strict supervision to protect the supplier against the risk of becoming overly dependent on Valeo.

With this system, Valeo aims to better control its supply chain while building trusting relationships with its suppliers through cooperation on remedial action or improvement programs that are aimed at preventing or limiting operating risks.

(1) ASEAN: Association of Southeast Asian Nations.

Achievements

Improvement in suppliers' sustainable development practices

As part of the Group's policy of reinforcing the support offered to its suppliers along the entire supply chain, the Sustainable Development & External Affairs, Purchasing and Quality Departments ran a survey on sustainable development choices across a representative sample of suppliers accounting for 67% of the Group's production purchases. The mobilization of Valeo's teams among its suppliers on sustainable development issues resulted in a substantial increase in the response rate to 33% in 2017.

In 2017, Valeo reinforced this assessment of practices by scheduling in January each year a global audit campaign among suppliers identified through the sustainable development questionnaire. Audits have been performed in Europe, Asia (China, Japan, India, Thailand) and North America (United States, Mexico), giving suppliers a new dimension of support in their sustainable development approach. The variety of the suppliers audited (by commodity, segment, company size, etc.) enabled Valeo to grasp the diversity of sustainable development practices, and to provide assistance and corrective actions in the event of failings or inadequacy in respect of the Group's sustainable development standards.

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

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

Anticipatory measures to ensure legal compliance in France

To anticipate changes in the French legal framework[1], and on the basis of feedback from its suppliers on certain evaluation criteria, the Valeo Code of Conduct for Suppliers specifies the Group's requirements in terms of human rights (minimum working age, prohibition of forced labor, respect for freedom of association, etc.), workplace health and safety and respect for the environment. In addition to the commitment made by Valeo's suppliers to comply with the Valeo Code of Conduct, the Group has included a section related to human rights in the sustainable development questionnaire it sends each year to a representative sample of its suppliers (see above). This is also reviewed and verified during the supplier sustainable development audits that the Group put in place in 2015. Some of these risk apprehension criteria were reviewed in 2017.

Results of assessments in 2017

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

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

With this type of questionnaire, Valeo hopes to transmit its CSR experience to its suppliers by communicating quality and responsibility requirements, which are important aspects in risk management, and to set an example to encourage its suppliers to apply the same principles throughout the supply chain.

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

Assessment of electronic component suppliers' sustainable development practices

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

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

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

- the introduction of enhanced training in sustainable development in its operational aspects to middle management structures;
- greater perfectibility in the attention given to safety on production sites;
- systematic requirement that codes of conduct be signed by their own lower-tier suppliers.

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

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

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

North American diversity programs applied to suppliers

Minority diversity programs in North America (United States and Canada) have added the Minority Business Enterprises (MBE) and Women's Business Enterprises (WBE) criteria for the integration of women and minorities in business to the evaluation criteria for US and Canadian suppliers. These criteria apply to both the supplier qualification processes and the selection and award meetings held to review entities located in North America. In 2017, Valeo's business with suppliers meeting diversity criteria (WBE and/or MBE) was down 27% compared with 2016 due to the number of MOB (Minority Owned Business) suppliers acquired by various non-MOB suppliers.

Conflict minerals

In 2013, Valeo's Purchasing Department aligned its sourcing processes with the American Dodd-Frank Wall Street Reform and Consumer Protection Act of July 21, 2010 on conflict minerals (title XV) in a joint effort to end the financing of violent conflict in the Democratic Republic of the Congo (DRC) and neighboring countries, which is financed in part by mining and the mineral trade. Valeo requires all of its suppliers to comply with the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

A specific initiative introduced in conjunction with the Research and Development Department allows the Group to better identify potential sources of conflict minerals. Thus, in 2017, 75% of the suppliers identified using this initiative provided the Group with a certified report on conflict minerals using the Conflict Mineral Reporting Template (CMRT) developed by the Conflict-Free Sourcing Initiative (CFSI).

To help suppliers to apply the Group's ethics and compliance principles, the Purchasing Department and Ethics and Compliance Office have provided manuals on Valeo's website to raise awareness about both the substantial legal risks of anti-competitive practices and corruption and about Valeo's compliance policies and requirements.

Aware of the discussions on this topic at European level, Valeo launched a study process in 2016 aimed at anticipating the future European framework and adapting its tools accordingly.

Automotive industry working group on Corporate Social Responsibility in France

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

Signing the Charter of Intercompany Relations

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

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

The charter requires that each signatory appoint a supplier representative to act as an internal mediator to facilitate the settlement of any disputes with suppliers and to help develop healthy long-term relationships. The internal mediator was appointed on March 13, 2012.

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

Ongoing sustainable development commitment through the Automotive Future Fund

Since the Tier 2[1] Automotive Suppliers' Modernization Fund (FMEA) was set up in 2010 (and subsequently renamed the Automotive Future Fund), Valeo has been involved, alongside Bpifrance and other automotive suppliers (Bosch France, Faurecia, Hutchinson, and Plastic Omnium), in providing the fund with capital, selecting automotive suppliers and assisting the fund in acquiring minority stakes in their share capital to support them in their growth and investments. The fund was set up to take non-controlling interests in automotive companies engaged in industrial projects and creating value.

In this way, the fund gives these companies medium- and long-term visibility and consolidates the automotive value chain while strengthening a number of these SMEs, which depend heavily on orders from automakers and tier-one automotive suppliers. This initiative has helped limit fractures in the industry supply chain in France.

The Automotive Future Fund (*Fonds Avenir Automobile* – FAA) is involved in the governance of 11 companies in which it has previously invested, and which need a stronger industrial foothold in a competitive international environment. It continues to work on selecting potential SMEs whose core businesses are turned toward the automotive industry of the future.

4.5.4 Availability of replacement products

Challenges and approach

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

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

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

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

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

VALEO, A PARTICIPANT IN THE REMANUFACTURING MARKET

Through its remanufacturing activity, Valeo puts its OEM parts design and manufacturing expertise at the service of the remanufacturing market, for which the Group has developed a high-quality, environmentally friendly range of products. Valeo only offers remanufactured products, as opposed to reused, repaired, rebuilt, refurbished, reworked or reconditioned products, and uses quality processes and standards to ensure the quality of the products offered for sale[(1)].

Valeo offers two ranges of parts – one new and one remanufactured. Remanufactured systems mainly include alternators and starters as well as clutches and thermal compressors.

Valeo has set up an efficient system called e-CORPS to collect used parts.

The system permits the immediate identification of product references (type of part, origin, size, production year, etc.). Once parts have been retrieved, Valeo disassembles, inspects and cleans them, and subjects them to electrical and electronic tests. Valeo then initiates a remanufacturing process, which most importantly involves eliminating any traces of hazardous substances to guarantee personal protection. With more than 40 testing points for rotating machines on test benches, Valeo meets the standards of the original equipment market, and tests all remanufactured products before packaging them for sale on the aftermarket.

This industrial expertise has enabled Valeo to offer a full range and selection of remanufactured parts, and thereby to champion environmental protection in the remanufacturing market.

4.5.5 Public and regulatory policies

Challenges

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

Approach and achievements during the year

Relationships with public bodies

Valeo develops institutional relationships with relevant administrations (at international, national and local levels), through regular dialog, such as:

- dialog with international organizations (UN Global Compact, OECD, World Bank);
- consultations on request:
  - from the European Commission (Directorates-General for Industry, Research, Transport, and the Environment),
  - from ministries of industry (France, China, Spain), the economy (France, Poland, Japan, Germany), research (France, China), energy (France, United States), transportation (France, Germany, United States) and employment (all countries where there are Valeo sites);
- co-construction/co-management of jointly financed projects, especially through participation in the governance bodies of European Union public-private partnerships (European Green Vehicle Initiative Association – EGVI);
- participation in the construction of roadmaps, under Valeo's co-chairmanship (since 2014) of ERTRAC, the European Commission technology platform (see section 4.2.4 of this chapter, "European Road Transport Research Advisory Council (ERTRAC)", page 193).

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

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

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

The Group's main items of expenditure are:

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

As in previous years, the Group did not use public affairs consultancy services in 2017. Moreover, in accordance with its Code of Ethics, Valeo does not make any donations or give any support to political parties in any countries where the Group operates.

(1) The definition of remanufactured products is common to the entire industry (ACEA, APRA, CLEPA, FIRM, VDA): "A remanufactured part fulfills a function which is at least equivalent compared to the original part. It is restored from an existing part (core), using standardized industrial processes in line with specific technical specifications. A remanufactured part is given the same warranty as a new part, and it clearly identifies the part as a remanufactured part and the remanufacturer".

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

Membership of professional bodies

As an independent, global tier-one(1) automotive equipment supplier, Valeo is a member of the main organizations that represent the interests of original equipment and aftermarket equipment suppliers on the world's main automotive markets:

- in Europe: CLEPA (European Association of Automotive Suppliers);
- in the United States: OESA (Original Equipment Supplier Association);
- in France: FIEV (*Fédération des Industries des Équipements pour Véhicules*);
- in Germany: VDA (*Verband der Automobilindustrie*);
- in Spain: Sernauto (*Asociación Española de Fabricantes de Equipos y Componentes para Automoción*);
- in Italy: ANFIA (*Associazione Nazionale Fra Industrie Automobilistiche*);
- in Japan: JAPIA (Japan Autoparts Industries Association);
- in Brazil: Sindipeças (*Sindicato Nacional da Indústria de Componentes para Veículos Automotores*).

4.5.6 Voluntary commitment to local communities

Challenges

Consistent with its size and worldwide scope, Valeo takes a firm stance on responsibility and commitment in its relationships with its many and varied stakeholders.

The quality of the initiatives implemented at Valeo's sites is a major factor in Valeo's corporate citizenship endeavor. The table below lists the main initiatives undertaken in 2017.

▶ Main corporate citizenship initiatives at Valeo sites

Commitment	Partners	Examples of initiatives
Action with local communities	■ Local populations ■ Local government ■ Local schools (primary/secondary) ■ Higher education and research organizations	■ Support for local economic fabric and development ■ Dialog with local stakeholders
Aid for local populations	■ Local populations	■ Solidarity initiatives through donations to local populations

Approach and achievements during the year

2017, continuity in Valeo's special relationship with Japan

In 2014, for the 50th anniversary of the *Maison Franco-Japonaise* in Tokyo, the EHESS Social Sciences University set up the Advanced French-Japanese Studies Center in Paris, which runs programs inviting Japanese research scientists and specialists in Japan to Paris.

Valeo set up and finances the center's "innovative technologies for sustainable transport" chair. The chair's aim is to support exchanges between universities in France and Japan, including visits to France by Japanese academics in the fields of technology companies for an aging society, robotics, and human-machine interfaces for connected and automated mobility solutions.

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

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

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

Action by sites with local communities

Valeo sites, contributing to the local economic fabric and development

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

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

At the end of each year, Valeo takes stock of the actions undertaken at its sites. The most effective and useful initiatives are showcased via internal and external communication channels to encourage other sites to support the same sort of actions. For example, articles from the *ValeOnline Newscenter* emailed to Group employees discuss some of the outstanding site initiatives. Valeo also highlights local plant engagement in publications, such as the Management Report, by explaining and developing the purpose and results of their initiatives. For the second year running, all sites performed at least one corporate citizenship operation. These various initiatives seek to improve the living conditions for Valeo employees while also having a positive impact on the region's local development.

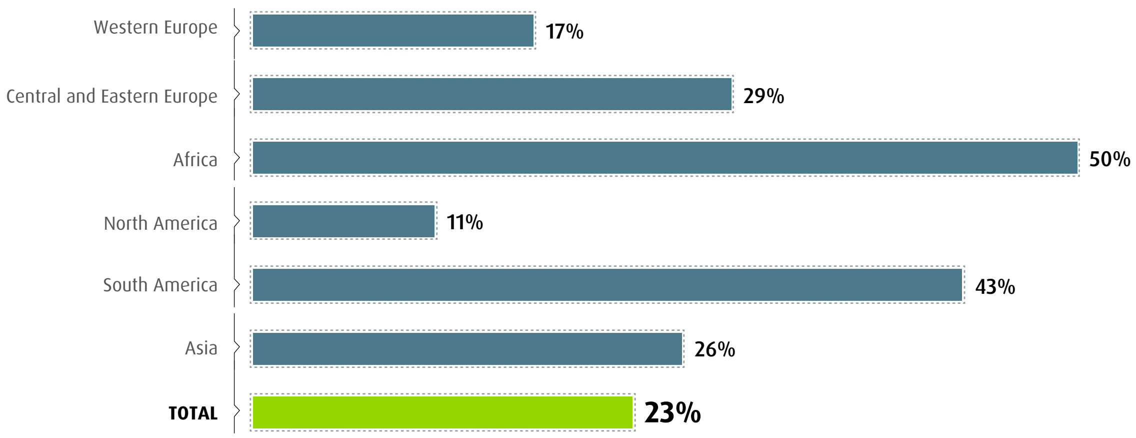
Valeo sites involved in dialog with local stakeholders

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

Open days at Valeo sites

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

▶ PROPORTION OF SITES THAT HELD AN OPEN DAY IN 2017



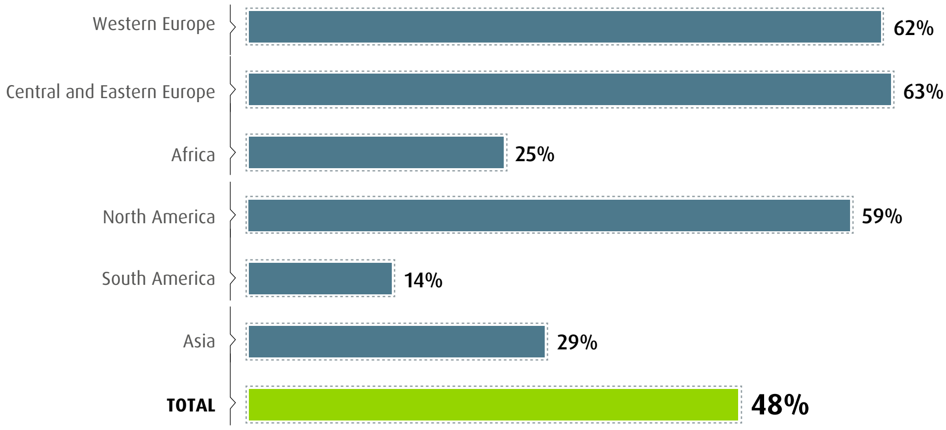
Relationships with local educational and training bodies

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

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

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

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



Valeo employees, working with the local community

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

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

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

With a view to establishing a lasting relationship with their local communities, Valeo sites and their employees are committed to solidarity actions around the following main themes:

- awareness-raising on critical illnesses and disabilities, such as breast cancer and visual impairment (including on-site testing), and fundraising events including charity races and other initiatives. For example, Valeo employees from 11 Valeo sites in France took part in the Odyssea charity race in Paris in 2017;
- initiatives to help address public health issues. For example, blood donation campaigns were organized in many of the Group's host countries worldwide in 2017;
- charity drives targeting the poorest populations are organized, primarily in the form of donations of clothing and food, such as those run by Valeo sites in Turkey, the Czech Republic, Brazil and Thailand.

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

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

VALEO'S HISTORIC LINK WITH THE GARCHES FOUNDATION

The Group is a founding member of *Institut Garches*, which was created in 1988 and became a foundation in May 2005. The organization works to encourage the independence and professional and personal integration of people with motor disabilities. The foundation has put together a considerable network of expertise, including doctors, heads of motor disability associations and heads of partner companies. Valeo works alongside professionals from the foundation's wheelchair selection and test center.

The Group's Research and Development Department thus launched a technological innovation program to build an obstacle detection system for wheelchairs. The system will allow people who occasionally lose control of their movements to drive a wheelchair and offer them a certain degree of mobility.

4.6 Methodology and international guidelines

4.6.1 Sustainable development reporting methodology

Environmental reporting methodology

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

Scope and consolidation

Scope

Published environmental data concern all plants and distribution platforms managed by Valeo worldwide, excluding research centers not located at plants, administrative sites, vehicle front-end assembly sites located at or near the automaker site, and subsidiaries in which the Group has a non-controlling interest. In all, a total of 122 sites report environmental indicators.

Until 2015, Valeo considered that the reporting year began on December 1 of the prior year and ended on November 30 of the reporting year. In order to publish more reliable data within the required time frame, Valeo amended its reporting period in 2016. It now considers that **the reporting year begins on October 1 of the prior year and ends on September 30 of the reporting year**. The 2016 and 2017 figures published in this document correspond to the new period, while figures from previous years correspond to the former period.

Calculation of the ISO 14001, ISO 50001 and OHSAS 18001 certification indicators takes into account all plants and distribution platforms managed by Valeo worldwide, excluding research centers not located at plants, administrative sites, vehicle front-end assembly sites located at or near the automaker site, and subsidiaries in which the Group has a non-controlling interest.

All new sites are required to obtain certification by the third year following their inclusion in the Group's scope. Accordingly, 128 sites were likely to obtain ISO 14001, ISO 50001 and OHSAS 18001 certification in 2017.

Changes in scope

Data for sites newly consolidated in a given year (i.e., new sites or sites in which the Group increases its interest and gains control) are only consolidated as of the following year.

Sites that have been sold or shut down during the reporting year are excluded entirely from that year's data. However, their data for previous years are retained.

Consolidation rules

The environmental impacts generated by sites in which Valeo holds an interest of 50% are included on the basis of a 50% share. The impacts of sites in which Valeo holds an interest of more than 50% are included in full.

Most indicators are expressed in absolute value terms (total quantity) as well as in relation to sales. 2017 sales are calculated on the basis of a year beginning on October 1, 2016 and ending on September 30, 2017 so as to match the reporting period of the 2016 indicators. The ratio per million euros is calculated by dividing total quantity by sales for the relevant sites.

Source of data

Environmental data are collected by a centralized online application (VRI[1]), except for environmental indicators relating to the consumption of raw materials, ISO 14001, ISO 50001 and OHSAS 18001 certification and indirect greenhouse gas emissions relating to logistics, inputs and the use of products sold by Valeo. The other aforementioned data are collected from the relevant internal department and consolidated by the Health, Safety and Environment (HSE) Department.

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

Controls and external verification

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

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

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

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

Methodological limits

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

- the absence of harmonized national or international definitions, especially on hazardous substances and waste;
- use of estimates where measurements are not possible, for example for atmospheric VOC emissions;
- the limited availability of external data required in particular for calculating indirect greenhouse gas emissions (logistics and transportation);
- the absence of a confirmed methodology for calculating indirect emissions related to the use of the Group's products.

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

Reporting methodology for labor-related indicators

The labor-related indicators were prepared in accordance with the commitments and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code resulting from France's "Grenelle II" law of April 24, 2012.

Scope and consolidation

Scope

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

In 2017, reporting on labor-related aspects is aligned with the financial reporting scope.

Valeo reports its labor-related indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

Changes in scope

Data for companies newly consolidated during the current year and present at December 31 are included where such data are available.

Sites that have been sold or shut down during the reporting year are excluded entirely from that year's data. However, their data for previous years are retained.

Consolidation rules

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

Source of data

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

Financial data are sent directly by the Group Finance Department.

Controls and external verification

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

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

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

Reporting methodology for social indicators

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

Scope and consolidation

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

Valeo reports its social indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

Source of data

Social data are collected as follows:

- data on local plant initiatives, which allow the Group to monitor initiatives aimed at local populations and communities, are reported through a single centralized tool used by Human Resources Departments. As all the sites addressed responded through the tool, the published data cover the Group's entire scope of consolidation;
- data concerning Valeo's purchases and suppliers were collected and analyzed jointly by the Purchasing and Sustainable Development and External Relations Departments. The sustainable development performance of the Group's suppliers was assessed based on a survey entitled "Supplier Evaluation on Sustainable Development Practices", with an online questionnaire to be completed by the supplier. Valeo has established a representative sample of its main suppliers, covering 63% of the total value of the Group's production purchasing;
- data concerning fair practices and compliance were collected by the Ethics and Compliance Office. Quantified data on training on risks related to corruption and anti-competitive practices were collected by the Human Resources network, which regularly records training data (see reporting methodology for labor-related indicators).

Specifications

Megatrend studies quoted in section 4.2.1 of this chapter, "From analysis of megatrends to the vehicle concept of tomorrow", pages 181 to 182, refer to forecasts on future passenger behavior. These surveys are carried out by the Product Marketing Department with stakeholders (consumers, associations, automakers) in order to improve forecasts of social trends among users. The Group's Research and Development teams use these results to develop technology in line with market expectations. Valeo sells its products primarily to automakers and to a lesser extent, through the Valeo Service activity, to end consumers through the after market distribution network. The Group only rarely engages in advertising or promotional campaigns for the general public.

Controls and external verification

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

4.6.2 Cross-reference with national and international guidelines

GRI code	Description of the indicator	Art. 225 Grenelle II	Chapters/Sections	Pages
STRATEGY AND ANALYSIS				
G4-1	Statement on sustainable development and the Group's strategy by the Chief Executive Officer		4 – Interview with Jacques Aschenbroich	168
G4-2	Key impacts, risks and opportunities	II 2. d)	4.1 – Valeo and sustainable development: strategy, policy and organization 4.1.3 – Non-financial risks	170 172
ORGANIZATIONAL PROFILE				
G4-3	Name of the organization	-	7.1.1 – Company name and headquarters	434
G4-4	Primary brands, products and services	-	1.4 – Operational organization	42
G4-5	Headquarters	-	7.1.1 – Company name and headquarters	434
G4-6	Countries where the organization operates and which are specifically relevant to the sustainability topic covered in the report	-	7.2 – Information on subsidiaries and affiliates	436
G4-7	Ownership and legal form	-	7.1.2 – Legal structure and governing law 6.6.1 – Changes in share capital	434 428
G4-8	Markets served (geographic breakdown, sectors served and types of customers and beneficiaries)	-	Integrated Report – Business review and results 1.4 – Operational organization	6 42
G4-9	Scale of the reporting organization (number of employees, locations)	I a) 1	Integrated Report – Business review and results 1.4 – Operational organization 4.4 – Total headcount 4.3.1 – Mapping of the main environmental issues facing sites	6 42 220 198
G4-10	Breakdown of employees by employment type, employment contract, region and gender	I a) 1	4.4 – Valeo and its employees	220
G4-11	Percentage of total employees covered by collective bargaining agreements	I c) 1	4.4.3 – Organization of labor relations	232
G4-12	Description of the organization's supply chain	III c) 2	4.1.5 – Valeo, a responsible partner 4.5.3 – Application of sustainable development principles in purchasing processes	179 243
G4-13	Significant changes during the reporting period	-	1.1 – History and development of the Group 5.1.4 – Investments over the past three years 6.4 – Share ownership	38 282 417
G4-14	Precautionary principle and actions in this area	II a) 4 II b) 1 II b) 2	4.3.1 – Resources devoted to the prevention of environmental risks and pollution 4.2.3 – Resources, materials and eco-design 4.3.3 – Discharges and waste 4.5.1 – Total quality and product safety	200 189 211 239
G4-15	External charters, principles and initiatives to which the Group subscribes	II a) 1	4 – Interview with Jacques Aschenbroich 4.4.3 – Promoting and respecting human rights	168 233
G4-16	Membership of associations and/or advocacy organizations	II a) 1	4.1.5 – Valeo, a key driver of a sustainable automotive industry 4.5.5 – Public and regulatory policies	179 249
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
G4-17	List of entities included in the consolidated financial statements and list of those not included in the report	-	4.6.1 – Sustainable development reporting methodology	253
G4-18	Process for defining report content	-	4.1.1 – Sustainable development challenges	170
G4-19	List of material aspects	-	4.1.1 – Materiality matrix plotting the sustainable development challenges	170

GRI code	Description of the indicator	Art. 225 Grenelle II	Chapters/Sections	Pages
G4-20	Boundary of each material aspect within the organization	-	4.2.1 – Group Research and Development policy 4.3.1 – Environmental policy 4.4 – Valeo and its employees 4.5 – Commitment to corporate citizenship	181 198 220 239
G4-21	Boundary of each material aspect outside the organization	-	4.2.1 – Group Research and Development policy 4.3.1 – Environmental policy 4.4 – Valeo and its employees 4.5 – Commitment to corporate citizenship	181 198 220 239
G4-22	Restatements of information provided in previous reports	-		
G4-23	Changes in the scope and aspect boundaries	-	No substantial changes were observed in 2016	-
STAKEHOLDER ENGAGEMENT				
G4-24	List of stakeholders	III b) 1	4.1.5 – A sustainable development policy based on strong relationships with stakeholders	178
G4-25	Basis for the identification and selection of stakeholders	III b) 1	4.1.5 – A multi-stakeholder approach	178
G4-26	Stakeholder engagement	III b) 1	4.1.5 – Types of dialog with stakeholders	178
G4-27	Topics raised through stakeholder engagement and how the organization has responded	III b) 1	4.1.5 – Types of dialog with stakeholders	178
REPORT PROFILE				
G4-28	Reporting period	-	4.6.1 – Sustainable development reporting methodology	253
G4-29	Date of most recent previous report	-	3/27/2018	
G4-30	Reporting cycle	-	4.6.1 – Sustainable development reporting methodology	253
G4-31	Contact person	-	6.2 – Investor relations	415
G4-32	"In accordance" option chosen and GRI G4 index	-	4.1.6 – Methodology 4.6.2 – Cross-reference with national and international guidelines	180 256
G4-33	Independent verifier's report	-	4.9 – Independent verifier's report on consolidated social, environmental and societal information presented in the management report	268
GOVERNANCE AND COMMITMENTS				
G4-34	Governance structure	II a) 1	4.1.2 – Sustainable development governance and structure 3 – Corporate governance	171
G4-35	Process for delegating authority for economic, environmental and social topics from the Board of Directors to senior executives and other employees	II a) 1	1.4 – Operational organization	42
G4-36	Senior executives responsible for economic, environmental and social issues, and relationship with the Board of Directors	II a) 1	4.1.2 – Sustainable development governance and structure	171
G4-37	Stakeholder consultation by the Board of Directors	III b) 1	7.1.10 – Shareholders' Meetings	435
G4-38	Composition of the Board of Directors and its committees	-	3.2 – Composition of the Board of Directors, and preparation and organization of its work	96
G4-39	Independence of the Chairman of the Board of Directors	-	3.2.1 – Composition of the Board of Directors	96

GRI code	Description of the indicator	Art. 225 Grenelle II	Chapters/Sections	Pages
G4-40	Nomination and selection processes for the Board of Directors and its specialized committees, and the experience and expertise of its members	-	3.2.1 – Composition of the Board of Directors 3.2.2 – Preparation and organization of the Board of Directors' work	96 120
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	135
G4-42	Role of the Board of Directors and senior management in the development, approval and update of the purpose, values or mission statements, strategies, policies and goals relating to economic, environmental and social impacts	II a) 1	-	-
G4-43	Measures taken to develop and improve the collective knowledge of the Board of Directors on economic, environmental and social impacts	-	4.1.2 – A committee of the Board of Directors in charge of corporate social responsibility	171
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	171
G4-45	Role of the Board in the identification and management of economic, environmental and social impacts, risks and opportunities	II a) 1	3.2.2 – Preparation and organization of the Board of Directors' work	120
G4-46	Role of the Board of Directors in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	II a) 1	3.2.2 – Preparation and organization of the Board of Directors' work	120
G4-47	Frequency of reviews of economic, environmental and social impacts, risks and opportunities by the Board of Directors	II a) 1	3.2.2 – Preparation and organization of the Board of Directors' work	120
G4-48	Committee or highest-level position that formally reviews and approves the sustainable development report	II a) 1	5.6.5 – The Sustainable Development Report is an integral part of the Management Report, reviewed and approved by the Board of Directors	405
G4-49	Process for communicating critical concerns to the Board of Directors	III b) 1	7.1.10 – Shareholders' Meetings	435
G4-50	Nature and total number of critical concerns communicated to the Board of Directors and the mechanism used to address and resolve them	-	-	-
G4-51	Compensation policy of the members of the Board of Directors and senior executives; relationship between compensation and performance (including labor-related and environmental performance)	I a) 3	3.3 – Compensation of corporate officers, Board members and other Group executive managers	142
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	142 120
G4-53	Method used to seek and take into account the views of stakeholders on compensation	III b) 1	7.1.10 – Shareholders' Meetings	435
G4-54	Ratio of the annual total compensation of the highest-paid individual in the organization to the median total annual compensation	I a) 3	-	-
G4-55	Ratio of the percentage increase of the annual total compensation of the highest-paid individual in the organization to the median percentage increase in annual total compensation	I a) 3	-	

GRI code		Description of the indicator	Art. 225 Grenelle II	Chapters/Sections	Pages
INNOVATION					
Material aspect: autonomous and connected vehicle and low-carbon mobility solutions					
G4-DMA	●	Management approach	II c) 3 II d) 1 II d) 2	4.2.2 – Solutions that contribute to CO_2 emissions reduction and to autonomous and intuitive driving	186
G4-EN7	●	Reduction in energy requirements of products and services	II c) 3	4.2.2 – Summary of the main innovations and their impacts	186
Material aspect: resources, materials and eco-design					
G4-DMA	●	Management approach	II b) 2 II c) 2	4.2.3 – Resources, materials and eco-design	189
G4-EN2	●	Percentage of materials used that are recycled input materials (packaging only)	II c) 2	4.2.3 – Resources, materials and eco-design	189
G4-EN27	●	Extent of mitigation of environmental impacts of products and services	II b) 2 II c) 2	4.2.3 – Consumption of raw materials 4.2.3 – Consumption of chemicals 4.2.3 – Use of recycled input materials	191 192 192
G4-EN28	●	Percentage of products sold and their packaging materials that are reclaimed by category	II b) 2 II c) 2	4.3.4 – Packaging	216
Material aspect: partnership approach to Research and Development					
G4-DMA	●	Management approach	III b) 2	4.2.4 – A partnership approach to Research and Development	192
G4-EC8	●	Significant indirect economic impacts, including extent of impacts	III b) 2	4.2.4 – Valeo, an actor in the governance of institutional collaborative organizations 4.2.4 – Multifaceted academic partnerships	193 194
ENVIRONMENTAL ECO-EFFICIENCY					
Material aspect: energy and greenhouse gas emissions					
G4-DMA	●	Management approach	II c) 3.1 II c) 3.2	Valeo's environmental management organization 4.3.1 – ISO 50001 certification 4.3.2 – Reducing energy consumption 4.3.2 – Reducing greenhouse gas emissions	200 203 207 209
G4-EN3	●	Direct energy consumption by primary energy source	II c) 3.1	4.3.2 – Analysis of the geographic breakdown of energy consumption	208
G4-EN4	●	Indirect energy consumption by primary energy source	II c) 3.1	4.3.2 – Total indirect energy consumption	207
G4-EN5	●	Energy intensity	II c) 3.1	4.3.2 – Energy intensity *(in MWh/€m)*	208
G4-EN6	●	Reduction of energy consumption	II c) 3.2	4.3.2 – Reduction of energy intensity	208
G4-EN15	●	Direct greenhouse gas emissions (*scope* 1)	II d) 1	4.3.2 – Scope 1 greenhouse gas emissions	209
G4-EN16	●	Energy indirect greenhouse gas emissions (*scope* 2)	II d) 1	4.3.2 – Scope 2 greenhouse gas emissions	209
G4-EN17	●	Other indirect greenhouse gas emissions (*scope* 3)	II d) 1	4.3.2 – Scope 3 greenhouse gas emissions	210
G4-EN18	●	Greenhouse gas emissions intensity	II d) 1	4.3.2 – Greenhouse gas emissions per million euros of sales	209
G4-EN19	●	Reduction of greenhouse gas emissions	II d) 1	4.3.2 – The Group's industrial carbon footprint	211

GRI code	Description of the indicator	Art. 225 Grenelle II	Chapters/Sections	Pages
Material aspect: waste and discharges				
G4-DMA	Management approach	II b) 1	4.3.3 – Discharges and waste 4.3.3 – Prevention of atmospheric emissions – Approach 4.3.3 – Prevention of discharges into the soil – Approach 4.3.3 – Waste – Approach	211 212 213 213
G4-EN20	Emissions of ozone-depleting substances (ODS)	II b) 1	4.3.3 – CFC and HCFC emissions	212
G4-EN21	Emissions of nitrogen oxides (NO_x) and sulfur oxides (SO_x) and other significant atmospheric emissions	II b) 1	4.3.3 – Atmospheric VOC emissions 4.3.3 – Atmospheric NO_x emissions	212 212
G4-EN22	Total water discharge by quality and destination	II b) 1	4.3.5 – Total water discharge by sites	217
G4-EN23	Total weight of waste by type and disposal method	II b) 2	4.3.3 – Total quantities of waste generated, characteristics of waste and percentage of waste recycled	214
G4-EN24	Total number and volume of significant spills	II b) 1	4.3.3 – Prevention of discharges into the soil – Approach	213
G4-EN25	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention	II b) 2	4.3.3 – Amount of hazardous waste generated, amount of recovered waste and waste exported	214
Material aspect: transportation and logistics				
G4-DMA	Management approach	II c) 3 II d) 1	4.3.4 – Transportation and Logistics – Approach and performance 4.3.4 – Packaging – Approach	215 216
G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	II c) 3 II d) 1	4.3.2 – Greenhouse gas emissions related to logistics 4.3.2 – Greenhouse gas emissions related to business travel	215 210
G4-EN1	Consumption of raw materials (packaging only)	II c) 2	4.3.4 – Total consumption of packaging materials and breakdown by type of packaging	216
Material aspect: water				
G4-DMA	Management approach	II c) 1	4.3.5 – Water	217
G4-EN8	Total water withdrawal by source	II c) 1	4.3.5 – Total water consumption, by use, by geographic area and by source	218
G4-EN9	Water sources significantly affected by withdrawal of water	II c) 1	4.3.5 – Water restrictions	218
G4-EN10	Percentage and total volume of water recycled and reused	II c) 1	4.3.5 – Water reuse	219
Material aspect: biodiversity				
G4-DMA	Management approach	II e) 1	4.3.6 – Biodiversity	219
G4-EN11	Operational sites owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	II e) 1 II c) 4	4.3.6 – Sites located in or near protected areas	219
G4-EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	II e) 1	Not disclosed	
G4-EN13	Habitats protected or restored	II e) 1	4.3.6 – Biodiversity	219
G4-EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organization, by level of extinction risk	II e) 1	Not disclosed	

GRI code	Description of the indicator	Art. 225 Grenelle II	Chapters/Sections	Pages
EMPLOYEES				
Material aspect: safety and working conditions				
G4-DMA	Management approach	I d) 1	4.4.1 – Workplace health and safety	222
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on workplace health and safety programs	I d) 1	4.4.3 – Organization of labor relations	232
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by geographic area and by gender	I d) 3	4.4.1 – Frequency rate of accidents with and without lost time for the Group and for France 4.4.1 – Absenteeism rate for the Group and by geographic area 4.4.1 – Breakdown of absences by reason (including occupational illnesses) and by geographic area	223 224 224
G4-LA8	Health and safety topics covered in formal agreements with trade unions	I d) 2	4.4.3 – Breakdown of agreements signed by category	232
Material aspect: attracting and retaining talent				
G4-DMA	Management approach	-	4.4.2 – Attracting and retaining talent	225
-	Response rate to the Employee Feedback Survey	-	4.4.2 – Attracting and retaining talent	225
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	I a) 12 I a) 13 I a) 14 I a) 21 I a) 22	4.4.2 – Attracting talent 4.4.2 – Retaining talent	225 227
G4-LA9	Average hours of training per year, per employee, by gender and by employee category	I e) 2	4.4.2 – Training 4.4.2 – Breakdown of employees trained	230 230
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	I e) 1	4.4.2 – Development and transfer of competences	231
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	I e) 1	4.4.2 – Development of competences	231
Material aspect: Promoting of diversity				
G4-DMA	Management approach	I f) 1 I f) 2 I f) 3	4.4.4 – Promoting diversity 4.4.4 – Gender diversity 4.4.4 – Disability diversity 4.4.4 – Generational diversity 4.4.4 – Cultural and social diversity	235 235 236 237 236
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	I f) 1 I f) 2 I a) 1	4.4.4 – Percentage of women on the Board and the Operations Committee 4.4.4 – Breakdown of women by socio-professional category 4.4.4 – Proportion of employees with disabilities in the world and in France 4.4 – Breakdown of registered headcount by gender	235 235 236 222
COMMITMENT TO CORPORATE CITIZENSHIP				
Material aspect: total quality and product safety				
G4-DMA	Management approach	III d) 2	4.5.1 – Total quality and product safety	239
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	III d) 2	4.5.1 – Product quality and safety approach	239

GRI code		Description of the indicator	Art. 225 Grenelle II	Chapters/Sections	Pages
Material aspect: purchasing and sustainable development					
G4-DMA	●	Management approach	III c) 1 III c) 2	4.5.3 – Application of sustainable development principles in purchasing processes	243
G4-EN32	●	Percentage of new suppliers that were screened using environmental criteria	III c) 2	4.5.3 – Assessment of the sustainable development practices of suppliers and share of key suppliers evaluated	246
G4-LA14	●	Percentage of new suppliers that were screened using labor practices criteria	III c) 2	4.5.3 – Assessment of the sustainable development practices of suppliers and share of key suppliers evaluated	247
G4-SO9	●	Percentage of new suppliers that were screened using criteria for impacts on society	III c) 2	4.5.3 – Assessment of the sustainable development practices of suppliers and share of key suppliers evaluated	246
G4-HR10	●	Percentage of significant suppliers and contractors that were screened using human rights criteria	III c) 2	4.5.3 – Becoming a Valeo supplier	245
G4-EC9	●	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	III c) 2	4.5.3 – Breakdown of purchases by area of origin and consumption area	243
Material aspect: ethics and compliance					
G4-DMA	●	Management approach	III d) 1	4.5.2 – Ethics and compliance	240
G4-56	●	Codes of conduct and ethics	III d) 1	4.5.2 – Ethics and compliance	240
G4-57	●	Advisory mechanisms (ethical and lawful behavior)	III d) 1	4.5.2 – Practical, accessible education	241
G4-58	●	Alert mechanisms (unethical and unlawful behavior)	III d) 1	4.5.2 – Prevent and alert: the Valeo whistleblower hotline	241
G4-SO4	●	Communication and training on anti-corruption policies and procedures	III d) 1	4.5.2 – A program to combat corruption and anti-competitive practices	241
Material aspect: availability of replacement products					
G4-DMA	●	Management approach	II a) 1 II b) 2	4.5.4 – Valeo, a participant in the remanufacturing market	249
Material aspect: public and regulatory policies					
G4-DMA	●	Management approach	III a) 1	4.5.5 – Public and regulatory policies	249
G4-SO6	●	Total value of political contributions by country and recipient/beneficiary	-	4.5.5 – Public and regulatory policies	249
Material aspect: local integration					
G4-DMA	●	Management approach	III a) 1 III a) 2	4.5.6 – Local management	237
G4-SO1	●	Percentage of operations with implemented local community engagement, impact assessments and development programs	III a) 2	4.5.6 – Commitment of sites and employees in favor of local community operations 4.5.5 – Proportion of sites that held an open day	251 251
G4-EC6	●	Proportion of senior management hired from the local community at significant operation sites	III a) 1	4.4.4 – Proportion of sites whose manager was from the local country by geographic area	237

Legend:
General elements of information that are part of the core reporting option are in bold.
● *Full indicator.*
● *Partial indicator.*
○ *Indicator not applied.*

4.7 Summary of Valeo's Research and Development and CSR performance AFR

4.7.1 Summary of the Research and Development organization

The indicators shown below are not exhaustive.

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

(1) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive and Valeo-Kapec.
(2) See Sustainable Development Glossary, page 267.

The consumption of raw materials presented in the above table and in section 4.2.3 of this chapter, "Resources, materials and eco-design", pages 189 to 192, is expressed as a percentage of the gross sales of the sites included in the scope of environmental reporting (see section 4.7.2 of this chapter, "Summary of environmental indicators", pages 264 to 265).

4

4.7.2 Summary of environmental indicators

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

	Unit	2015	2016	2017
Scope(1)				
Total sales across all sites in reporting scope(2)	€m	14,056	15,138	16,750
Number of sites in reporting scope	-	117	120	132
General policy on environmental issues				
Number of sites able to obtain ISO 14001 and OHSAS 18001 certification(3)	-	122	130	128
ISO 14001-certified sites	%	98	94	95
ISO 50001-certified sites	%	8	12	13
OHSAS 18001-certified sites	%	94	91	95
Functional expenditure allocated to environment	€k	21,957	17,221	19,028
Capital expenditure allocated to environment, excluding cleanup costs	€k	2,995	3,338	5,731
Cleanup costs, sites in operation	€k	3,191	560	1,086
Total provisions allocated to environmental risks	€m	13.5	13.7	15.5
Number of fines and compensation awards	-	2	1	1
Amount of fines and compensation awards	€k	6	118	6
Number of environmental complaints	-	19	7	8
Reduce energy consumption and greenhouse gas emissions				
Total energy consumption	GWh	2,005	2,077	2,250
Proportion of electricity	%	74.9	75.9	75.3
Proportion of natural gas	%	23.2	22.6	22.6
Proportion of fuel oil	%	1.1	1.0	1.5
Proportion of other energy sources	%	0.8	0.5	0.6
Total energy consumption/Sales	MWh/€m	143	137	134
Direct energy consumption/Sales	MWh/€m	35	32	32
Indirect energy consumption/Sales	MWh/€m	108	105	102
Energy efficiency: expected gain	MWh	41,894	76,117	53,893
Direct greenhouse gas (GHG) emissions(3)	kMt CO_2	141.8	145.8	166.9
Indirect GHG emissions	kMt CO_2	649.4(4)	710.9(4)	763.9
Other relevant indirect GHG emissions	kMt CO_2	5,990	7,296	8,261
Discharges and waste				
Atmospheric NO_x emissions	Mt	121	122	136
Atmospheric NO_x emissions/Sales	kg/€m	8.6	8.1	8.1
Atmospheric VOC emissions(3)	Mt	1,590	1,644	1,596

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

(1) Data may vary slightly depending on the rate of site response on specific indicators (see section 4.3.1 of this chapter, "Response rates for main indicators in 2017", page 204).
(2) Sales calculated for the period from October 1, 2016 to September 30, 2017, as stated in the methodological note on pages 253 to 255.
(3) See Sustainable Development Glossary, page 267.
(4) Data updated in accordance with the new energy factors received from the International Energy Agency in mid-2016.

4.7.3 Summary of labor-related indicators

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

4.8 Sustainable Development Glossary

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

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

Year ended December 31, 2017

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

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

To the Shareholders,

In our capacity as an independent body accredited by COFRAC under number 3-1050, and as a member of one of the auditors of Valeo, we hereby present our report on the consolidated social, environmental and societal for the year ended December 31, 2017, presented in the management report and hereinafter referred to as the "CSR information" pursuant to the provisions of Article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Responsibility of the company

It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in Article R.225-105-1 of the French Commercial Code, in accordance with the protocols used by the company (hereafter referred to as the "Criteria"), and of which a summary is included in the management report and available on request at the company's headquarters.

Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession as well as the provisions in Article L.822-11 of the French Commercial Code. In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent verifier

It is our role, based on our work:

- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R.225-105 of the French Commercial Code (Attestation of presence of CSR Information);
- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria.

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

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

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

1. Attestation of presence of CSR Information

Nature and scope of the work

We obtained an understanding of the company's CSR issues, based on interviews with the management of relevant departments, a presentation of the company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the company and its societal commitments, as well as, where appropriate, resulting actions or programs.

We have compared the information presented in the management report with the list as provided for in Article R.225-105-1 of the French Commercial Code.

In the absence of certain consolidated information, we have verified that the explanations were provided in accordance with the provisions in Article R.225-105, paragraph 3, of the French Commercial Code.

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

Conclusion

Based on this work, we confirm the presence in the management report of the required CSR information.

2. Limited assurance on CSR Information

Nature and scope of the work

We undertook around ten interviews with the people responsible for the preparation of the CSR Information in the different departments, in charge of the data collection process and, if applicable, the people responsible for internal control processes and risk management, in order to:

- assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, and understandability, taking into consideration, if relevant, industry standards;
- verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its social and environmental issues, its strategy in relation to sustainable development and industry best practices.

For the CSR Information which we considered the most important:

- at the level of the consolidated entity, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report;
- at the level of the representative selection of sites that we performed, based on their activity, their contribution to the consolidated indicators, their location and a risk analysis, we undertook interviews to verify the correct application of the procedures and undertook detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation. The sample selected therefore represented on average 10% of the total workforce and between 9% and 16% of the quantitative environmental information, that were considered as representative characteristics of the environmental and social domains.

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

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

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

Conclusion

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

Paris-La Défense, February 22, 2018

French original signed by

Independent verifier

ERNST & YOUNG et Associés

Éric Mugnier
Partner, Sustainable Development

Bruno Perrin
Partner

5 —

FINANCIAL AND ACCOUNTING INFORMATION

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

5.1 Analysis of 2017 consolidated results AFR

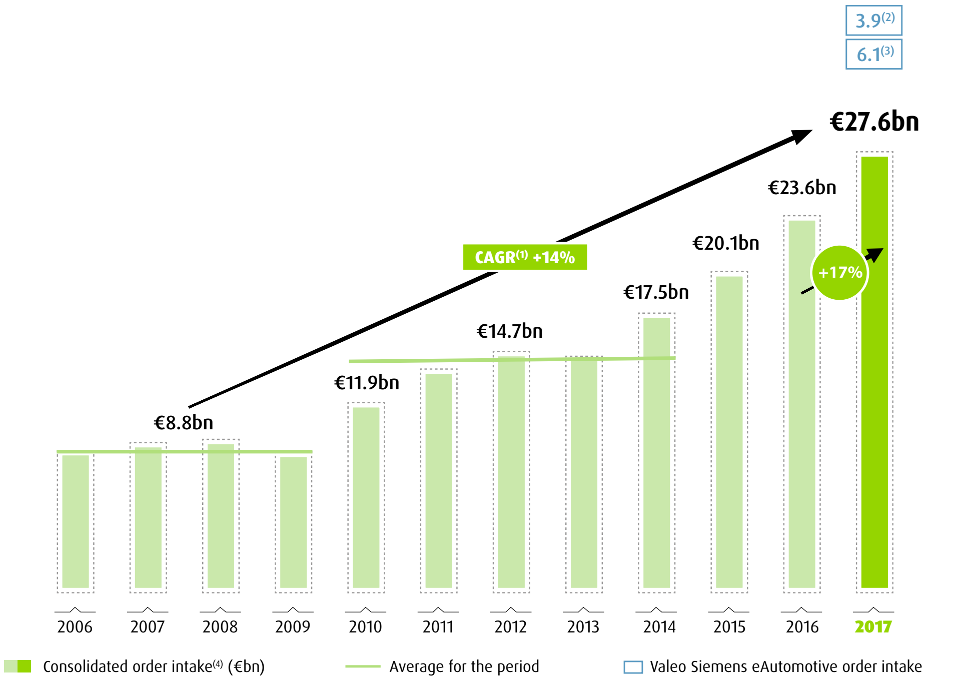
The Group's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as approved by the European Union. To make the financial statements easier to understand, the accounting principles are explained in detail in this chapter in the notes to the 2017 consolidated financial statements in section 5.4.6, Note 1 "Accounting policies", pages 292 to 295, as well as under each note.

The financial statements include the information deemed material as required by the ANC in Standard no. 2016-09.

5.1.1 Business review

Rise in the order intake(1)

▶ CHANGE IN ORDER INTAKE



(1) Reference 2008 (average over 2005-2009) to 2017 (excluding Valeo Siemens eAutomotive).
(2) Total order intake recorded by Valeo Siemens eAutomotive in January and February 2018.
(3) Total order intake recorded by Valeo Siemens eAutomotive in 2017.
(4) See Financial Glossary, page 36, excluding the Access Mechanisms business between 2005 and 2013 and excluding Valeo Siemens eAutomotive.

The year-on-year rise in the order intake in 2017 confirms the Group's ability to deliver structural growth ahead of global automotive production:

- the order intake (excluding Valeo Siemens eAutomotive) jumped 17% to 27.6 billion euros, versus 23.6 billion euros in 2016;
- the order intake for Valeo Siemens eAutomotive came in at 6.1 billion euros in 2017 and a cumulative 10 billion euros at end-February 2018.

The order intake (excluding Valeo Siemens eAutomotive) remained well-balanced across the Group's different regions:

- 40% in Asia: China accounted for 27% of the order intake, of which 38% of orders were booked with local Chinese automakers;
- 42% in Europe (and Africa);
- 16% in North America.

In all, 50% of the order intake related to innovative products(2), confirming the successful positioning of Valeo's new technologies and products in the CO_2 emissions reduction and intuitive driving segments.

(1) See Financial Glossary, page 36.
(2) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.

Global automotive production growth

Automotive production rose 2% year on year in 2017, fueled by:

- faster growth in Europe (up 3%);
- continued expansion in China (up 2%) and in the rest of Asia (up 4%);
- the upturn in production in South America (up 22%).

In North America, automotive production contracted by 4%.

Change in automotive production in 2017 *(versus the same period in 2016)*	**Second-half 2017***	**Full-year 2017***
Europe & Africa	+5%	+3%
Asia, Middle East & Oceania	+2%	+3%
of which China	*+1%*	*+2%*
excluding China	*+3%*	*+4%*
North America	-7%	-4%
South America	+22%	+22%
TOTAL	**+2%**	**+2%**

* *Based on LMC automotive production estimates released on February 8, 2018.*

Sales growth

Sales for full-year 2017 climbed 12% as reported, or 7% like for like[(1)].

Changes in exchange rates had a negative 1.1% impact over the year, primarily due to the rise in the value of the euro against the US dollar, Chinese renminbi and Japanese yen.

Changes in Group structure had a positive 6.8% impact over the year, following:

- the takeover of Ichikoh, which was fully consolidated in the Group's financial statements as from February 1, 2017. Ichikoh contributed 909 million euros to consolidated sales in 2017;
- the acquisition of FTE automotive at the end of October 2017, which contributed 86 million euros to consolidated sales in the last two months of the year;
- the creation of Valeo-Kapec, which is controlled by Valeo and was fully consolidated in the Group's financial statements as from December 1, 2017. Valeo-Kapec contributed 42 million euros to consolidated sales in December 2017.

		Second-half				Full-year			
Sales *(in millions of euros)*	**As a % of FY 2017 sales**	**2017**	**2016**	**Reported change**	**LFL change***	**2017**	**2016**	**Reported change**	**LFL change***
Original equipment	87%	7,885	7,297	+8%	+5%	16,120	14,403	+12%	+7%
Aftermarket	10%	924	834	+11%	+3%	1,887	1,679	+12%	+4%
Miscellaneous	3%	277	258	+7%	-3%	543	437	+24%	+9%
TOTAL	**100%**	**9,086**	**8,389**	**+8%**	**+5%**	**18,550**	**16,519**	**+12%**	**+7%**

* *Like for like (constant Group structure and exchange rates)[(1)].*

Original equipment sales climbed 7% like for like after taking into account the negative 0.9 percentage point impact resulting from the decline in Hyundai's sales in China as from the second quarter.

Aftermarket sales rose by 4% over the year on a like-for-like basis.

Miscellaneous sales, mainly consisting of tooling revenues related to the launch of new projects, increased by 9% like for like.

(1) *See Financial Glossary, page 36.*

Growth in original equipment sales outpacing global automotive production

For the year as a whole, original equipment sales saw 7% like-for-like growth, driven by:

- an improved product mix resulting from technological innovations for CO_2 emissions reduction and intuitive driving;
- Valeo's favorable customer and geographic positioning.

	Second-half				Full-year			
Original equipment sales *(by destination, in millions of euros)*	**2017**	**2016**	**LFL change***	**Outperformance****	**2017**	**2016**	**LFL change***	**Outperformance****
Europe & Africa	3,630	3,434	+5%	0 pts	7,550	7,062	+6%	+3 pts
Asia, Middle East & Oceania	2,584	2,126	+7%	+5 pts	4,965	3,907	+10%	+7 pts
of which China	*1,259*	*1,148*	*+11%*	*+10 pts*	*2,371*	*2,046*	*+17%*	*+15 pts*
excluding China	*1,325*	*978*	*+3%*	*0 pts*	*2,594*	*1,861*	*+4%*	*0 pts*
North America	1,483	1,574	+1%	+8 pts	3,235	3,138	+4%	+8 pts
South America	188	163	+19%	-3 pts	370	296	+16%	-6 pts
TOTAL	**7,885**	**7,297**	**+5%**	**+3 pts**	**16,120**	**14,403**	**+7%**	**+5 pts**

* *Like for like (constant Group structure and exchange rates)[(1)].*
** *Based on LMC automotive production estimates released on February 8, 2018.*

In 2017, the Group outperformed global automotive production by 5 percentage points. This performance was achieved despite the negative impact (0.9 percentage points of growth) resulting from the decline in Hyundai's sales in China as from the second quarter:

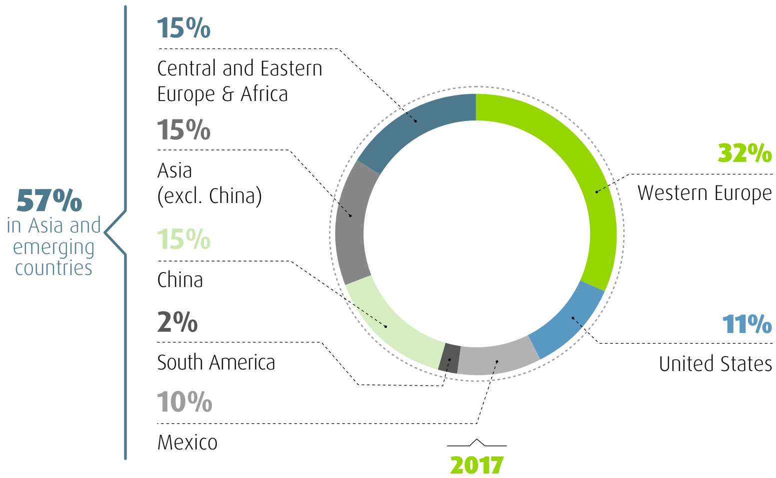
- in **Europe** (including Africa), like-for-like original equipment sales rose 6%, outpacing automotive production by 3 percentage points. Excluding Russia, the outperformance was around 4 percentage points;
- in **China**, like-for-like original equipment sales moved up 17%, outpacing automotive production by 15 percentage points;
- in **Asia excluding China**, like-for-like original equipment sales were up 4%, on a par with automotive production. The Group's performance in South Korea was particularly impacted (negative impact of 15.4 percentage points of growth) by the Group's exposure to South Korean customers, given the difficult geopolitical climate between China and South Korea. The Group's performance in Japan was affected by the drop in Nissan's sales in the fourth quarter;
- in **North America**, like-for-like original equipment sales advanced 4%, outpacing automotive production by 8 percentage points;
- in **South America**, like-for-like original equipment sales climbed 16%, underperforming automotive production by 6 percentage points.

(1) See Financial Glossary, page 36.

Balanced geographic alignment of Valeo's businesses

▶ Original equipment sales by production region

As a % of original equipment sales



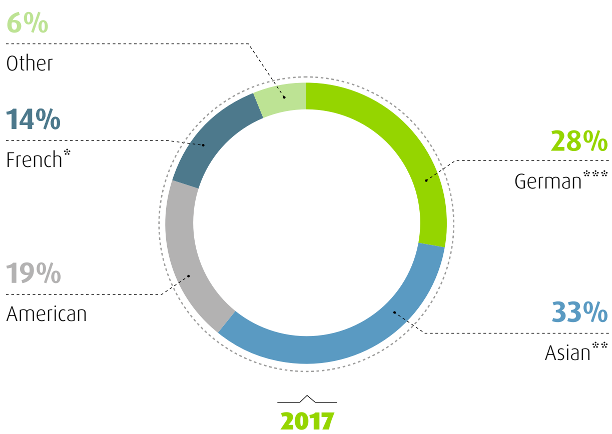
Taking account of the acquisitions carried out in 2017, year-on-year changes in the share of original equipment sales in the four main production regions were as follows:

- a rise of 4 percentage points for Asia, accounting for 30% of original equipment sales;
- a fall of 3 percentage points for Europe, accounting for 47% of original equipment sales;
- a fall of 1 percentage point for North America, accounting for 21% of original equipment sales;
- stable for South America, accounting for 2% of original equipment sales.

Balanced customer portfolio

▶ Customer portfolio

As a % of original equipment sales



* *Excluding Nissan and including Opel*
** *Including Nissan*
*** *Excluding Opel*

Taking account of the acquisitions carried out in 2017, year-on-year changes in the share of original equipment sales among the Group's customers were as follows:

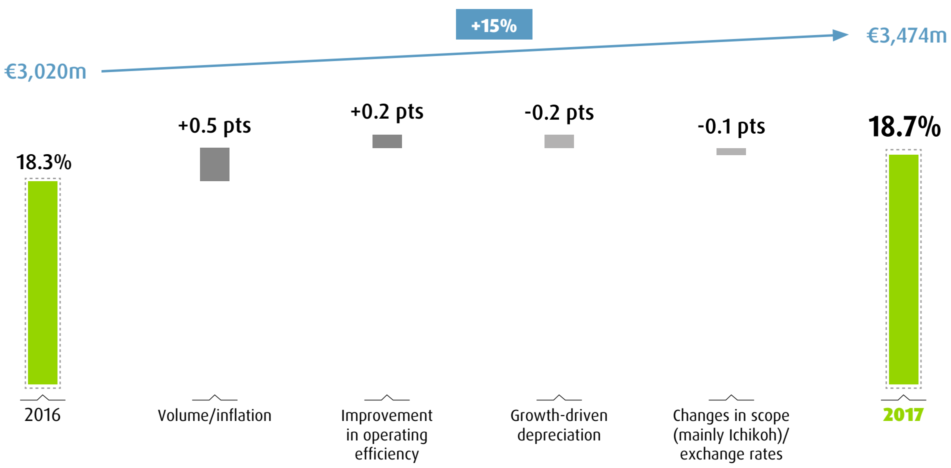
- a rise of 6 percentage points for Asian customers, accounting for 33% of original equipment sales, further to the takeover of Ichikoh as of February 1 and the creation of Valeo-Kapec, fully consolidated since December 1;
- a fall of 2 percentage points for German customers, accounting for 28% of original equipment sales;
- a fall of 3 percentage points for American customers, accounting for 19% of original equipment sales;
- a fall of 1 percentage point for French customers[1], accounting for 14% of original equipment sales.

(1) *Including Opel.*

5.1.2 Results

▶ Analysis of gross margin

As a % of sales

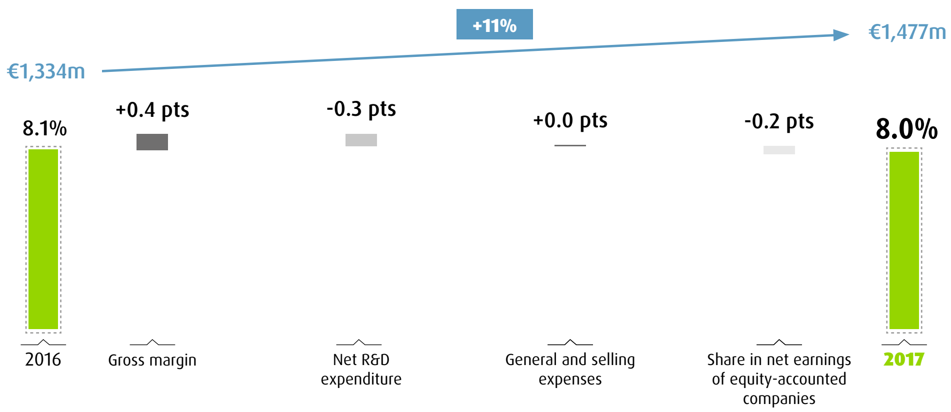


Gross margin widened 15% to 3,474 million euros, or 18.7% of sales. This 0.4 percentage point rise on 2016 reflects:

- continued growth (positive 0.5 percentage point impact), including price and volume effects;
- operational efficiency (positive 0.2 percentage point impact);
- a rise in depreciation relating to the capital investments carried out by the Group over the past few years (negative 0.2 percentage point impact);
- changes in Group structure, mainly related to the acquisition of Ichikoh, and exchange rates (negative 0.1 percentage point impact).

▶ Analysis of operating margin[1]

As a % of sales



Operating margin[1] moved up 11% to 1,477 million euros. The margin represents 8.0% of sales, down 0.1 percentage points on 2016 after taking account of the share in net earnings of Valeo Siemens eAutomotive.

(1) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 36.

Valeo continued its Research and Development efforts to enhance its product portfolio amid sharp growth in the order intake and to respond to the twin challenges of powertrain electrification and intuitive and autonomous driving:

- gross Research and Development expenditure was up 19% to 1,895 million euros, representing almost 12% of original equipment sales;
- net Research and Development expenditure rose 18% to 1,130 million euros, or 6.1% of sales (up 0.3 percentage points on 2016).

General, administrative and selling expenses came out at 4.8% of sales, stable versus 2016.

The share in net earnings of equity-accounted companies was 22 million euros, or 0.1% of sales, down 0.3 percentage points on 2016. This decrease primarily reflects the share in net earnings of Valeo Siemens eAutomotive, which is bearing the costs required to push ahead with ongoing projects resulting from its 6.1 billion euro order intake in 2017 and set up its organization to accommodate its fast-paced expansion going forward.

Operating income[1] rose 8% to 1,410 million euros, or 7.6% of sales (down 0.3 percentage points on 2016). Operating income includes other income and expenses, representing a net expense of 67 million euros in 2017.

The cost of net debt totaled 73 million euros, down 12% on 2016.

The effective tax rate rose to 26%, reflecting a 117 million euro non-recurring expense relating to the decline in value of deferred tax assets, proportional to the decrease in the US corporate income tax rate.

Net attributable income rose 8% to 1,003 million euros, or 5.4% of sales (down 0.2 percentage points versus 2016) excluding a 117 million euro non-recurring expense relating to the decline in value of deferred tax assets, proportional to the decrease in the US corporate income tax rate. Including this non-recurring expense, net income fell 4% to 886 million euros, or 4.8% of sales.

Return on capital employed (ROCE[1]) and **return on assets** (ROA[1]) stood at 30% and 19%, respectively.

(in millions of euros)	**2017**	**2016[1]**
Balance sheet indicators included in full in capital employed: + Net intangible assets, Net property, plant and equipment, Deferred tax assets, Net inventories, Net accounts and notes receivable, Other current assets, Taxes recoverable − Subsidies and grants – long-term portion, Deferred tax liabilities, Accounts and notes payable, Subsidies and grants – current portion, Taxes payable, Other current liabilities	5,458	4,135
Balance sheet indicators for which only the portion relating to operations has been included in capital employed: + Investments in equity-accounted companies excluding goodwill, Other current financial assets − Other provisions – long-term portion, Other financial liabilities – long-term portion, Other provisions – current portion, Other financial liabilities – current portion	(313)	(206)
Capital employed (to calculate ROCE) (A)	**5,145**	**3,929**
Operating margin including share in net earnings of equity-accounted companies[2] (B)	1,477	1,334
Adjustment (C) *Annualization/elimination of data relating to entities acquired/sold during the year*	70	(1)
Adjusted operating margin (including share in net earnings of equity-accounted companies)[2] (D = B + C)	**1,547**	**1,333**
ROCE[2] (D/A)	**30%**	**34%**
Goodwill (E)	2,615	1,944
Goodwill relating to equity-accounted companies (F)	201	229
Capital employed (to calculate ROA) (G = A + E + F)	**7,961**	**6,102**
Operating income (including share in net earnings of equity-accounted companies) (H)	1,410	1,301
Adjustment (I) *Annualization/elimination of data relating to entities acquired/sold during the year*	89	(2)
Adjusted operating income (including share in net earnings of equity-accounted companies) (J)	**1,499**	**1,299**
ROA[1] (J/G)	**19%**	**21%**

(1) The consolidated statement of financial position for December 31, 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see section 5.4.6 of this chapter, Note 2.2.1.9 "Acquisition of Spheros" and Note 2.2.1.10 "Acquisition of peiker" to the consolidated financial statements, pages 303 to 305).
(2) See Financial Glossary, page 36.

(1) See Financial Glossary, page 36.

5.1.3 Segment reporting

Original equipment sales

The sales performance for the Business Groups reflects the specific product, geographic and customer mix and the relative weighting of the aftermarket in their activity as a whole.

Sales by Business Group* (in millions of euros)	Second-half 2017	2016	Change in sales	Change in OE sales**	Full-year 2017	2016	Change in sales	Change in OE sales**
Comfort & Driving Assistance Systems	1,753	1,703	+3%	+6%	3,590	3,363	+7%	+6%
Powertrain Systems	2,137	2,016	+6%	+3%	4,300	4,027	+7%	+4%
Thermal Systems	2,409	2,396	+1%	+7%	5,003	4,645	+8%	+9%
Visibility Systems	2,855	2,354	+21%	+4%	5,808	4,649	+25%	+7%
TOTAL	**9,086**	**8,389**	**+8%**	**+5%**	**18,550**	**16,519**	**+12%**	**+7%**

* *Including intersegment sales.*
** *Like for like (constant Group structure and exchange rates).*

In 2017, like-for-like growth in original equipment sales outpaced automotive production in all Business Groups:

- the **Powertrain Systems Business Group** reported like-for-like growth in original equipment sales of 4% over the year, after taking into account the negative 4.6 percentage point impact resulting from the tense geopolitical context between China and South Korea;
- the **Comfort & Driving Assistance**, **Thermal Systems**, and **Visibility Systems Business Groups** turned in similar performances, with like-for-like original equipment sales up 6%, 9%, and 7%, respectively, reflecting the market's keen interest in intuitive driving, CO_2 emissions reduction and LED lighting technologies. Sales for the Visibility Systems Business Group, which surged 25%, include the contribution of Ichikoh, which has been fully consolidated in Valeo's consolidated financial statements since February 1, 2017.

EBITDA(1)

In 2017, consolidated EBITDA came in 14% higher at 13.1% of sales.

EBITDA (in millions of euros and as a % of sales)	Second-half 2017	2016	Change	Full-year 2017	2016	Change
Comfort & Driving Assistance Systems	256	257	0%	522	496	+5%
	14.6%	*15.1%*	*-0.5 pts*	*14.5%*	*14.7%*	*-0.2 pts*
Powertrain Systems	290	278	+4%	566	534	+6%
	13.6%	*13.8%*	*-0.2 pts*	*13.2%*	*13.3%*	*-0.1 pts*
Thermal Systems	272	237	+15%	539	463	+16%
	11.3%	*9.9%*	*+1.4 pts*	*10.8%*	*10.0%*	*+0.8 pts*
Visibility Systems	375	327	+15%	767	645	+19%
	13.1%	*13.9%*	*-0.8 pts*	*13.2%*	*13.9%*	*-0.7 pts*
GROUP	**1,221**	**1,097**	**+11%**	**2,436**	**2,144**	**+14%**
	13.4%	***13.1%***	***+0.3 pts***	***13.1%***	***13.0%***	***+0.1 pts***

(1) See Financial Glossary, page 36.

EBITDA[1] margin for the **Comfort & Driving Assistance Systems** and **Powertrain Systems Business Groups** contracted slightly, to 14.5% and 13.2%, respectively (down 0.2 and 0.1 percentage points compared to 2016), following an increase in net Research and Development expenditure (to 11% and 5% of sales, respectively).

The **Visibility Systems Business Group** saw its EBITDA[1] margin narrow 0.7 percentage points to 13.2% of sales. The decrease is chiefly due to the consolidation of Ichikoh as from February 1, 2017.

Thanks to strong sales growth and the turnaround in operations at a plant in North America, the **Thermal Systems Business Group**'s EBITDA[1] margin improved by 0.8 percentage points year on year to 10.8% of sales.

5.1.4 Cash flow and financial position

Stockholders' equity

At December 31, 2017, consolidated stockholders' equity amounted to 5,063 million euros versus 4,353 million euros at December 31, 2016. The sharp 710 million euro increase was mainly attributable to:

- consolidated net income for the period of 965 million euros;
- a capital increase of 26 million euros reserved for employees as part of the 2017 Shares4U employee share ownership plan;
- an increase of 379 million euros in non-controlling interests, as a result of the takeover of Ichikoh and the creation of Valeo-Kapec, which are 55.08%- and 50%-owned, respectively; and
- actuarial gains net of deferred taxes in an amount of 51 million euros arising on pension obligations.

These factors were partially offset by:

- the dividend paid to Group shareholders in an amount of 297 million euros and to non-controlling interests in consolidated subsidiaries in an amount of 20 million euros;
- the impacts of the share buyback program implemented in the first half of 2017, corresponding to 75 million euros; and
- translation losses in an amount of 331 million euros resulting from the fall in value of the US dollar, Japanese yen and Chinese renminbi against the euro in 2017.

Provisions

(in millions of euros)	December 31, 2017	December 31, 2016[1]
Provisions for pensions and other employee benefits[2]	1,135	1,072
Provisions for product warranties	276	244
Provisions for restructuring costs	54	84
Provisions for tax-related disputes	54	94
Environmental provisions	16	14
Provisions for onerous contracts	56	40
Provisions for employee-related and other disputes	139	184
PROVISIONS	**1,730**	**1,732**
Of which long-term portion (more than one year)	1,406	1,341

(1) The amount shown for provisions in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of changes in the scope of consolidation (see section 5.4.6 of this chapter, Note 2.2 "Changes in the scope of consolidation" to the consolidated financial statements, pages 298 to 305).

(2) At December 31, 2017, a Japanese plan was overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized a non-current financial asset for the amount of the surplus, i.e., 5 million euros. Excluding this asset, provisions for pensions and other employee benefits amounted to 1,130 million euros at December 31, 2017.

Provisions for pensions and other employee benefits increased by 63 million euros between December 31, 2016 and December 31, 2017. The increase was mainly attributable to the additional 176 million euros in benefit obligations resulting from the takeover of Ichikoh, FTE automotive and Valeo-Kapec, and was partially offset by pre-tax actuarial gains and translation losses, which led to a 111 million euro decrease in provisions for pensions.

Provisions for product warranties increased to 276 million euros at end-2017 from 244 million euros at end-2016, in particular reflecting the consolidation of Ichikoh, FTE automotive and Valeo-Kapec in an amount of 72 million euros.

The total amount of provisions for restructuring costs decreased to 54 million euros at December 31, 2017 versus 84 million euros at December 31, 2016. Restructuring costs for 2017 mainly related to the shutdown of operations at a plant in Spain, a lay-off plan in South America and early retirement payouts for employees at several sites in Germany.

(1) See Financial Glossary, page 36.

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Provisions for tax-related disputes were down significantly, falling to 54 million euros at end-2017 from 94 million euros one year earlier. In France, the Group benefited from the abolition of the additional 3% tax on dividend payouts, which was ruled unconstitutional by the French Constitutional Council (*Conseil constitutionnel*) on October 6, 2017. The decision resulted in a 17 million euro reversal of provisions for contingencies in the consolidated financial statements. In addition, Valeo decided to bring a certain number of disputes under the tax amnesty program opened in Brazil in 2017, which enabled the Company to use losses to settle the disputes and adjust its provisions for tax-related disputes accordingly.

The increase in provisions for onerous contracts in 2017 primarily results from allocating the Ichikoh purchase price in connection with onerous or unfavorable customer and supplier contracts.

Provisions for employee-related and other disputes, which totaled 139 million euros at December 31, 2017 (compared with 184 million euros at December 31, 2016), cover risks arising in connection with former employees (in particular relating to asbestos), intellectual property disputes and various other disputes related to Valeo's operating activities across the globe, as well as the main risks relating to antitrust investigations. In 2017, Valeo paid a 26.7 million euro fine relating to investigations conducted by the European antitrust authorities. A provision had been set aside for the full amount at December 31, 2016.

Cash flows and debt

(in millions of euros)	2017	2016
Gross operating cash flows	2,269	2,091
Income taxes paid	(265)	(257)
Changes in working capital	35	56
Net cash flows from operating activities	**2,039**	**1,890**
Net payments for purchases of intangible assets and property, plant and equipment	(1,745)	(1,249)
Elimination of change in non-recurring sales of accounts and notes receivable(1)	(16)	20
FREE CASH FLOW(2)	**278**	**661**
Change in non-recurring sales of accounts and notes receivable(1)	16	(20)
Net change in certain non-current financial asset items	(91)	(38)
Acquisitions of investments with gain of control, net of cash acquired	(537)	(630)
Acquisitions of investments in associates and/or joint ventures	(7)	(17)
Disposals of investments with loss of control, net of cash transferred	(1)	22
Acquisitions of investments without gain of control	(16)	(24)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(317)	(263)
Capital increase in cash	26	29
Sale (purchase) of treasury stock	(73)	13
Net interest paid/received	(63)	(58)
Loan issue costs and premiums	(7)	(64)
NET CASH FLOW	**(792)**	**(389)**

(1) Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. An agreement spanning one or more years is drawn up for recurring transactions. Each contract is analyzed in light of IAS 39 on the derecognition of financial assets in order to determine whether the risks and rewards inherent to ownership of the receivables has been transferred (see section 5.4.6 of this chapter, Note 4.2 "Accounts and notes receivable" to the 2017 consolidated financial statements, page 310).

(2) See Financial Glossary, page 36.

Gross operating cash flows rose 9% from 2,091 million euros in 2016 to 2,269 million euros in 2017. Net cash flows from operating activities were also up, at 2,039 million euros in 2017 compared to 1,890 million euros in 2016, representing an increase of 8% on the previous year.

Working capital continued to improve in 2017, albeit to a lesser extent than in 2016 (improvement of 35 million euros in 2017 versus 56 million euros in 2016), while income taxes paid were up slightly to 265 million euros in 2017 compared to 257 million euros in 2016.

Net payments for purchases of property, plant and equipment and intangible assets in 2017 generated a net cash outflow of 1,745 million euros, representing a significant year-on-year increase approaching 500 million euros (up 40%). Given the record order intake over the past few years, the Group's investment in R&D and production capacity continues to rise sharply.

Free cash flow came in at 278 million euros in 2017, down 58% from 661 million euros in 2016, mainly due to very significant investment during the year, as indicated above.

EBITDA can be reconciled to free cash flow as follows:

(in millions of euros)	2017	2016	Change
EBITDA[(1)]	2,436	2,144	+14%
Change in operating working capital[(2)]	19	76	-75%
Income tax expense	(265)	(257)	+3%
Investments in property, plant and equipment and intangible assets	(1,745)	(1,249)	+40%
Other (provisions for pensions, restructuring costs, etc.)	(167)	(53)	+215%
FREE CASH FLOW[(1)]	**278**	**661**	**-58%**

(1) See Financial Glossary, page 36.
(2) Change in working capital excluding the change in non-recurring sales of accounts and notes receivable in a negative amount of 16 million euros in 2017 and a positive amount of 20 million euros in 2016.

In 2017, free cash flow[(1)] generation chiefly reflects:

- a 14% increase in EBITDA[(1)] to 2,436 million euros;
- a 19 million euro positive impact from the change in working capital;
- a significant 40% increase in investment outflows to 1,745 million euros on the back of a sharp increase in the order intake and in order to secure an acceleration in the Group's future growth;
- outflows in an amount of 167 million euros, including in particular restructuring costs and non-recurring payments relating to antitrust investigations.

The net change in non-current financial assets amounted to 91 million euros in 2017, primarily relating to loans granted to equity-accounted companies and investments in venture capital funds (including Cathay CarTech fund, Iris Capital and Cathay Sino French Innovation fund) and in start-ups such as Navya.

In 2017, cash outflows arising on acquisitions of investments with gain of control, net of cash acquired, represented 537 million euros, mainly corresponding to the acquisition of FTE automotive and Kapec, which represented 386 million euros and 111 million euros, respectively. The net cash outflow of 7 million euros in respect of acquisitions of investments in associates and/or joint ventures chiefly corresponds to the stake acquired in Kuantic. The net cash outflow of 16 million euros recorded in "Acquisitions of investments without gain of control" relates to the impact of the increase in Valeo's indirect ownership interest in the entities of the China Lighting Alliance following the acquisition of a controlling interest in both Ichikoh and an Ichikoh subsidiary in Indonesia.

In 2017, cash flows relating to financing activities mainly included dividends paid to Valeo shareholders in an amount of 297 million euros and to non-controlling interests in an amount of 20 million euros, net interest paid in an amount of 63 million euros, a capital increase carried out under the Shares4U employee share ownership plan in an amount of 26 million euros, and net treasury share purchases in an amount of 73 million euros, of which 75 million euros in respect of a share buyback program. The share buyback program, implemented from March 7 to May 17, 2017 with the help of an investment services provider, enabled Valeo to buy back 1,228,009 shares at an average price of 61.0745 euros each to cover any stock purchase option plans, the allotment of shares to employees under profit-sharing plans, and the implementation of any company savings plans.

Net cash flow in 2017 represented an outflow of 792 million euros compared to an outflow of 389 million euros in 2016.

Cash flows relating to financing activities in 2017 also included subscriptions of long-term loans and borrowings in an amount of 1,486 million euros (mainly corresponding to two bond issues, the first in an amount of 500 million euros on January 11, 2017 and the second in an amount of 600 million euros on September 12, 2017, and the issue of a 350 million euro private placement on November 6, 2017), as well as repayments of long-term debt in an amount of 630 million euros (including repayment of the 344 million euro loan contracted by acquiree FTE automotive, the 145 million euro bond issued in 2012 under the Euro Medium Term Note financing program and an installment on the EIB loan amounting to 22 million euros). In all, cash flows relating to financing activities were positive and resulted in a net inflow of 406 million euros in 2017 compared with a net inflow of 276 million euros in 2016.

Net consolidated cash and cash equivalents were down 45 million euros (up 220 million euros in 2016).

Net debt[(1)] stood at 1,852 million euros at December 31, 2017, up from 537 million euros at end-2016. The leverage ratio (net debt/EBITDA) came out at 0.76, compared with 0.25 at end-2016, and the gearing ratio (net debt/stockholders' equity excluding non-controlling interests) stood at 42% compared to 13% at end-2016. Net debt at end-December 2017 includes 82 million euros of debt reflecting the value of the put options on its non-controlling interests granted to STEC, the Group's partner in the Chinese joint venture Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd, and Marco Polo, which owns a 40% interest in Spheros Climatizaçao Brazil SA alongside Valeo's 60%.

(1) See Financial Glossary, page 36.

Investments over the past three years

Investments *(in millions of euros)*	**2017**	**2016**	**2015**
Property, plant and equipment[(1)]	1,271	878	714
Intangible assets[(1)]	631	483	411
Including capitalized development expenditure	*577*	*437*	*364*
TOTAL	**1,902**	**1,361**	**1,125**
% of sales	10.3%	8.2%	7.7%

(1) Acquisitions (see section 5.4.6, Note 6.2 "Other intangible assets" and Note 6.3 "Property, plant and equipment" to the consolidated financial statements, pages 332 to 336).

Investments *(as a % of sales by geographic area)*	**2017**	**2016**	**2015**
Western Europe	32%	37%	40%
Central & Eastern Europe and Africa	16%	17%	16%
Asia	29%	30%	28%
North America	22%	15%	14%
South America	1%	1%	2%

The record order intakes achieved over the past few years have been driven by growth in our investments.

2017

Investments in 2017 were 40% higher than in 2016, and were used in particular to create new capacity and extend existing facilities at plants in Mexico, China, Germany and the United States. Capital expenditure was mainly earmarked for Lighting Systems, Thermal Systems, Powertrain Systems and Transmission Systems.

In line with its growth strategy driven by innovative technologies and geographic expansion in high-growth regions, Valeo announced the following transactions:

- the takeover of **Ichikoh**. As part of the takeover bid that ran from November 24, 2016 to January 12, 2017, following settlement-delivery on January 20, 2017, Valeo holds 55.08% of **Ichikoh**'s capital, equating to the cap set out in its bid, and therefore took control of Japan's leading automotive lighting company, which continues to be listed on the Tokyo Stock Exchange. Ichikoh has been consolidated by Valeo with effect from February 1, 2017;
- the acquisition, on February 28, 2017, of the entire share capital of **gestigon**, a German start-up specialized in developing 3D image processing software for the vehicle cabin;
- the acquisition of the entire share capital of **FTE automotive** from Bain Capital Private Equity. The transaction was cleared by the European antitrust authorities on October 13, 2017 further to Valeo's decision to sell its Hydraulic Actuator business and the acquisition was completed on October 31, 2017;
- the creation, with Valeo's longstanding South Korean partner PHC Group, of **Valeo-Kapec Co. Ltd.**, which is set to become the world leader in torque converters for automatic and continuously variable transmissions. The operation was finalized on November 30, 2017, after the necessary regulatory clearance had been obtained;
- an investment of 375 million Chinese renminbi (around 50 million euros) in the **Cathay CarTech** fund – the first renminbi-denominated fund launched by Cathay Capital – with a view to investing in China's highly dynamic automotive and mobility ecosystem;
- the acquisition of a 33% non-controlling interest in **Kuantic.**

These transactions are described in further detail in section 5.4.6 of this chapter, Note 2.2.1 "Transactions that were completed", pages 298 to 305. Financing for these investments is described in section 5.4.6 of this chapter, Note 8.1.2 "Gross debt" to the 2017 consolidated financial statements, pages 344 to 349 and Note 8.1.3 "Net debt" to the 2017 consolidated financial statements, pages 349 to 350.

2016

Investments recorded in 2016 were up 21% on 2015, and were used to create new capacity and extend existing facilities at plants in China, France, Korea, Mexico, the United States, Hungary, Poland, Japan, Romania and the Czech Republic. Capital expenditure was mainly earmarked for Transmission Systems, Lighting Systems, Electrical Systems, Thermal Powertrain and Air Conditioning Systems.

In line with the Group's strategy, Valeo announced the following transactions in 2016 (see section 5.4.6, Note 2.2.1 "Transactions that were completed" to the 2017 consolidated financial statements, pages 298 to 305):

- on April 18, 2016, Valeo and Siemens announced that they had signed an agreement to create the joint venture Valeo Siemens eAutomotive GmbH, joining forces to offer a comprehensive range of high-voltage (above 60 V) components and systems for all types of electric vehicles (hybrids, plug-in hybrids and full electric vehicles). The joint venture began operating on December 1, 2016;
- on June 2, 2016, Valeo announced that it had signed an agreement with Bain Capital Private Equity, owner of FTE automotive, to acquire the entire share capital of the company. The transaction was completed on October 31, 2017;
- on November 10, 2016, Valeo announced its acquisition of a 50% stake in the capital of CloudMade, a developer of smart and innovative big data-driven automotive solutions such as a machine learning platform which seeks to improve and personalize vehicle comfort and safety for drivers and their passengers;
- on November 22, 2016, Valeo announced the launch of a takeover bid for the shares of Ichikoh at a price of 408 Japanese yen per share. The takeover bid ran from November 24, 2016 to January 12, 2017.

2015

Investments in 2015 were 18% higher than in 2014, and were used in particular to create new capacity and extend existing facilities at plants in China, Mexico and Poland. Capital expenditure was mainly earmarked for Driving Assistance, Transmission Systems, Thermal Powertrain and Lighting Systems.

Valeo also announced the following transactions in 2015 (see section 5.4.6, Notes 2.2.1.3 and 2.2.1.4 to the 2015 consolidated financial statements, page 300):

- on December 21, 2015, the acquisition of the German company peiker, a major supplier of on-board telematics and mobile connectivity solutions. peiker's technological expertise will allow the Group to offer automakers new telematics systems equipped with the high-speed connectivity and cybersecurity features that this high-growth market demands. Following clearance by the antitrust authorities, on March 8, 2016 Valeo acquired control of peiker, which has been fully consolidated in the Group's financial statements since March 1, 2016;
- on December 23, 2015, an agreement with Deutsche Beteiligungs AG (DBAG) to acquire Spheros, the worldwide leader in air conditioning systems for buses. The acquisition will allow Valeo to extend its thermal management activities to the vibrant bus market, which is expected to grow by more than 5% annually over the coming years. Following clearance by the antitrust authorities, on March 31, 2016 Valeo acquired control of Spheros, which has been fully consolidated in the Group's financial statements since April 1, 2016.

These two acquisitions had no impact on the 2015 consolidated financial statements.

5

Benefit obligations

The table below shows the main commitments given:

(in millions of euros)	December 31, 2017	December 31, 2016	December 31, 2015
Lease commitments	347	328	190
Guarantees given	13	13	13
Non-cancelable asset purchase commitments	496	401	253
Other commitments given	31	28	24
TOTAL	**887**	**770**	**480**

The Group continues to enter into new commitments to lease additional premises due to its rapid expansion. Non-cancelable asset purchase commitments remain significant, reflecting a sustained investment program.

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 31 million euros at December 31, 2017 (28 million euros at December 31, 2016) and mainly include commitments given on the creation of the joint venture with Siemens and on the sale of the Engine Control business.

Commitments received totaled 490 million euros at December 31, 2017 (327 million euros at December 31, 2016) and correspond to guarantees granted to Valeo in connection with its acquisitions. The increase is mainly attributable to vendor warranties received in connection with the takeover of FTE automotive, gestigon and Precico during the year, and to the expiration of vendor warranties received in connection with the acquisition of Spheros and peiker. Valeo also still has the commitment it received from Siemens as part of the creation of the Valeo Siemens eAutomotive joint venture.

5.2 Subsequent events

On March 7, 2018, Valeo entered into an agreement with an Investment Services Provider to buy back Valeo shares, within the limit of 100 million euros, which will be fully allocated to cover the implementation of stock option purchase plans, performance share plans and company savings plans, as well as the allotment of shares to employees.

5.3 Trends and outlook

Based on the following assumptions:

- an increase in global automotive production of 1.5% in 2018;
- raw material prices and exchange rates in line with current levels.

The Valeo Group has set the following objectives:

- nominal sales growth of around 8% for 2018;
- in 2018, like-for-like growth in original equipment sales of around 5%, accelerating in the second half ahead of expected double-digit growth in 2019;
- in 2018, operating margin excluding share in net earnings of equity-accounted companies (as a % of sales) in line with 2017, despite the recent rise in (i) raw material prices and (ii) the value of the euro against the main currencies to which the Group is exposed.

Valeo Siemens eAutomotive:

- as previously noted, the joint venture had a strong order intake of 6.1 billion euros in 2017 and a cumulative 10 billion euros at end-February 2018;
- accordingly, the "Share in net earnings of equity-accounted companies" caption will have an impact of around -0.2 points on Valeo's statement of income in 2018;
- by 2022, Valeo Siemens eAutomotive should be delivering sales of more than 2 billion euros and a similar EBITDA margin (as a % of sales) to that of Valeo.

5.4 2017 consolidated financial statements AFR

In accordance with Article 28 of European Regulation no. 809/2004 dated April 29, 2004, the following information is incorporated by reference in this Registration Document:

- the consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2016, set out on pages 284 to 367 and 368 to 369 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 24, 2017 under number D.17-0226;
- the consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2015, set out on pages 264 to 336 and 337 of the Registration Document registered with the AMF on March 25, 2016 under number D.16-0211.

5.4.1 Consolidated statement of income

(in millions of euros)	*Notes*	2017	2016
SALES	*4.1*	**18,550**	**16,519**
Cost of sales	*4.3*	(15,076)	(13,499)
GROSS MARGIN	*4.3*	**3,474**	**3,020**
as a % of sales		*18.7%*	*18.3%*
Research and Development expenditure, net	*4.5.1*	(1,130)	(956)
Selling expenses		(302)	(258)
Administrative expenses		(587)	(533)
OPERATING MARGIN		**1,455**	**1,273**
as a % of sales		*7.8%*	*7.7%*
Share in net earnings of equity-accounted companies	*4.5.3.1*	22	61
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	**4.5**	**1,477**	**1,334**
as a % of sales		*8.0%*	*8.1%*
Other income and expenses	*4.6.2*	(67)	(33)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.6.1*	**1,410**	**1,301**
Interest expense	*8.2.1*	(88)	(90)
Interest income	*8.2.1*	15	7
Other financial income and expenses	*8.2.2*	(47)	(46)
INCOME BEFORE INCOME TAXES		**1,290**	**1,172**
Income taxes	*9.1*	(325)	(189)
NET INCOME FOR THE YEAR		**965**	**983**
Attributable to:			
■ Owners of the Company		886	925
■ Non-controlling interests	*10.1.4*	79	58
Earnings per share:			
■ Basic earnings per share *(in euros)*	*10.2*	3.72	3.91
■ Diluted earnings per share *(in euros)*	*10.2*	3.68	3.86

The Notes are an integral part of the consolidated financial statements.

5.4.2 Consolidated statement of comprehensive income

(in millions of euros)	2017	2016
NET INCOME FOR THE YEAR	**965**	**983**
Share of changes in comprehensive income from equity-accounted companies that may subsequently be recycled to income	(7)	(8)
o/w income taxes	*-*	*-*
Translation adjustment	(331)	45
Cash flow hedges:		
■ Gains (losses) taken to equity	44	(14)
■ (Gains) losses transferred to income for the year	(26)	4
o/w income taxes	*(1)*	*3*
Remeasurement of available-for-sale financial assets	4	-
o/w income taxes	*(1)*	*-*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY SUBSEQUENTLY BE RECYCLED TO INCOME	**(316)**	**27**
Share of changes in comprehensive income from equity-accounted companies that may not subsequently be recycled to income	-	(1)
o/w income taxes	*-*	*-*
Actuarial gains (losses) on defined benefit plans	51	(90)
o/w income taxes	*(18)*	*2*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY NOT SUBSEQUENTLY BE RECYCLED TO INCOME	**51**	**(91)**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(265)**	**(64)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**700**	**919**
Attributable to:		
■ Owners of the Company	642	860
■ Non-controlling interests	58	59

The Notes are an integral part of the consolidated financial statements.

5.4.3 Consolidated statement of financial position

(in millions of euros)	*Notes*	December 31, 2017	December 31, 2016 restated(1)
ASSETS			
Goodwill	*6.1*	2,615	1,944
Other intangible assets	*6.2*	1,830	1,372
Property, plant and equipment	*6.3*	4,055	3,063
Investments in equity-accounted companies	*4.5.3.2*	357	473
Other non-current financial assets	*8.1.1*	420	211
Assets relating to pensions and other employee benefits	*5.3*	5	-
Deferred tax assets	*9.2*	456	625
NON-CURRENT ASSETS		**9,738**	**7,688**
Inventories, net	*4.4*	1,720	1,393
Accounts and notes receivable, net	*4.2*	2,919	2,462
Other current assets	*4.5.2*	483	427
Taxes receivable		42	38
Other current financial assets	*8.1.1*	40	20
Cash and cash equivalents	*8.1.3.2*	2,436	2,359
Assets held for sale	*2.2.2.1*	41	-
CURRENT ASSETS		**7,681**	**6,699**
TOTAL ASSETS		**17,419**	**14,387**
EQUITY AND LIABILITIES			
Share capital	*10.1.1*	240	239
Additional paid-in capital	*10.1.1*	1,487	1,462
Translation adjustment	*10.1.3*	(36)	282
Retained earnings		2,723	2,134
STOCKHOLDERS' EQUITY		**4,414**	**4,117**
Non-controlling interests	*10.1.4*	649	236
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**5,063**	**4,353**
Provisions for pensions and other employee benefits – long-term portion	*5.3*	1,018	983
Other provisions – long-term portion	*7.1*	388	358
Long-term portion of long-term debt	*8.1.2.1*	3,237	2,069
Other financial liabilities – long-term portion	*8.1.1*	162	116
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.1.2.2*	17	23
Subsidies and grants – long-term portion		43	41
Deferred tax liabilities	*9.2*	73	66
NON-CURRENT LIABILITIES		**4,938**	**3,656**
Accounts and notes payable		4,394	3,885
Provisions for pensions and other employee benefits – current portion	*5.3*	117	89
Other provisions – current portion	*7.1*	207	302
Subsidies and grants – current portion		19	18
Taxes payable		116	107
Other current liabilities		1,401	1,128
Current portion of long-term debt	*8.1.2.1*	383	225
Other financial liabilities – current portion	*8.1.1*	15	26
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.1.2.2*	65	56
Short-term debt	*8.1.2.3*	664	542
Liabilities held for sale	*2.2.2.1*	37	-
CURRENT LIABILITIES		**7,418**	**6,378**
TOTAL EQUITY AND LIABILITIES		**17,419**	**14,387**

(1) The consolidated statement of financial position for December 31, 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, pages 304 and 303, respectively).

The Notes are an integral part of the consolidated financial statements.

5.4.4 Consolidated statement of cash flows

(in millions of euros)	*Notes*	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		965	983
Share in net earnings of equity-accounted companies		(22)	(61)
Net dividends received from equity-accounted companies		46	43
Expenses (income) with no cash effect	*11.1*	882	854
Cost of net debt		73	83
Income taxes (current and deferred)		325	189
GROSS OPERATING CASH FLOWS		**2,269**	**2,091**
Income taxes paid		(265)	(257)
Changes in working capital	*11.2*	35	56
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**2,039**	**1,890**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(627)	(483)
Acquisitions of property, plant and equipment[(1)]		(1,158)	(844)
Investment subsidies and grants received[(1)]		9	27
Disposals of property, plant and equipment and intangible assets		31	51
Net change in non-current financial assets		(91)	(38)
Acquisitions of investments with gain of control, net of cash acquired	*11.3*	(537)	(630)
Acquisitions of investments in associates and/or joint ventures	*11.4*	(7)	(17)
Disposals of investments with loss of control, net of cash transferred	*11.5*	(1)	22
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(2,381)**	**(1,912)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(297)	(236)
Dividends paid to non-controlling interests in consolidated subsidiaries		(20)	(27)
Capital increase		26	29
Sale (purchase) of treasury stock	*11.6*	(73)	13
Issuance of long-term debt	*11.7*	1,486	1,112
Loan issue costs and premiums	*11.7*	(7)	(64)
Interest paid		(72)	(63)
Interest received		9	5
Repayments of long-term debt	*11.7*	(630)	(469)
Acquisitions of investments without gain of control	*11.8*	(16)	(24)
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**406**	**276**
CASH AND CASH EQUIVALENTS RELATING TO ASSETS HELD FOR SALE		**(6)**	**-**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(103)**	**(34)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(45)**	**220**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,817**	**1,597**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,772**	**1,817**
Of which:			
▪ Cash and cash equivalents		2,436	2,359
▪ Short-term debt		(664)	(542)

(1) The consolidated statement of cash flows shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to present the impacts of subsidies and grants on non-current assets on a separate line within cash flows from investing activities.

The Notes are an integral part of the consolidated financial statements.

5.4.5 Consolidated statement of changes in stockholders' equity

						Total stockholders' equity including non-controlling interests		
Number of shares outstanding	*(in millions of euros)*	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings	Stockholders' equity	Non-controlling interests	Total
235,362,555	**STOCKHOLDERS' EQUITY AT JANUARY 1, 2016**	**238**	**1,434**	**245**	**1,556**	**3,473**	**219**	**3,692**
	Dividends paid	-	-	-	(236)	(236)	(27)	**(263)**
1,784,200	Treasury stock	-	-	-	13	13	-	**13**
755,511	Capital increase	1	28	-	-	29	-	**29**
	Share-based payment	-	-	-	21	21	-	**21**
	Put options granted[(1)]	-	-	-	(18)	(18)	(3)	**(21)**
	Other movements	-	-	-	(25)	(25)	(12)	**(37)**
	TRANSACTIONS WITH OWNERS	**1**	**28**	**-**	**(245)**	**(216)**	**(42)**	**(258)**
	Net income for the year	-	-	-	925	925	58	**983**
	Other comprehensive income (loss), net of tax	-	-	37	(102)	(65)	1	**(64)**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**37**	**823**	**860**	**59**	**919**
237,902,266	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2016**	**239**	**1,462**	**282**	**2,134**	**4,117**	**236**	**4,353**
	Dividends paid	-	-	-	(297)	(297)	(20)	**(317)**
(488,256)	Treasury stock[(2)]	-	-	-	(73)	(73)	-	**(73)**
509,990	Capital increase[(3)]	1	25	-	-	26	-	**26**
	Share-based payment	-	-	-	27	27	-	**27**
	Put options granted[(1)]	-	-	-	1	1	(4)	**(3)**
	Other movements[(4)]	-	-	-	(29)	(29)	379	**350**
	TRANSACTIONS WITH OWNERS	**1**	**25**	**-**	**(371)**	**(345)**	**355**	**10**
	Net income for the year	-	-	-	886	886	79	**965**
	Other comprehensive income (loss), net of tax	-	-	(318)	74	(244)	(21)	**(265)**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(318)**	**960**	**642**	**58**	**700**
237,924,000	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2017**	**240**	**1,487**	**(36)**	**2,723**	**4,414**	**649**	**5,063**

(1) This item includes changes in the fair value of liabilities relating to put options granted to holders of non-controlling interests (see Note 8.1.2.2, page 348).
(2) Changes in stockholders' equity attributable to treasury stock for 2017 include the impact of the share buyback program entered into with an investment services provider on March 6, 2017 in an amount of 75 million euros (see Note 10.1.1.3, page 364).
(3) The terms and conditions of the July 27, 2017 capital increase reserved for employees are detailed in Note 10.1.1.1, page 363.
(4) Other movements in non-controlling interests mainly include the impacts of the creation of Valeo-Kapec with Pyeong Hwa (see Note 2.2.1.1, page 299) and, to a lesser extent, the takeover of Ichikoh on January 20, 2017 (see Note 2.2.1.5, page 300).

The Notes are an integral part of the consolidated financial statements.

5.4.6 Notes to the consolidated financial statements

Note 1 ACCOUNTING POLICIES

The consolidated financial statements of the Valeo Group for the year ended December 31, 2017 include:

- the accounts of Valeo;
- the accounts of its subsidiaries;
- Valeo's share in the net assets and earnings of equity-accounted companies (joint ventures and associates).

Valeo is an independent group fully focused on the design, production and sale of components, integrated systems, modules and services for the automotive sector. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO_2 emissions and to the development of intuitive driving. Valeo is one of the world's leading automotive suppliers and is a partner to all automakers across the globe.

Valeo is a French legal entity listed on the Paris Stock Exchange. Its head office is at 43 rue Bayen, 75017 Paris, France.

Valeo's consolidated financial statements for the year ended December 31, 2017 were authorized for issue by the Board of Directors on February 22, 2018.

They will be submitted for approval to the next Annual Shareholders' Meeting.

1.1 Accounting standards applied

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The IFRS as adopted by the European Union can be consulted on the European Commission's website[1].

The financial statements include the information deemed material as required by the ANC in Standard no. 2016-09.

1.1.1 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2017

The following standards, amendments and interpretations have been published by the IASB and adopted by the European Union:

Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2017	
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Amendments to IAS 7	Disclosure Initiative

These new publications did not have a material impact on the Group's consolidated financial statements.

(1) *https://ec.europa.eu/info/law*

1.1.2 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning after January 1, 2017 and not early adopted by the Group

The following standards, amendments and interpretations have been published by the IASB and adopted by the European Union:

Standards, amendments and interpretations	Effective date	Impacts for the Group

IFRS 15 Revenue from Contracts with Customers	January 1, 2018	IFRS 15 will replace IAS 11, IAS 18 and the related IFRIC and SIC interpretations on revenue recognition. It introduces a new model for accounting for revenue from contracts with customers. Clarifications to the standard were published by the IASB on April 12, 2016 following publication of the "Clarifications to IFRS 15" exposure draft in July 2015.
		
		The European Union adopted IFRS 15 on September 22, 2016.
		
		Together with the Business Groups and Valeo Service, Valeo selected the principal transactions and contracts representing the Group's current and future activity. These were analyzed in light of the five-step model required by IFRS 15 in order to identify areas where it needs to exercise judgment and any potential changes resulting from application of the standard. The findings of this analysis are presented below.
		
		For a given automotive project, the three main promises made by Valeo to an automaker typically identified within the scope of the analysis are:
		
		■ Product Development, which includes determining the intrinsic technical features of parts and those related to the relevant production process. This promise is considered to be related to the promise to Supply Parts; any contributions received from customers in respect of Product Development will therefore be recognized in sales over the period of volume production, as the promise to deliver the parts is fulfilled;
		■ Supply of Tooling such as molds and other equipment used to manufacture parts:
		  ▪ for certain businesses, the supply of molds may be considered to be a distinct promise in view of the manner in which control is transferred. In such cases, sales will be recognized at the start of volume production for the project,
		  ▪ the supply of other equipment used to manufacture parts is considered to be related to the supply of parts. Any contributions received in this respect will therefore be deferred and recognized over the duration of the manufacturing phase of the project and as the promise to deliver the parts is fulfilled;
		■ Supply of Parts.
		
		Valeo also considers that the contractual promise made to the automaker in the form of warranties for the parts supplied does not meet the definition of a separate performance obligation as it does not give rise to an "additional service". Warranty costs will therefore continue to be accounted for in accordance with IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets".
		
		An analysis of the relationship with the end customer under certain specific contracts has led Valeo to consider that it acts as agent in such dealings and not as principal.
		
		The Group identified an impact on the presentation of its consolidated net income as a result of applying IFRS 15. This concerns contributions received from customers in respect of development costs and prototypes, which are currently shown as a deduction from Research and Development costs, net. These contributions will now be included on the "Sales" line as they result from a contract with a customer with a view to obtaining goods or services that are an output of the Group's ordinary activities in exchange for consideration.
		
		The Group considers that the impacts of applying IFRS 15 will represent a decrease of around 30 million euros in consolidated retained earnings (excluding deferred taxes), mainly relating to the deferred recognition of certain contributions from customers in respect of product development, which will now be recognized in the statement of income over the period of volume production.
		
		Aside from the above, Valeo does not expect the application of this new standard as from January 1, 2018 to have a material impact on the Group's consolidated financial statements.
		
		Valeo will apply IFRS 15 as from January 1, 2018, with restatement of comparative periods, i.e., an adjustment to equity at January 1, 2017, and data for 2017 presented in accordance with IFRS 15.

Standards, amendments and interpretations	Effective date	Impacts for the Group
IFRS 9 Financial Instruments	January 1, 2018	On July 24, 2014, the IASB published the full version of IFRS 9, marking the completion of its project to replace IAS 39 on financial instruments. IFRS 9 introduces some important changes to IAS 39: ■ the approach for classifying and measuring financial assets is now based on an analysis of both the business model for each asset portfolio and the contractual terms of the financial asset in question; ■ the impairment model no longer uses the current approach based on identified losses but an approach based on expected losses; ■ the accounting for hedges has been significantly improved and more closely aligned with an entity's risk management strategy. Owing to the nature of its operations, the Group does not expect the classification and measurement of its financial assets to change significantly, with the exception of its interests in investment funds, for which changes in fair value will henceforth be recognized in income. No material impact is expected to result from the transition to IFRS 9. A detailed analysis of the impairment model for financial assets, and particularly accounts and notes receivable, was carried out in 2017. The expected credit loss impairment model prescribed by IFRS 9 results in recognizing impairment losses against accounts and notes receivable not yet due. The impact of this is not considered material. The Group considers that its existing hedging relationships meeting the qualifying criteria as effective hedges will continue to meet IFRS 9 hedge accounting criteria. Lastly, the Group considers that the impacts of applying IFRS 9 to the debt renegotiation that took place in January 2014 will represent: ■ an increase of around 12 million euros in consolidated retained earnings (excluding deferred tax) at January 1, 2017; ■ an additional annual financial expense of around 2 million euros, to be recognized over the remaining term of the renegotiated debt (i.e., over a period up to 2024).
IFRS 16 Leases	January 1, 2019	On January 13, 2016, the IASB published IFRS 16 – "Leases". IFRS 16 will replace IAS 17 and the related IFRIC and SIC interpretations, and will eliminate the different accounting treatment previously applicable to operating and finance leases. Lessees will be required to account for all leases with a term of over one year as currently required by IAS 17 for finance leases, thereby recognizing a right-of-use asset representing the right to use the underlying leased asset and a lease liability representing the obligation to make lease payments. In 2016, Valeo began to identify leases of its subsidiaries along with their main provisions. This work continued in 2017, the aim being to complete an analysis of the qualitative and quantitative impacts of this standard on the Group's consolidated financial statements in the first half of 2018. The Group has not yet decided on its transition method.

1.1.3 Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union

The IASB has published the following guidance, which is not expected to have a material impact on the Group's consolidated financial statements:

Standards, amendments and interpretations		Effective date[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Amendments to IFRS 9	Prepayment Features	January 1, 2018
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019
Annual Improvements to IFRSs 2014-2016 cycle	Various provisions	January 1, 2017/January 1, 2018
Annual Improvements to IFRSs 2015-2017 cycle	Various provisions	January 1, 2019
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRIC 23	Uncertainly over Income Tax Treatments	January 1, 2019

(1) Subject to adoption by the European Union.

1.2 Basis of preparation

The financial statements are presented in euros and are rounded to the nearest million.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions concern both risks specific to the automotive supply business, such as those relating to quality and safety, as well as more general risks to which the Group is exposed on account of its industrial operations across the globe.

The Group exercises its judgment based on past experience and other factors considered to be decisive given the environment and the circumstances. The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in Valeo's future financial statements may differ from the amounts resulting from these current estimates.

Significant estimates, judgments and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2017 chiefly concern:

- the measurement of intangible assets recognized in the allocation of the purchase price to the assets and liabilities of Ichikoh (see Note 2.2.1.5, page 300);
- the measurement of the disposal gain arising on the takeover of Ichikoh (see Note 2.2.1.5, page 300);
- the conditions for capitalizing development expenditure (see Note 4.5.1.1, page 312);
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6, page 331);
- estimates of provisions, particularly provisions for pensions and other employee benefits and provisions for risks linked to product warranties (see Notes 5.3 and 7.1, pages 321 and 340);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9.2, page 362).

Note 2 SCOPE OF CONSOLIDATION

2.1 Accounting policies relating to the scope of consolidation

2.1.1 Consolidation methods

2.1.1.1 Full consolidation

The accounts of companies under Valeo's direct and indirect control are included in the consolidated financial statements using the full consolidation method. Control is deemed to exist when the Group:

- has power over an investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to affect those returns through its power over the investee's relevant activities.

All intercompany transactions are eliminated, as are gains on intercompany disposals of assets, intercompany profits included in inventories and intercompany dividends.

The earnings of subsidiaries acquired are consolidated as from the date the Group has control.

2.1.1.2 Equity-method accounting for joint ventures and associates

Joint arrangements organize the sharing of control of an entity by two or more parties. These arrangements are known as joint ventures when the parties that have control of the arrangement have rights to the net assets of that arrangement.

Valeo also exercises significant influence over certain entities, known as associates. Significant influence is the power to participate in decisions affecting the entity's financial and operating policies, but is not control or joint control over those policies. Significant influence is deemed to exist when Valeo holds over 20% of the voting rights of another entity.

Joint ventures and associates are accounted for using the equity method. Under the equity method, an investment in an equity-accounted company is recognized in the consolidated statement of financial position on the date on which the entity becomes an associate or joint venture.

The investment is initially recognized at cost. In accordance with IFRS 10.25, in the specific case of loss of control of a subsidiary leading to recognition of an interest in a joint venture or associate, the initial cost of this investment is equal to its fair value at the date control is lost. The investment is subsequently adjusted after the acquisition date to reflect the Group's share of the retained comprehensive income of the investee. These items may be adjusted in line with Group accounting policies.

Goodwill arising on the acquisition of associates or joint ventures is included in the carrying amount of investments in equity-accounted companies.

The procedure used to test investments in equity-accounted companies for impairment is governed by IAS 39 – "Financial Instruments: Recognition and Measurement" and IAS 28 (revised) – "Investments in Associates and Joint Ventures".

Any impairment losses taken against investments in equity-accounted companies, along with any gains or losses on remeasuring the previously-held equity interest at fair value (on acquisition of a controlling interest in an equity-accounted company) are recorded in "Share in net earnings of equity-accounted companies".

2.1.2 Foreign currency translation

2.1.2.1 Foreign currency financial statements

The Group's consolidated financial statements are presented in euros.

The financial statements of each consolidated Group company are prepared in its functional currency. The functional currency is the currency of the principal economic environment in which it operates, and is generally the local currency.

The financial statements of foreign subsidiaries whose functional currency is not the euro are translated into euros as follows:

- statement of financial position items are translated into euros at the year-end exchange rate;
- statement of income items are translated into euros at the exchange rates applicable at the transaction dates or, in practice, at the average exchange rate for the period, as long as this is not rendered inappropriate as a basis for translation by major fluctuations in the exchange rate during the period;
- unrealized gains and losses arising from the translation of the financial statements of foreign subsidiaries are recorded under "Translation adjustment" in other comprehensive income that may subsequently be recycled to income.

2.1.2.2 Foreign currency transactions

General principle

Transactions carried out in a currency other than Valeo's functional currency are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Non-monetary assets and liabilities denominated in a foreign currency are recognized at the historical exchange rate prevailing at the transaction date.

Differences arising from the translation of foreign currency transactions are generally recognized in income.

Net investment

Certain foreign currency loans and borrowings are considered in substance to be an integral part of the net investment in a subsidiary whose functional currency is not the euro when settlement is neither planned nor likely to occur in the foreseeable future. The foreign currency gains and losses arising on these loans and borrowings are recorded under "Translation adjustment" in other comprehensive income for their net-of-tax amount. This specific accounting treatment applies until the disposal of the net investment, or when partial or full repayment of these loans or borrowings is highly probable.

When the net investment is derecognized, the translation adjustment arising after said date is taken to other financial income and expenses in the consolidated statement of income. Translation adjustments previously recognized in other comprehensive income are only recycled to income when the foreign operation is partially or fully disposed of. The Group examines whether these partial or full repayments of loans or borrowings equate to a partial or full disposal of the subsidiary.

2.1.3 Business combinations

Business combinations are accounted for using the acquisition method, whereby:

- the cost of a combination is determined at the acquisition-date fair value of the consideration transferred, including any contingent consideration. Any subsequent changes in the fair value of contingent consideration is recognized in income or in other comprehensive income as appropriate, in accordance with the applicable standards;
- the difference between the consideration transferred and the acquisition-date fair value of the net identifiable assets acquired and liabilities assumed is classified as goodwill within assets in the statement of financial position.

Adjustments to the provisional fair value of identifiable assets acquired and liabilities assumed resulting from independent analyses in progress or supplementary analyses are recognized as a retrospective adjustment to goodwill if they are made within 12 months of the acquisition date ("measurement period") and result from facts and circumstances that existed as of that date. The impact of any adjustments made after the measurement period is recognized directly in income as a change of accounting estimate.

Intangible assets may be recognized in respect of customer relationships that correspond in substance to contracts in progress at the date control is acquired and/or to relationships with regular customers of the acquired entity (opportunity to enter into new contracts). These intangible assets are measured based on the "excess earnings" method, whereby the value of the intangible asset corresponds to the present value of the cash flows generated by this asset, less a capital charge representing a return on the other assets concerned. Intangible assets may also be recognized in respect of patented or unpatented technologies. These assets are measured based on the "royalties" method or "replacement cost" method.

For each business combination in which the acquirer holds less than 100% of the equity interests in the acquiree at the acquisition date, the amount of the non-controlling interest is measured:

- either at fair value: in this case, goodwill is recognized on the non-controlling interest ("full goodwill method");
- or at the proportionate share in the recognized amounts of the acquiree's net identifiable assets, in which case goodwill is recognized only on the interest acquired ("partial goodwill method").

Costs directly attributable to the combination are included within "Other income and expenses" in the period in which they are incurred.

Adjustments to contingent consideration in a business combination are measured at the acquisition-date fair value, even if the consideration is not expected to materialize. After the acquisition date, changes to the estimated fair value of contingent consideration involve an adjustment to goodwill only if they are made within the measurement period (up to 12 months after the date of the combination) and result from facts and circumstances that existed as of that date. In all other cases, such changes are recognized in income or in other comprehensive income as appropriate, in accordance with the applicable standard.

In a business combination achieved in stages, the Group's previously-held interest in the acquiree is remeasured at its acquisition-date fair value in income. To determine goodwill at the acquisition date, the fair value of the consideration transferred (e.g., price paid) is increased by the fair value of any interest previously held by the Group. The amount previously recognized within other comprehensive income in respect of the previously-held interest is recycled to the statement of income.

2.1.4 Transactions involving non-controlling interests

Changes in transactions involving non-controlling interests that do not result in a change of control are recognized in equity. In the event of an acquisition of additional shares in an entity already controlled by the Group, the difference between the acquisition price of the shares and the additional interest acquired by the Group in consolidated equity is recorded in stockholders' equity. The value of the entity's identifiable assets and liabilities (including goodwill) for consolidation purposes remains unchanged.

2.1.5 Assets and liabilities held for sale and discontinued operations

When the Group expects to recover the value of an asset or a group of assets through its sale rather than through continuing use, such assets are presented separately under "Assets held for sale" in the statement of financial position. Any liabilities related to such assets are presented on the "Liabilities held for sale" line in the statement of financial position. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell, and are therefore no longer subject to depreciation and amortization.

In accordance with IFRS 5, a discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the date of sale or at an earlier date if the business meets the criteria to be recognized as an asset held for sale. Income or losses generated by these operations, as well as any capital gains or losses on disposal, are presented net of tax on a separate line of the statement of income. To provide a meaningful year-on-year comparison, the same treatment is applied to these items in the previous year.

For assets not classified as discontinued operations, any related impairment losses or proceeds from their disposal are recognized through operating income.

2.2 Changes in the scope of consolidation

2.2.1 Transactions that were completed

The main changes in the scope of consolidation that were finalized in 2017 and 2016 are as follows:

Description	Business Group	Transaction type	Transaction date	Note
Valeo-Kapec	Powertrain Systems	Company created with Pyeong Hwa	November 30, 2017	2.2.1.1
FTE automotive	Powertrain Systems	Takeover	October 31, 2017	2.2.1.2
Valeo Malaysia CDA Sdn (formerly Precico)	Comfort & Driving Assistance Systems	Takeover	March 31, 2017	2.2.1.3
gestigon	Comfort & Driving Assistance Systems	Takeover	February 28, 2017	2.2.1.4
Ichikoh	Visibility Systems and Valeo Service	Takeover	January 20, 2017	2.2.1.5
Valeo Siemens eAutomotive	Powertrain Systems	50/50 joint venture with Siemens	December 1, 2016	2.2.1.6
CloudMade	Comfort & Driving Assistance Systems	Interest acquired	November 10, 2016	2.2.1.7
Valeo Unisia Transmissions	Powertrain Systems	Purchase of non-controlling interests	September 30, 2016	2.2.1.8
Spheros	Thermal Systems	Takeover	April 1, 2016	2.2.1.9
peiker	Comfort & Driving Assistance Systems	Takeover	March 1, 2016	2.2.1.10
Engine Control business	Powertrain Systems	Sale	February 29, 2016	2.2.1.11

2.2.1.1 Creation of Valeo-Kapec

On February 6, 2017, Valeo announced it had signed an agreement with Pyeong Hwa group, its long-standing South Korean partner in transmission manufacturing, to create Valeo-Kapec, in which Valeo owns a 50% stake. Valeo-Kapec, headquartered in Daegu in South Korea, has a global manufacturing footprint and aims to become the world leader in torque converters for automatic and continuously variable transmissions. The partners have contributed their respective torque converter businesses, located for Valeo at Nanjing (China), Atsugi (Japan), San Louis Potosi (Mexico) and Troy (United States), and for Kapec in Daegu, Waegwan and Seongju (South Korea).

Having received the necessary regulatory clearance, Valeo and its partner Pyeong Hwa group announced the completion of the transaction on November 30, 2017.

Valeo-Kapec employs around 3,150 people. The new company is controlled by Valeo and is therefore fully consolidated in its consolidated financial statements with effect from December 1, 2017. It is forecast to generate sales of around 1 billion euros on an annualized basis.

Valeo-Kapec will capitalize on strong geographic, product and business complementarity to create purchasing, manufacturing and above all Research and Development synergies.

Valeo's contribution of assets and liabilities to Valeo-Kapec has been accounted for as an equity transaction in accordance with IFRS 10.

Given how recently the acquisition was finalized, the purchase price has been allocated to Valeo-Kapec's assets and liabilities on a provisional basis in 2017, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 200 million euros at December 31, 2017. The Group will identify and measure the identifiable assets acquired and liabilities assumed at the acquisition date in 2018. The allocation will be finalized within 12 months of the acquisition date, i.e., no later than November 30, 2018.

The main impacts of this operation are as follows:

(in millions of euros)	Allocation at December 31, 2017
PURCHASE PRICE (including the fair value of the in-kind contribution)	**458**
Identifiable assets acquired at the acquisition date	361
Identifiable liabilities assumed at the acquisition date	(103)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**258**
PROVISIONAL GOODWILL ARISING ON THE ACQUISITION	**200**

(in millions of euros)	Allocation at December 31, 2017
Net cash and cash equivalents acquired	4
Consideration paid	(114)
Acquisition costs paid during the period	(1)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**(111)**

These new South Korean operations contributed 42 million euros to consolidated sales in 2017.

2.2.1.2 Acquisition of FTE automotive

On June 2, 2016, Valeo announced it had signed an agreement with Bain Capital Private Equity, owner of FTE automotive, to acquire the entire share capital of the company for an enterprise value of 819.3 million euros, which represents an estimated 8x EBITDA for 2016.

FTE automotive, headquartered in Germany, is a leading producer of clutch and gear actuators. Its product portfolio and customer base are highly complementary to Valeo's. The acquisition will enable the Group to expand its offering of active hydraulic actuators, a strategic and fast-growing market driven by the rise of dual-clutch technology and hybrid vehicles. FTE automotive will also strengthen Valeo's aftermarket business. The company has 3,800 employees and a diversified industrial footprint in eight countries, including Germany, the Czech Republic, Slovakia, Mexico and China. FTE automotive had sales of around 550 million euros in 2016.

Clearance from the Brazilian antitrust authorities was obtained on November 3, 2016. Further to its decision to sell its Passive Hydraulic Actuator business (see Note 2.2.2.1, page 305), Valeo received clearance from the European Commission on October 13, 2017 and completed its acquisition of FTE automotive on October 31, 2017.

Given how recently the acquisition was finalized, the purchase price has been allocated to FTE automotive's assets and liabilities on a provisional basis in 2017, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 487 million euros at December 31, 2017. The Group will identify and measure the identifiable assets acquired and liabilities assumed at the acquisition date in 2018. The allocation will be finalized within 12 months of the acquisition date, i.e., no later than October 31, 2018.

The main impacts of this acquisition are as follows:

(in millions of euros)	Allocation at December 31, 2017
PURCHASE PRICE	**414**
Identifiable assets acquired at the acquisition date	449
Identifiable liabilities assumed at the acquisition date	(522)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**(73)**
PROVISIONAL GOODWILL ARISING ON THE ACQUISITION	**487**

(in millions of euros)	Allocation at December 31, 2017
Net cash and cash equivalents acquired	30
Consideration paid	(414)
Acquisition costs paid during the period	(2)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**(386)**

FTE automotive contributed 86 million euros to consolidated sales in 2017.

2.2.1.3 Acquisition of Valeo Malaysia CDA Sdn (formerly Precico)

On March 31, 2017, Valeo completed its acquisition of the entire share capital of Valeo Malaysia CDA Sdn (formerly Precico), a Malaysia-based company specialized in plastic injection molding and electronic components assembly. Valeo Malaysia CDA Sdn has been fully consolidated within the Comfort & Driving Assistance Systems Business Group since April 1, 2017.

After allocating the purchase price, provisional goodwill resulting from the acquisition amounted to 8 million euros. The purchase price accounting will be finalized within 12 months of the acquisition date.

Net cash flows resulting from the acquisition represented an outflow of 26 million euros at end-December 2017.

The transaction did not have a material impact on consolidated statement of income indicators in 2017.

2.2.1.4 Acquisition of gestigon

On February 28, 2017, Valeo completed its acquisition of the entire share capital of gestigon, a German start-up specialized in developing 3D image processing software for the vehicle cabin. gestigon has been fully consolidated within the Comfort & Driving Assistance Systems Business Group since March 1, 2017.

Designed to reinforce Valeo's technological leadership in automated driving, this acquisition provides a solution to the need to develop simple, intuitive and effective human-machine interfaces (HMIs) in a hyper-connected world. With the acquisition, Valeo will be able to develop its cabin comfort and driving assistance operations, particularly in high-growth technologies such as interior cameras and image processing.

Building on Valeo's existing Driver Monitoring system, which can sense driver drowsiness or distraction, the acquisition will lead to the development of a comprehensive offering of object and occupant detection features. Going forward, the vehicle will be able to analyze the cabin environment and seamlessly adapt to the occupants' safety needs – by activating airbags, for example.

After allocating the purchase price, provisional goodwill resulting from the acquisition amounted to 36 million euros. The purchase price accounting will be finalized by February 28, 2018 at the latest.

Net cash flows resulting from the acquisition represented an outflow of 33 million euros at end-December 2017. The acquisition agreement contains a contingent consideration clause.

The transaction did not have a material impact on consolidated statement of income indicators in 2017.

2.2.1.5 Acquisition of Ichikoh

Context of the transaction

On November 22, 2016, Valeo announced the launch of a partial takeover bid for the shares of Ichikoh, a Japanese company listed on the First Section of the Tokyo Stock Exchange. Valeo acquired an initial block of Ichikoh shares on April 27, 2000.

Valeo offered to buy shares from Ichikoh's shareholders at a price of 408 Japanese yen per share, subject to Valeo obtaining at least 50.09% of Ichikoh's capital (including the shares it already holds), with Valeo's stake being capped at 55.08% of the capital in order to maintain the liquidity of the Ichikoh share, which will continue to be listed on the Tokyo Stock Exchange.

On completion of the takeover bid, which ran from November 24, 2016 to January 12, 2017, Valeo announced that 32,383,612 shares had been tendered by other Ichikoh shareholders. As the offer was oversubscribed, the financial intermediaries reduced the shares to be acquired by Valeo on a prorated basis, by approximately 30.26%.

On December 12, 2016, Valeo announced that it had obtained the necessary approvals from the relevant antitrust authorities to proceed with the transaction.

As of settlement-delivery on January 20, 2017 following Valeo's takeover bid for 22,583,000 shares after the prorated reduction, the Group holds 55.08% of Ichikoh's capital (compared with 31.58% of its capital previously) and takes control of one of Japan's leading automotive lighting companies. As the period between the takeover date of January 20, 2017 and the date of February 1, 2017 was not deemed to be material, Ichikoh has been fully consolidated by Valeo, mainly within the Visibility Systems Business Group, since February 1, 2017.

Accounting treatment and purchase price allocation

The takeover resulted in (i) recognizing at fair value the Group's previously-held equity-accounted interest, and (ii) recognizing Ichikoh's assets and liabilities in full. Remeasuring the previously-held equity interest technically gave rise to a disposal gain of 14 million euros, which was recognized under "Share in net earnings of equity-accounted companies".

The allocation of the purchase price to Ichikoh's assets and liabilities was finalized in accordance with IFRS 3 as follows:

(in millions of euros)	Allocation at June 30, 2017	Final allocation at December 31, 2017
PURCHASE PRICE (INCLUDING THE FAIR VALUE OF THE PREVIOUSLY-HELD EQUITY INTEREST)	**145**	**145**
Identifiable assets acquired at the acquisition date	400	400
Identifiable liabilities assumed at the acquisition date	(312)	(312)
Trademarks(1)	-	22
Customer relationship(2)	-	21
Technology(3)	-	3
Unfavorable supply contracts		(9)
Customer relationship on onerous contracts	-	(8)
Deferred taxes	-	16
Temporary differences arising on remeasurement	-	(10)
Other remeasurements to fair value(4)		(12)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**88**	**111**
GOODWILL ARISING ON THE ACQUISITION	**57**	**34**

(1) The Ichikoh and PIAA trademarks have indefinite useful lives.
(2) The customer relationship is amortized over a period of between 7 and 10 years.
(3) Technology is amortized over 6 years.
(4) "Other remeasurements to fair value" include remeasurements of non-current assets and of provisions for pensions and other employee benefits.

(in millions of euros)	Allocation at June 30, 2017	Allocation at December 31, 2017
Net cash and cash equivalents acquired	86	86
Consideration paid	(62)	(62)
Acquisition costs paid during the period	(3)	(3)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**21**	**21**

The purchase of additional shares in Ichikoh also increased Valeo's indirect ownership interest in the six entities of the China Lighting Alliance, jointly held by Valeo (85%) and Ichikoh (15%) and already fully consolidated by the Group prior to the takeover of Ichikoh. In accordance with IFRS 3, this portion of the transaction is classified as a transaction between shareholders and has been considered for accounting purposes as having generated an additional cash outflow of 14 million euros.

Ichikoh's opening statement of financial position

After taking into account the adjustments outlined above, Ichikoh's opening statement of financial position is as follows:

(in millions of euros)	Opening statement of financial position February 1, 2017	*(in millions of euros)*	Opening statement of financial position February 1, 2017
ASSETS		**EQUITY AND LIABILITIES**	
Other intangible assets	93	**STOCKHOLDERS' EQUITY**	**102**
Property, plant and equipment	255	Non-controlling interests	99
Investments in equity-accounted companies	1	**STOCKHOLDERS' EQUITY**	**201**
Other non-current assets	55	Provisions for pensions and other employee benefits	94
Deferred tax assets	25	Other provisions – long-term portion	37
		Long-term debt	137
		Deferred tax liabilities	9
NON-CURRENT ASSETS	**429**	**NON-CURRENT LIABILITIES**	**277**
Inventories, net	96	Accounts and notes payable	201
Accounts and notes receivable, net	179	Other provisions – current portion	12
Other current assets	20	Taxes payable	2
Taxes receivable	2	Other payables	51
Other current financial assets	-	Current portion of long-term debt	69
Cash and cash equivalents	96	Short-term debt	9
Assets held for sale	-		
CURRENT ASSETS	**393**	**CURRENT LIABILITIES**	**344**
TOTAL ASSETS	**822**	**TOTAL EQUITY AND LIABILITIES**	**822**

Contribution to the statement of income

Excluding the six entities of the China Lighting Alliance, which are already fully consolidated, Ichikoh contributed 909 million euros to consolidated sales in 2017.

2.2.1.6 Creation of Valeo Siemens eAutomotive

On April 18, 2016, Valeo announced its plan to form a 50/50 joint venture with Siemens specialized in high-voltage powertrains. The operation was approved by the competent authorities on September 30, 2016.

The entity was set up on December 1, 2016 and aims to become a front-ranking player in the fast-growing automotive electrification market. Valeo and Siemens have joined forces to offer a comprehensive and innovative range of high-voltage (above 60V) components and systems for all types of electric vehicles (hybrids, plug-in hybrids and full electric vehicles), including e-motors, onboard chargers, inverters and DC/DC converters.

Valeo contributed its high-voltage power electronics activities, which employ around 200 people, of whom 90 are based in France. Its under-60V powertrain activity is not part of the joint venture. Siemens contributed its E-Car Powertrain Systems Business Unit (e-motors, inverters), which employs around 500 people, of whom 370 are based in Germany and 130 in China.

In accordance with IFRS 5, the assets and liabilities relating to the high-voltage powertrain systems business were recorded in assets and liabilities held for sale in the consolidated statement of financial position at June 30, 2016 in an amount of 64 million euros and 15 million euros, respectively. This reclassification also led to the discontinuation of depreciation and amortization of the property, plant and equipment and intangible assets dedicated to this business.

The net assets of the high-voltage powertrain systems business, amounting to 75 million euros, including a share of the goodwill allocated to this business, were transferred to the joint venture on December 1, 2016. In consideration for its contribution, Valeo received 50% of the share capital of Valeo Siemens eAutomotive. These shares have been included in "Investments in equity-accounted companies" for 241 million euros, corresponding to their fair value.

The Group recognized this contribution to a joint venture in accordance with IFRS 10. The loss of control of the assets and liabilities led to (i) derecognition of said assets and liabilities from the consolidated statement of financial position, (ii) recognition of the shares received in the new joint venture at their fair value, and (iii) recognition of a disposal gain equal to the difference between the fair value of the shares received and the net carrying amount of the assets and liabilities derecognized as a result of the loss of control. This disposal gain was recognized in full in December 2016 in "Other income and expenses" and represents the difference between the carrying amount of the net assets transferred by Valeo and the fair value of the equity-accounted investment. The overall proceeds from this transaction, including the disposal gain, the fair value of the put and call options and the transaction costs, totaled 159 million euros and were recorded in "Other income and expenses" in the 2016 financial statements.

In the absence of directly or indirectly observable inputs on a listed market, Valeo adopted a discounted cash flow method for the valuation based on the 2016-2020 business plan, drawn up with Siemens during the joint venture negotiations. The fair value of the equity-accounted investment corresponds to Valeo's share in the venture plus a portion of the expected synergies. The following key non-observable assumptions were used:

- a discount rate of 11.5%;
- a terminal value calculated using a perpetual growth rate of 1.5%, which is in line with the average mid- to long-term growth rate for the Group's industry and is the same as that used for impairment testing.

This technique corresponds to Level 3 in the fair value hierarchy.

At the time the joint venture was created, Siemens granted Valeo a call option and Valeo granted Siemens a put option. These options were valued by an independent expert using a probability-based approach at 35 million euros and 37 million euros, respectively at end-2016. At December 31, 2017, the fair value of the call option was 28 million euros, while the fair value of the put option was 31 million euros.

2.2.1.7 Acquisition of a stake in CloudMade

On November 10, 2016, Valeo announced its acquisition of a 50% stake in the capital of CloudMade, a developer of smart and innovative big data-driven automotive solutions such as a machine learning platform which seeks to improve and personalize vehicle comfort and safety for drivers and their passengers.

Valeo has joint control over CloudMade, which has therefore been accounted for by the equity method in its consolidated financial statements since November 10, 2016. CloudMade is part of the Comfort & Driving Assistance Systems Business Group.

This acquisition resulted in a net cash outflow of 28 million euros. The restated statement of financial position at December 31, 2016 includes the reclassification of an amount of 12 million euros from "Other non-current financial assets" to "Investments in equity-accounted companies". At December 31, 2017, final residual goodwill amounting to 26 million euros reflects both the significant trading synergies expected from the transaction and Valeo's ability to offer its customers innovative solutions ahead of its competitors.

As part of the acquisition, CloudMade granted Valeo a call option and Valeo granted CloudMade a put option. At December 31, 2017, these options were each valued at around 2 million euros by an independent expert using a probability-based approach (see Note 8.1.4.4, page 357).

2.2.1.8 Purchase of non-controlling interests in Valeo Unisia Transmissions

On September 30, 2016, Valeo acquired Hitachi's 34% stake in Valeo Unisia Transmissions KK for 24 million euros, and now holds all of this company's capital.

This acquisition did not have a material impact on the Group's consolidated financial statements since the company was previously controlled and fully consolidated by Valeo.

2.2.1.9 Acquisition of Spheros

On December 23, 2015, Valeo announced it had signed an agreement with Deutsche Beteiligungs AG (DBAG) to acquire Spheros, the worldwide leader in air conditioning systems for buses. Spheros leverages its technological leadership to supply air conditioning systems to major bus manufacturers and fleet operators. Spheros has a global sales network and a vast industrial footprint, with plants in Germany, Finland, Turkey, the United States, Brazil, China and India.

This acquisition allowed Valeo to extend its thermal management activities to the vibrant bus market. It is consistent with the Group's strategy, which aims to identify new drivers of growth, particularly in CO_2 emissions reduction.

Following clearance by the antitrust authorities, on March 31, 2016 Valeo acquired control of Spheros, which has been fully consolidated in the Group's financial statements since April 1, 2016. Spheros forms part of the Thermal Systems Business Group.

The allocation of the purchase price to Spheros' assets and liabilities was finalized in accordance with IFRS 3 as follows:

(in millions of euros)	Allocation at June 30, 2016	Allocation at December 31, 2016	Final allocation at March 31, 2017
PURCHASE PRICE	**255**	**256**	**256**
Identifiable assets acquired at the acquisition date	127	127	127
Identifiable liabilities assumed at the acquisition date	(154)	(154)	(154)
Customer relationship(1)	-	41	41
Technology(2)	-	13	13
Deferred taxes	-	(10)	(10)
Other individually non-material remeasurements to fair value	-	(10)	(19)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**(27)**	**7**	**(2)**
GOODWILL ARISING ON THE ACQUISITION	**282**	**249**	**258**

(1) The customer relationship is amortized over 12 years.
(2) Technology is amortized over 8 years.

Final goodwill resulting from the acquisition amounts to 258 million euros and chiefly reflects the operating and tax synergies expected to result from the transaction. Adjustments to the provisional amounts, determined when finalizing the purchase price allocation, have been recognized as if accounting for the business combination was completed on the acquisition date, thereby impacting the 2016 consolidated statement of financial position.

This acquisition gave rise to a net cash outflow of 326 million euros at end-December 2016.

Spheros contributed 255 million euros to consolidated sales in 2017, compared with 184 million euros over a nine-month period in 2016.

2.2.1.10 Acquisition of peiker

On December 21, 2015 Valeo announced the acquisition of German-based peiker, a major supplier of onboard telematics and mobile connectivity solutions. The transaction enabled Valeo to widen its range of connectivity solutions and strengthen its leadership in autonomous and connected vehicles, and thereby offer automakers new telematics systems equipped with the high-speed connectivity and cybersecurity features that this high-growth market demands.

Having received clearance from the antitrust authorities, on March 8, 2016 Valeo acquired control of peiker for 283 million euros. Valeo holds the entire share capital of the company, which has been fully consolidated within the Comfort & Driving Assistance Systems Business Group since March 1, 2016.

The allocation of the purchase price to peiker's assets and liabilities was finalized in accordance with IFRS 3 as follows:

(in millions of euros)	Allocation at June 30, 2016	Allocation at December 31, 2016	Final allocation at February 28, 2017
PURCHASE PRICE	**299**	**283**	**283**
Identifiable assets acquired at the acquisition date	164	164	164
Identifiable liabilities assumed at the acquisition date	(105)	(105)	(105)
Technology(1)	-	38	28
Customer relationship(2)	-	34	34
Customer relationship on onerous contracts	-	(28)	(28)
Tax liability	-	(21)	(21)
Other individually non-material remeasurements to fair value	-	(1)	(4)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**59**	**81**	**68**
GOODWILL ARISING ON THE ACQUISITION	**240**	**202**	**215**

(1) Technology is primarily amortized over 8 years.
(2) The customer relationship is amortized over 11 years.

Final goodwill resulting from the acquisition amounts to 215 million euros. Adjustments to the provisional amounts, determined when finalizing the purchase price allocation, have been recognized as if accounting for the business combination was completed on the acquisition date, thereby impacting the 2016 consolidated statement of financial position.

The value of the goodwill chiefly reflects the expected operating synergies relative to onboard telematics and connectivity, mainly attributable to the improved industrial performance and efficiency of the Company's Sourcing, Logistics and Research & Development networks.

This acquisition gave rise to a net cash outflow of 301 million euros at end-December 2016.

peiker contributed 309 million euros to consolidated sales in 2017, compared with 266 million euros over a 10-month period in 2016.

2.2.1.11 Sale of the Engine Control business

On July 27, 2015, Valeo announced its plan to sell its Engine Control business, part of the Powertrain Systems Business Group. This project, begun during the first half of 2015, culminated in the signature of a sale agreement in the second half of the year and the sale was completed on February 29, 2016.

The Engine Control business contributed 10 million euros to consolidated sales in the first half of 2016 up until the date of sale.

Following the measurement of the definitive loss on disposal, in first-half 2016 income of 1 million euros – mainly relating to recycled translation adjustments – was recognized in "Other income and expenses" relative to the estimated loss recognized in the 2015 financial statements.

Net of cash and cash equivalents transferred, this sale resulted in a net inflow of 27 million euros in the consolidated statement of cash flows for 2016.

2.2.2 Transactions that have been announced but not yet completed

2.2.2.1 Sale of the Passive Hydraulic Actuator business

On July 12, 2017, Valeo announced its plan to sell its Passive Hydraulic Actuator business, part of the Powertrain Systems Business Group, to the Italian group Raicam. The sale should be completed in the first half of 2018.

In accordance with IFRS 5, the assets and liabilities relating to this business were therefore classified as assets and liabilities held for sale in the consolidated statement of financial position at December 31, 2017. Valeo chose this classification for these assets and liabilities since it believes that their carrying amount will be recovered principally through a sale transaction rather than through their continuing use. The amounts reclassified as assets and liabilities held for sale represented 41 million euros and 37 million euros, respectively, at December 31, 2017.

The business represented sales of 69 million euros in 2017.

Based on information available at the reporting date, Valeo estimated the likely consequences of the sale and recognized a 14 million euro impairment loss (see Note 6.1, page 331) as well as 14 million euros in future costs to be incurred directly in connection with the divestment of this business. These are recognized in other income and expenses (see Note 4.6.2.1, page 319).

The estimated additional impact on 2018 at the actual time of the sale is not considered material.

2.3 Off-balance sheet commitments relating to the scope of consolidation

2.3.1 Commitments given

2.3.1.1 Put option granted in respect of Detroit Thermal Systems

Valeo and V. Johnson Enterprises set up the company Detroit Thermal Systems in 2012. At December 31, 2017, Valeo and V. Johnson Enterprises had a respective 49% and 51% interest in this company.

V. Johnson Enterprises has a put option that may be exercised under certain conditions unrelated to either changes in shareholdings or to the level of earnings. The option is exercisable in the event that Valeo is unable to contribute to the financing of the venture or if it sold all or part of its interest to a third party. If the put is exercised, all of the shares owned by V. Johnson Enterprises at that time will be sold to Valeo, with the price to be determined according to the provisions of the agreement defining the company's governance arrangements.

The Group reviewed the contingency clauses governing the exercise of this option in light of the present situation and considered that the conditions underlying these clauses were unlikely to materialize. No liability was therefore recognized in this respect.

2.3.1.2 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 31 million euros at December 31, 2017 (28 million euros at December 31, 2016) and mainly include commitments given on the creation of the joint venture with Siemens (see Notes 2.2.1.6 and 8.1.4.4, pages 302 and 357, respectively) and on the sale of the Engine Control business (see Note 2.2.1.11, page 305).

2.3.2 Commitments received

Commitments received totaled 490 million euros at December 31, 2017 (327 million euros at December 31, 2016) and correspond to guarantees granted to Valeo in connection with its acquisitions. The increase is mainly attributable to vendor warranties received in connection with the acquisitions of FTE automotive, gestigon and Valeo Malaysia CDA Sdn (formerly Precico) see (Notes 2.2.1.2, 2.2.1.4 and 2.2.1.3, respectively, pages 299 to 300), and to the expiration of vendor warranties received in 2016 in connection with the acquisition of Spheros and peiker. Valeo also still has the commitment it received from Siemens as part of the creation of the Valeo Siemens eAutomotive joint venture (see Notes 2.2.1.6 and 8.1.4.4, pages 302 and 357).

Note 3 SEGMENT REPORTING

In accordance with IFRS 8 – "Operating Segments", the Group's segment information below is presented on the basis of internal reports that are regularly reviewed by the Group's General Management in order to allocate resources to the segments and assess their performance. General Management represents the chief operating decision maker within the meaning of IFRS 8.

Four reportable segments have been identified, corresponding to Valeo's organization into Business Groups. There is no aggregation of operating segments.

The Group's four reportable segments are:

- Comfort & Driving Assistance Systems, which has three Product Groups: Driving Assistance, Intuitive Interior Controls and Connected Cars. Tomorrow's cars will be automated and connected: innovative, intuitive interfaces will be needed to support this functional enhancement. The Comfort & Driving Assistance Systems Business Group focuses on driver experience, developing solutions to make mobility safer, more intuitive and more connected.
- Powertrain Systems, comprising five Product Groups: Electrical Systems, Electronic Systems, Transmission Systems, Combustion Engine Systems and Active Hydraulic Actuator Systems, organized around three activities: electrification, transmission automation and clean engines. This Business Group develops innovative powertrain solutions to reduce CO_2 emissions and fuel consumption without compromising driving performance or pleasure.
- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Bus Systems. To address the new challenges facing the automotive industry, the strategic objectives of this Business Group are three-fold: reduce harmful emissions from vehicles with internal combustion engines, increase travel range and battery life for hybrid and electric vehicles, and promote passenger health and well-being.
- Visibility Systems, comprising two Product Groups: Interior and Exterior Lighting Systems, and Wiper Systems. This Business Group designs and produces efficient and innovative lighting and wiper systems which support the driver and passengers in all weather, day and night, and in their various onboard activities.

Each of these Business Groups is also responsible for production and for some of the distribution of products for the aftermarket. Income and expenses for Valeo Service, which sells almost exclusively products manufactured by the Group, have been reallocated among the Business Groups identified.

In addition to these four Business Groups, the "Other" line includes the holding companies and eliminations between the four operating segments.

3.1 Key segment performance indicators

The key performance indicators for each segment as presented in the tables below are as follows:

- sales;
- EBITDA, which corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin) and the impact of government subsidies and grants on non-current assets, and (ii) net dividends received from equity-accounted companies;
- Research and Development expenditure, net;
- investments in property, plant and equipment and intangible assets;
- segment assets, comprising property, plant and equipment and intangible assets (including goodwill), investments in equity-accounted companies and inventories.

2017

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ segment (excluding Group)	3,565	4,220	4,953	5,712	100	**18,550**
■ intersegment (Group)	25	80	50	96	(251)	**-**
EBITDA	522	566	539	767	42	**2,436**
Research and Development expenditure, net	(412)	(212)	(204)	(279)	(23)	**(1,130)**
Investments in property, plant and equipment and intangible assets	537	390	430	508	37	**1,902**
Segment assets	2,271	3,365	2,253	2,544	144	**10,577**

2016

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ segment (excluding Group)	3,343	3,975	4,622	4,545	34	**16,519**
■ intersegment (Group)	20	52	23	104	(199)	**-**
EBITDA	**496**	**534**	**463**	**645**	**6**	**2,144**
Research and Development expenditure, net	(334)	(183)	(184)	(235)	(20)	**(956)**
Investments in property, plant and equipment and intangible assets	342	357	302	330	30	**1,361**
Segment assets[1]	1,996	2,107	2,031	2,028	83	**8,245**

(1) The segment assets shown for the Comfort & Driving Assistance Systems and Thermal Systems Business Groups in 2016 differ from those presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, respectively, on pages 304 and 303, respectively).

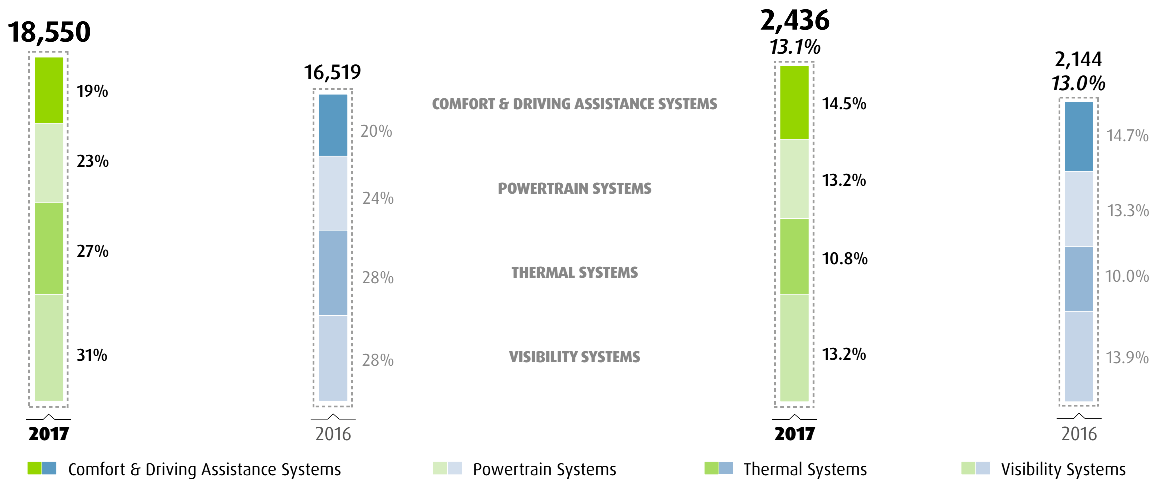
Segment data

▶ Breakdown of sales by Business Group (including intersegment sales)

(in millions of euros and as a % of total sales)

▶ EBITDA by Business Group

(in millions of euros and as a % of total sales)



3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	2017	2016
Operating margin	**1,455**	**1,273**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses(1)	948	841
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(13)	(13)
Dividends paid by equity-accounted companies	46	43
EBITDA	**2,436**	**2,144**
as a % of sales	*13.1%*	*13.0%*

(1) Impairment losses recorded in operating margin only.

This indicator is used by Management to monitor and track Business Group performance and to decide on the allocation of resources.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	2017	2016
Segment assets	**10,577**	**8,245**
Accounts and notes receivable	2,919	2,462
Other current assets	483	427
Taxes receivable	42	38
Financial assets	2,901	2,590
Deferred tax assets	456	625
Assets held for sale(1)	41	-
TOTAL GROUP ASSETS	**17,419**	**14,387**

(1) At December 31, 2017, assets held for sale corresponded to the assets of the Passive Hydraulic Actuator business (see Note 2.2.2.1, page 305).

3.3 Reporting by geographic area

Non-current assets consist of property, plant and equipment, intangible assets (excluding goodwill) and investments in equity-accounted companies. Goodwill balances cannot be broken down by geographic area as they are allocated to Business Groups which belong to several areas.

2017

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	1,378	3,103	736
Other European countries and Africa	7,488	6,251	2,353
North America	3,522	3,607	897
South America	492	424	67
Asia	5,670	5,957	2,189
Eliminations	-	(792)	-
TOTAL	**18,550**	**18,550**	**6,242**

2016

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	1,278	2,985	672
Other European countries and Africa	6,984	5,757	1,844
North America	3,452	3,453	730
South America	393	337	58
Asia	4,412	4,711	1,604
Eliminations	-	(724)	-
TOTAL	**16,519**	**16,519**	**4,908**

3.4 Breakdown of sales by major customer

In 2017, two global automakers represented 29% of the Group's sales, and each of these individually accounted for more than 13% of the Group's sales.

In 2016, two global automakers represented 29% of the Group's sales, and each of these individually accounted for more than 10% of the Group's sales.

Note 4 OPERATING DATA

4.1 Sales

In accordance with IAS 18, sales primarily include sales of finished goods and all tooling revenues. Sales are measured at the fair value of the consideration receivable, net of any trade discounts and volume rebates and excluding any VAT or other taxes. Sales are recognized at the date on which the Group transfers substantially all the risks and rewards of ownership to the buyer and retains neither continuing managerial involvement nor effective control over the goods sold:

- for finished products, sales are recognized in accordance with contractually specified incoterms;
- for tooling, in cases where the Group retains control of the future related risks and rewards, any contributions received from customers are recognized over the duration of the manufacturing phase of the project, within the limit of four years. If this is not the case, sales are recognized as from the start of volume production for the project.

The price reductions granted upstream to automakers are deferred in the consolidated statement of financial position at the time of payment and subsequently deducted from sales and reported under income on a straight-line basis as from the start of volume production.

Group sales rose 12.3% to 18,550 million euros in 2017 from 16,519 million euros in 2016.

Exchange rates had a negative 1.1% impact, relating mainly to the depreciation of the Chinese renminbi, US dollar and Japanese yen, while changes in the scope of consolidation during the year had a positive 6.8% impact. Like for like (comparable Group structure and exchange rate basis), consolidated sales for 2017 climbed 6.6% on 2016.

4.2 Accounts and notes receivable

Accounts and notes receivable are current financial assets which are initially recognized at fair value and subsequently carried at amortized cost, less any accumulated impairment losses. The fair value of accounts and notes receivable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable may be written down for impairment. Impairment is recognized when it is probable that the receivable will not be recovered and when the amount of the loss can be measured reliably. Impairment is estimated taking into account historical loss experience, the age of the receivables, and a detailed risk assessment. It is recognized in operating income or in other financial income and expenses if it relates to a risk of insolvency of the debtor.

Accounts and notes receivable may be discounted and sold to banks within the scope of recurring or one-off transactions. In accordance with the principles of IAS 39 on the derecognition of financial assets, an analysis is performed at the time of these transactions to determine the extent to which the risks and rewards inherent to ownership of the receivables have been transferred, particularly in terms of credit, late payment and dilution risks. If the analysis shows that both the contractual rights to receive the cash flows relating to the receivables and substantially all of the risks and rewards have been transferred, the accounts and notes receivable are removed from the consolidated statement of financial position and all of the rights created or retained on transfer are recognized as appropriate.

If this is not the case, the accounts and notes receivable continue to be carried on the consolidated statement of financial position and a debt is recorded to the extent of the discounted amount.

Accounts and notes receivable can be analyzed as follows:

(in millions of euros)	December 31, 2017	December 31, 2016
Accounts and notes receivable, gross	2,945	2,486
Impairment	(26)	(24)
ACCOUNTS AND NOTES RECEIVABLE, NET	**2,919**	**2,462**

At December 31, 2017, Valeo's largest automotive customer accounted for 13% of the Group's accounts and notes receivable (14% at December 31, 2016).

The average days' sales outstanding stood at 51 days at December 31, 2017, compared to 47 days at December 31, 2016.

The table below presents an aged analysis of accounts and notes receivable at the end of the reporting period:

(in millions of euros)	December 31, 2017	December 31, 2016
93.5% – Not yet due	2,753	2,325
3.3% – Less than 1 month past due	99	72
2.6% – More than 1 month but less than 1 year past due	76	71
0.6% – More than 1 year past due	17	18
ACCOUNTS AND NOTES RECEIVABLE, GROSS	**2,945**	**2,486**

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2017 totaled 2,753 million euros and 99 million euros, respectively, and represented 97% of total gross accounts and notes receivable (96% at end-2016). Past due receivables were written down in an amount of 26 million euros at December 31, 2017 (24 million euros at December 31, 2016).

Accounts and notes receivable falling due after December 31, 2017, for which substantially all of the risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, represented an amount of 312 million euros at December 31, 2017 versus 301 million euros at December 31, 2016. A total of 93 million euros out of the 312 million euros relates to sale operations carried out on a recurring basis (98 million euros at December 31, 2016). The financial cost of these transactions, recognized in cost of net debt, was around 4 million euros in 2017 (around 3 million euros in 2016).

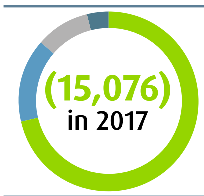
4.3 Gross margin and cost of sales

Gross margin is defined as the difference between sales and cost of sales.

Cost of sales may include insurance indemnities paid out for claims made within the scope of the Group's operations. These claims can relate to product quality issues or property damage. An insurance gain is recognized in the statement of income at the date of the claim, if it is demonstrated that the claim is duly covered by a valid insurance policy. If this right is contingent on the subsequent completion of repairs or on the acquisition of new assets (contingent claim), the associated gain should be recognized at the time the aforementioned repairs or acquisitions are made.

Gross margin for the period totaled 3,474 million euros, or 18.7% of sales (18.3% of sales in 2016).

Cost of sales can be analyzed as follows:



(in millions of euros)		2017	2016
58.1%(1)	- Raw materials consumed	(10,780)	(9,681)
12.3%(1)	- Labor	(2,275)	(1,975)
7.9%(1)	- Direct production costs and production overheads	(1,471)	(1,358)
3.0%(1)	- Depreciation and amortization(2)	(550)	(485)
	COST OF SALES	**(15,076)**	**(13,499)**

(1) As a % of sales.
(2) This amount does not include amortization charged against capitalized development costs, which is recognized in Research and Development expenditure, net. It includes the impact of government subsidies and grants on non-current production assets (excluding Research and Development) recognized in the statement of income.

4.4 Inventories

Inventories are stated at the lower of cost and net realizable value. Impairment losses are booked when the probable realizable value of inventories is lower than their cost price.

Inventories of raw materials and goods for resale are carried at purchase cost.

Inventories of finished products and work-in-progress are carried at production cost. Production cost includes the cost of raw materials, supplies and labor used in production, and other direct production and indirect plant costs, excluding overheads not related to production. These costs are determined by the "First-in-First-out" (FIFO) method which, due to the rapid inventory turnover rate, approximates the latest cost at the end of the reporting period.

Tooling used in the production of a specific project is subjected to an economic analysis of contractual relations with the automaker in order to determine which party has control over the associated future risks and rewards. Tooling is capitalized in the consolidated statement of financial position (see Note 6.3 on property, plant and equipment, page 334) when Valeo has control over these risks and rewards, or is carried in inventories (until it is sold) if no such control exists. A provision is made for any potential loss on the tooling contract (corresponding to the difference between the customer's contribution and the cost of the tooling) as soon as the amount of the loss is known.

At December 31, 2017, inventories break down as follows:

(in millions of euros)	December 31, 2017 Gross carrying amount	December 31, 2017 Impairment	December 31, 2017 Net carrying amount	December 31, 2016 Net carrying amount
Raw materials	723	(104)	**619**	524
Work-in-progress	184	(19)	**165**	132
Finished goods and supplies	625	(96)	**529**	435
Specific tooling	414	(7)	**407**	302
INVENTORIES, NET	**1,946**	**(226)**	**1,720**	**1,393**

Impairment losses taken against inventories amounted to 226 million euros at December 31, 2017 (208 million euros at December 31, 2016), including an allowance (net of reversals) of 9 million euros during the period. Allowances to provisions for impairment of inventories net of reversals amounted to 29 million euros in 2016.

4.5 Operating margin including share in net earnings of equity-accounted companies

Operating margin is equal to gross margin less net Research and Development expenditure and selling and administrative expenses.

Operating margin including share in net earnings of equity-accounted companies corresponds to operating income before other income and expenses.

In 2017, operating margin including share in net earnings of equity-accounted companies totaled 1,477 million euros, or 8.0% of sales (8.1% of sales in 2016).

Share in net earnings of equity-accounted companies amounts to 22 million euros in 2017 and 61 million euros in 2016. Note 4.5.3, page 314 provides more information.

4.5.1 Research and Development expenditure

4.5.1.1 Capitalized development costs

Innovation can be analyzed as either research or development. Research is an activity which can lead to new scientific or technical knowledge and understanding. Development is the application of research findings with a view to creating new products, before the start of commercial production.

Research costs are recognized in expenses in the period in which they are incurred.

Development costs are capitalized where the Group can demonstrate that:

- it has the intention and the technical and financial resources to complete the development, evidenced mainly by an engagement letter from the customer stating that Valeo has been chosen as supplier for the project;
- the intangible asset will generate future economic benefits in excess of its carrying amount, i.e., based on whether the project is expected to generate an adequate margin; and
- the cost of the intangible asset can be measured reliably.

Capitalized development costs recorded in assets in the statement of financial position therefore correspond to projects for specific customer applications drawing on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

Capitalized development costs are subsequently amortized on a straight-line basis over a maximum period of four years as from the start of volume production.

Changes in capitalized development costs in 2017 and 2016 are analyzed below:

(in millions of euros)	2017	2016
GROSS CARRYING AMOUNT AT JANUARY 1	**2,300**	**1,973**
Accumulated amortization and impairment	(1,307)	(1,080)
NET CARRYING AMOUNT AT JANUARY 1	**993**	**893**
Capitalized development expenditure	577	437
Disposals	-	(36)
Changes in scope of consolidation[(1)]	45	-
Impairment	(4)	(20)
Amortization	(263)	(238)
Translation adjustment	(33)	-
Reclassifications[(2)]	1	(43)
NET CARRYING AMOUNT AT DECEMBER 31	**1,316**	**993**

(1) Changes in the scope of consolidation in 2017 relate to the acquisition of FTE automotive (see Note 2.2.1.2, page 319).
(2) Reclassifications in 2016 chiefly concerned intangible assets contributed to the joint venture with Siemens which were recognized as held for sale (see Note 2.2.1.6, page 302).

4.5.1.2 Research and Development expenditure, net

Net Research and Development expenditure comprises the costs incurred during the period, including amortization charged against capitalized development costs, less contributions received from customers in respect of development costs, sales of prototypes, research tax credits and the portion of Research and Development subsidies granted to the Group and taken to income. Contributions received from customers along with subsidies and grants received are recognized in income in line with the stage of completion of the projects to which they relate. Contributions received from customers relating to projects for which development costs are capitalized are deferred and taken to income over the period during which the corresponding products are sold, within a maximum period of four years.

Net Research and Development expenditure can be analyzed as follows for 2017 and 2016:

(in millions of euros)	2017	2016
Research and Development expenditure	(1,895)	(1,596)
Contributions received and subsidies and grants	455	456
Capitalized development expenditure	577	437
Amortization and impairment of capitalized development expenditure	(267)	(253)
RESEARCH AND DEVELOPMENT EXPENDITURE, NET	**(1,130)**	**(956)**

The Group continued to step up its Research and Development efforts in 2017 to meet the sharp increase in its order book over the past few years and in line with its strategy geared to products incorporating innovative technologies.

The research tax credit in France is calculated based on certain research expenditure on "eligible" projects and is paid by the French State, regardless of the entity's income tax position. If the company collecting the research tax credit is liable for income tax, the credit will be deducted from its income tax liability. Otherwise, it will be paid by the French State within a period of three years. The French research tax credit, or any other similar tax provision in other jurisdictions, does not therefore fall within the scope of IAS 12 – "Income Taxes" and is recognized as a deduction from Research and Development expenditure within the Group's operating margin as and when the related costs are taken to income.

The French research tax credit recognized in income for the year totaled 51 million euros in 2017 (55 million euros in 2016).

4.5.2 Other current assets

Consistent with the treatment for accounts and notes receivable, amounts receivable in respect of the French research tax credit or the CICE tax credit (*Crédit d'Impôt pour la Compétitivité et l'Emploi* – see Note 5.2, page 320) may be discounted and sold to banks. By analogy, the Group has applied the principles set out in IAS 39 on the derecognition of financial assets. An analysis is performed to determine the extent to which the risks and rewards inherent to ownership of the receivables are transferred. If the analysis shows that substantially all of the risks and rewards are transferred, these receivables are removed from the consolidated statement of financial position. If this is not the case, the receivables continue to be carried on the consolidated statement of financial position and a debt is recorded for the discounted amount.

At December 31, 2017, amounts receivable in respect of the CICE tax credit for 2014, 2015 and 2016, and the 2014, 2015 and 2016 research tax credit in France are no longer carried in the consolidated statement of financial position, which now includes only the estimated 55 million euros receivable in respect of the 2017 research tax credit.

These derecognized receivables were transferred as follows:

- the 2014 CICE tax credit receivable on December 16, 2014 for 15 million euros;
- the 2014 research tax credit receivable on June 26, 2015 for 56 million euros;
- the 2015 CICE tax credit receivable on December 18, 2015 for 15 million euros;
- the 2015 research tax credit receivable on June 22, 2016 for 54 million euros;
- the 2016 CICE tax credit receivable on December 21, 2016 for 15 million euros.
- the 2016 research tax credit receivable on June 22, 2017 for 57 million euros.
- the 2017 CICE tax credit receivable on December 22, 2017 for 17 million euros.

The cost of these transfers for the Group, recognized in cost of net debt for the period, was 1 million euros, stable compared to 2016.

At December 31, 2016, only the 2016 research tax credit receivable was still carried on the consolidated statement of financial position for an estimated 55 million euros.

4.5.3 Associates and joint ventures

4.5.3.1 Share in net earnings of equity-accounted companies

(in millions of euros)	2017	2016
Share in net earnings of associates	30	27
Share in net earnings of joint ventures	(8)	34
SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	**22**	**61**

All companies consolidated using the equity method, either joint ventures or associates, contribute to the Group's operations and belong to one of its four operating segments. They are included in the Group's internal reporting within the meaning of IFRS 8 and their operating performance is reviewed at the level of the Business Groups to which they belong. Accordingly, the Group considers it appropriate to recognize the share in net earnings of equity-accounted companies within operating margin.

Share in net earnings of associates

(in millions of euros)	2017	2016
Ichikoh Industries Limited	20	22
Detroit Thermal Systems	8	5
Other	2	-
SHARE IN NET EARNINGS OF ASSOCIATES	**30**	**27**

Ichikoh Industries Limited, which was 31.6%-owned by Valeo at December 31, 2016, is listed on the Tokyo Stock Exchange and its year-end was fixed at March 31 for the 2016 reporting period. The financial statements of this associate used when applying the equity method were prepared at a different date to that of the 2016 consolidated financial statements. The difference between the year-end of the associate and the Group's own year-end was three months, which is permitted by IAS 28.

On November 24, 2016, Valeo launched a takeover bid for the shares of Ichikoh. Following the close of the offer on January 12, 2017, Valeo controlled the Japan-based company. Ichikoh has been fully consolidated by Valeo as from February 1, 2017 (see Note 2.2.1.5, page 300). In 2017, the share in net earnings of associates relating to Ichikoh covers a period of four months (from October 1, 2016 to January 30, 2017), along with the disposal gain resulting from the remeasurement of the previously-held interest in Ichikoh (see Note 2.2.1.5, page 300).

Share in net earnings of joint ventures

(in millions of euros)	2017	2016
Valeo Siemens eAutomotive	(53)	(4)
CloudMade	(3)	-
Chinese joint ventures	43	37
Other	5	1
SHARE IN NET EARNINGS OF JOINT VENTURES	**(8)**	**34**

4.5.3.2 Investments in equity-accounted companies

Investments in associates

Changes in the "Investments in associates" caption can be analyzed as follows:

(in millions of euros)	2017	2016
INVESTMENTS IN ASSOCIATES AT JANUARY 1	**86**	**74**
Share in net earnings of associates	30	27
Dividend payments	(8)	(8)
Impact of changes in scope of consolidation[(1)]	(81)	-
Other movements	2	(3)
Translation adjustment	-	(4)
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	**29**	**86**

(1) Changes in the scope of consolidation mainly include the impacts of the change in the consolidation method for Ichikoh following the takeover on January 20, 2017 (see Note 2.2.1.5, page 300).

The Group's investments in associates are detailed below:

	Percentage interest *(in %)*		Carrying amount *(in millions of euros)*	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Ichikoh Industries Limited[(1)]	55.1	31.6	-	67
Detroit Thermal Systems	49.0	49.0	18	20
Valeo Pyeong Hwa Metals Co. Ltd[(2)]	49.0	49.0	(1)	(1)
Kuantic	33.3	N/A	6	-
Other	N/A	N/A	6	-
INVESTMENTS IN ASSOCIATES			**29**	**86**

(1) Further to the takeover in January 2017, Ichikoh Industries Limited has been fully consolidated since February 1, 2017 (see Note 2.2.1.5, page 300).
(2) The investment in Valeo Pyeong Hwa Metals Co. Ltd is recorded in "Other financial liabilities – long-term portion".

5

Investments in joint ventures

Changes in the "Investments in joint ventures" caption can be analyzed as follows:

(in millions of euros)	2017	2016(1)
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	**385**	**117**
Net earnings of joint ventures	(8)	34
Dividend payments	(38)	(35)
Impact of changes in scope of consolidation	(3)	272
Other movements	(2)	1
Translation adjustment	(7)	(4)
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	**327**	**385**

(1) The carrying amount shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7, page 303).

The Group's investments in joint ventures are detailed below:

	Percentage interest *(in %)*		Carrying amount *(in millions of euros)*	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016(1)
Valeo Siemens eAutomotive	50.0	50.0	182	236
Chinese joint ventures	N/A	N/A	109	111
CloudMade	50.0	50.0	24	28
Other	N/A	N/A	12	10
INVESTMENTS IN JOINT VENTURES			**327**	**385**

(1) The carrying amount shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7, page 303).

4.5.3.3 Financial information on equity-accounted companies

This information is presented based on a 100% holding and according to IFRS.

Information for equity-accounted associates is provided on an aggregate basis since the entities are not material taken individually.

Associates

Summarized financial data in respect of associates are set out in the table below:

(in millions of euros)	December 31, 2017	December 31, 2016
Non-current assets	71	426
Current assets	85	408
Non-current liabilities	25	290
Current liabilities	70	358

(in millions of euros)	2017	2016
Sales	306	1,151
Operating expenses	(284)	(1,066)

Joint ventures

Summarized financial data in respect of joint ventures are set out in the table below:

(in millions of euros)	December 31, 2017	December 31, 2016[1]
Non-current assets	611	519
Current assets	813	468
Non-current liabilities	253	96
Current liabilities	763	411

(1) Financial data shown for 2016 differ from the amounts presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of allocating the goodwill generated on the creation of Valeo Siemens eAutomotive (see Note 2.2.1.6, page 302).

(in millions of euros)	2017	2016
Sales	904	749
Operating expenses	(963)	(670)

4.5.3.4 Transactions with equity-accounted companies (related parties)

The consolidated financial statements include transactions carried out in the normal course of operations between the Group and its associates and joint ventures. These transactions are carried out at arm's length.

Transactions with associates

(in millions of euros)	December 31, 2017[1]	December 31, 2016
Accounts and notes receivable	5	9
Accounts and notes payable	9	15
Net debt (cash)	(2)	11

(1) Due to Valeo's takeover of Ichikoh on January 20, 2017, the transactions carried out with this company in 2017 are not presented above (see Note 2.2.1.5, page 300).

(in millions of euros)	2017[1]	2016
Sales of goods and services	32	34
Purchases of goods and services	(41)	(67)

(1) Due to Valeo's takeover of Ichikoh on January 20, 2017, the transactions carried out with this company in 2017 are not presented above (see Note 2.2.1.5, page 300).

Transactions with joint ventures

(in millions of euros)	December 31, 2017	December 31, 2016
Accounts and notes receivable	27	21
Accounts and notes payable	27	17
Net debt (cash)	(18)	10

(in millions of euros)	2017	2016
Sales of goods and services	52	24
Purchases of goods and services	(16)	(10)

4.6 Operating income and other income and expenses

4.6.1 Operating income

Operating income includes all income and expenses other than:
- interest income and expense;
- other financial income and expenses;
- income taxes.

Operating income including share in net earnings of equity-accounted companies totaled 1,410 million euros in 2017 versus 1,301 million euros in 2016.

4.6.2 Other income and expenses

In order to facilitate interpretation of the statement of income and Group performance, unusual items that are material to the consolidated financial statements are presented separately within operating income under "Other income and expenses".

This caption mainly includes:
- transaction costs and capital gains and losses arising on changes in the scope of consolidation;
- major litigation and disputes unrelated to the Group's operations (this therefore excludes the cost of any disputes relating to the quality of products sold, customers, suppliers or contract losses);
- costs relating to restructuring plans;
- impairment losses on non-current assets chiefly recognized as a result of impairment tests on cash-generating units (CGUs) and goodwill.

Other income and expenses can be analyzed as follows in 2017 and 2016:

(in millions of euros)	*Notes*	2017	2016
Transaction costs and capital gains and losses arising on changes in the scope of consolidation:	*4.6.2.1*		
■ Acquisition fees		(4)	(14)
■ Sale of the Passive Hydraulic Actuator business		(14)	-
■ Sale of the Engine Control business		-	1
■ Income relating to the creation of a joint venture with Siemens, net of costs		-	159
Claims and litigation:	*4.6.2.2*		
■ Antitrust investigations		(3)	(99)
■ Other disputes		(13)	(3)
Restructuring plans	*4.6.2.3*	(19)	(16)
Impairment of the Passive Hydraulic Actuator business	*4.6.2.1*	(14)	-
Impairment of non-current assets	*4.6.2.4*	-	(61)
OTHER INCOME AND EXPENSES		**(67)**	**(33)**

4.6.2.1 Transaction costs and capital gains and losses arising on changes in the scope of consolidation

Acquisition fees recognized in 2017 mainly relate to transactions carried out in the period, chiefly Ichikoh (see Note 2.2.1.5, page 300), FTE automotive (see Note 2.2.1.2, page 299), Valeo-Kapec (see Note 2.2.1.1, page 299), gestigon (see Note 2.2.1.4, page 300) and Valeo Malaysia CDA Sdn (formerly Precico) (see Note 2.2.1.3, page 300).

In 2017, the Group estimated the likely impact of the sale of its Passive Hydraulic Actuator business (see Note 2.2.2.1, page 305) and as a result recognized an additional expense for 28 million euros, breaking down as a 14 million euro impairment loss against allocated goodwill (see Note 6.1, page 331) and 14 million euros in costs. These include future operating, IT, and legal costs to be incurred directly in connection with the divestment of the business.

In 2016, the creation of the joint venture with Siemens resulted in a disposal gain of 159 million euros net of transaction costs and the impact of the put and call options recognized.

4.6.2.2 Claims and litigation

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

In 2017, claims and litigation mainly comprised legal advisory costs relating to these investigations (see Note 7.2, page 341). In 2016, claims and litigation mainly related to the impacts of these investigations.

4.6.2.3 Restructuring plans

Restructuring costs for 2017 primarily relate to the costs of a new plan announced in South America in the first half, as well as the impact of a plant closure in China and early retirement plans in Germany.

Restructuring costs for 2016 mainly related to the costs of early retirement plans in Germany, the phased shutdown of operations at a plant in Spain announced in 2015, the impact of a layoff plan in Japan announced in the second half of 2016, and a curtailment of operations at a plant in France announced in the first half of 2016. These costs were partially offset in an amount of 8 million euros by the impacts of the lump-sum program in the United States, net of administrative costs (see Note 5.3.4, page 324).

4.6.2.4 Impairment of non-current assets

As a result of the cash-generating unit (CGU) impairment tests carried out in 2016, an impairment loss of 49 million euros was recognized against the Compressors Product Group, and the Electronic Systems Product Group was written down in an amount of 12 million euros.

Note 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

5.1 Headcount

Including temporary staff, the Group's headcount is as follows:

	2017	2016
Total employees at December 31	111,600	91,800
Average employees during the year	105,350	89,125

5.2 Employee benefits

Employee benefits are measured in accordance with IAS 19. They comprise both short- and long-term benefits.

Group employees are entitled to short-term benefits such as paid annual leave, paid sick leave, bonuses and other benefits (other than termination benefits), payable within 12 months of the end of the period in which the corresponding services are rendered by employees.

These benefits are shown in current liabilities and expensed in the period in which the related service is rendered by the employee.

Long-term benefits cover two categories of employee benefits:

- post-employment benefits, which include statutory retirement bonuses, supplementary pension benefits, and coverage of certain medical costs for retirees and early retirees;
- other long-term benefits payable (during employment), corresponding primarily to long-service bonuses.

Benefits offered to each employee depend on local legislation, collective bargaining agreements, or other agreements in place in each Group entity.

These benefits are broken down into:

- defined contribution plans, under which the employer pays fixed contributions on a regular basis and has no legal or constructive obligation to pay further contributions. These are recognized in expenses based on calls for contributions;
- defined benefit plans, under which the employer guarantees a future level of benefits. An obligation under defined benefit plans (see Note 5.3, page 321) is recognized in liabilities in the statement of financial position.

The statement of income presents personnel expenses by function. They include the following items:

(in millions of euros)	2017	2016
Wages and salaries[1]	3,164	**2,727**
Social security charges	617	**531**
Share-based payment	27	**21**
Pension expenses under defined contribution plans	109	**83**
TOTAL	**3,917**	**3,362**

(1) Including temporary staff.

In France, the Group is eligible for the CICE tax credit, which is calculated on a proportion of compensation paid by French companies to their employees. It is paid by the French state, regardless of an entity's income tax position. If an entity is not liable for income tax, it is paid by the State within a period of three years.

The CICE tax credit does not therefore fall within the scope of IAS 12 – "Income Taxes". It is recognized as a deduction from personnel expenses within consolidated operating income and represented income of 17 million euros in 2017 versus income of 15 million euros in 2016.

Pension expenses under defined benefit plans are set out in Note 5.3, page 321.

Provisions for restructuring plans and employee disputes are set out in Note 7.1, page 340.

5.3 Provisions for pensions and other employee benefits

As indicated in Note 5.2, page 320, long-term benefits arising under defined benefit plans give rise to an obligation which is recognized in provisions for pensions and other employee benefits.

The pension provision is equal to the present value of Valeo's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. An asset is only recognized on overfunded plans if it represents future economic benefits that are available to the Group.

The provision for other long-term benefits is equal to the present value of the future benefit obligation. The expected cost of these benefits is recorded in personnel expenses over the employee's working life in the Company.

The calculation of these provisions is based on valuations performed by independent actuaries using the projected unit credit method and end-of-career salaries. These valuations incorporate both macroeconomic assumptions specific to each country in which the Group operates (discount rate, increases in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

Discount rates are determined by reference to market yields at the valuation date on high-quality corporate bonds with a term consistent with that of the employee benefits concerned.

The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. Actuarial gains and losses arising on long-term benefits payable during employment are recognized immediately in income. However, actuarial gains and losses arising on post-employment benefits are taken directly to other comprehensive income net of deferred tax.

Past service costs resulting from the adoption of a new plan or change in an existing defined benefit plan are recognized immediately in income.

The expense recognized in the statement of income includes:

- service cost for the period, past service costs, and the impact of any plan curtailments or settlements;
- net interest cost on pension obligations and plan assets recognized in financial income and expenses.

5.3.1 Description of the plans in force within the Group

The Group has set up a large number of defined benefit plans covering most of its current and former employees. The specific characteristics of these plans (benefit formula, funded status) varies depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2017, 94% of provisions are related to post-employment benefits, while the remaining 6% cover other long-term benefits.

The main post-employment defined benefit plans concern:

- supplementary pension benefits in Germany, the United States, Japan and the United Kingdom, which top up the statutory pension plans in force in those countries:

  Pension entitlement is calculated based on end-of-career salaries and number of years' service within the Group. Certain plans are pre-funded due to local legal requirements in some countries (United States/South Korea/United Kingdom) or as a result of the choice made by the company on setting up the plan (Japan).

  Most plans in the United States have been frozen and no longer give rise to any additional benefits;
- retirement termination benefits in France or severance benefits in South Korea, Mexico and Italy:

  These benefits are fixed amounts and are calculated depending on the number of years' service and the employee's annual compensation, either at the retirement date (as in France) or at the date the employee leaves the Company for whatever reason (retirement, resignation or redundancy) – as in South Korea, Mexico and Italy;
- health cover during retirement in the United States:

  Valeo pays into health plans and life insurance plans for certain retired employees in the United States. These plans are not funded and have all been frozen (the last plan was frozen as of January 1, 2012). Accordingly, no additional benefits have since been offered by these plans to plan participants still working for the Group;
- top-up retirement plans for certain Group managers and executives in France. Only one such plan is still in operation (since January 1, 2010) and concerns a specific level of Valeo management (*cadres hors catégorie*). The portion of these obligations relating to the Group's executive managers in France is detailed in Note 5.5, page 330.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each geographic area at December 31, 2017:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,535	22,157	9,864	12,097	**56,653**
Active employees having left the Group	-	2,075	1,862	620	**4,557**
Retirees	8	4,864	4,584	1,723	**11,179**
Total employees	**12,543**	**29,096**	**16,310**	**14,440**	**72,389**
Average duration of the defined benefit plans *(years)*	**12**	**22**	**13**	**10**	**16**

The Group also grants other long-term benefits, chiefly long-service bonuses or loyalty awards in France, Germany, Japan and South Korea.

All of these plans are accounted for as described above.

5.3.2 Actuarial assumptions

The discount rates used for each geographic area are determined by reference to expected payments of benefits under the plans and a yield curve based on a diverse basket of investment-grade (AA-rated) corporate bonds. In countries where the market for investment-grade corporate bonds is insufficient, discount rates are determined by reference to the yield on government bonds.

The discount rates used in the countries representing the Group's most significant obligations were as follows:

Country	December 31, 2017	December 31, 2016
Eurozone	2.00	1.80
United Kingdom	2.30	2.55
United States	3.60	3.90
Japan	0.50	0.30
South Korea	3.25	2.80

The weighted average long-term salary inflation rate was around 3.0% at December 31, 2017, largely unchanged from December 31, 2016.

The rate of increase for medical costs in the United States used to value the Group's main obligations was 7.20% at December 31, 2017, gradually falling to 5% by 2032. The latter assumption is unchanged from that used in 2016.

The sensitivity of the Group's main obligations to a 0.5-point rise or fall in discount rates and the inflation rate is set out in Note 5.3.7, page 327.

5.3.3 Breakdown and movements in obligations

Pension obligations and provisions break down as follows by major geographic area:

2017

(in millions of euros)	France	Other European countries	North America(1)	Asia	Total
Present value of unfunded obligations	220	470	99	117	**906**
Present value of funded obligations	41	172	405	225	**843**
Market value of plan assets	(6)	(87)	(336)	(190)	**(619)**
PROVISIONS RECOGNIZED AT DECEMBER 31, 2017	**255**	**555**	**168**	**152**	**1,130**
Permanent employees at December 31, 2017(2)	12,610	31,114	13,306	21,072	**78,102**

(1) Unfunded pension obligations in North America include medical plans in the United States representing 74 million euros.

(2) Permanent employees shown in the table above do not include permanent staff in South America, for which no obligation was recognized in respect of pensions or other long-term benefits. The Group's pension obligations in North America are significant with regard to the Group's permanent employees in this region, since a large portion of these obligations relates to retired personnel or employees having left the Group.

2016

(in millions of euros)	France	Other European countries	North America[1]	Asia	Total
Present value of unfunded obligations	221	478	113	49	**861**
Present value of funded obligations	41	114	455	111	**721**
Market value of plan assets	(7)	(80)	(334)	(89)	**(510)**
PROVISIONS RECOGNIZED AT DECEMBER 31, 2016	**255**	**512**	**234**	**71**	**1,072**
Permanent employees at December 31, 2016[2]	12,176	25,611	11,965	15,141	**64,893**

(1) Unfunded pension obligations in North America include medical plans in the United States representing 88 million euros.
(2) Permanent employees shown in the table above do not include permanent staff in South America, for which no obligation was recognized in respect of pensions or other long-term benefits. The Group's pension obligations in North America are significant with regard to the Group's permanent employees in this region, since a large portion of these obligations relates to retired personnel or employees having left the Group.

Movements in obligations in 2017 and 2016 are shown in the tables below by major geographic area:

2017

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2017	**262**	**592**	**568**	**160**	**1,582**
Actuarial gains and losses recognized in other comprehensive income	(5)	(26)	16	-	**(15)**
Benefits paid	(17)	(20)	(36)	(24)	**(97)**
Translation adjustment	-	(5)	(69)	(25)	**(99)**
Changes in scope of consolidation[1]	-	71	-	207	**278**
Reclassifications[2]	-	(2)	-	-	**(2)**
Expenses (income) for the year:	21	32	25	24	**102**
■ *Service cost*	*20*	*21*	*2*	*21*	***64***
■ *Interest cost*	*4*	*12*	*21*	*3*	***40***
■ *Other*[3]	*(3)*	*(1)*	*2*	*-*	***(2)***
BENEFIT OBLIGATIONS AT DECEMBER 31, 2017	**261**	**642**	**504**	**342**	**1,749**

(1) Changes in the scope of consolidation relate to the acquisitions of Ichikoh, FTE automotive, and Valeo-Kapec (see Notes 2.2.1.5, 2.2.1.2 and 2.2.1.1, respectively, pages 299 to 300).
(2) Pension obligations relating to the Passive Hydraulic Actuator business were reclassified within liabilities held for sale at December 31, 2017 (see Note 2.2.2.1, page 305).
(3) "Other" mainly includes actuarial gains and losses recognized immediately in income, as well as past service costs and gains on settlements.

Actuarial gains totaling 15 million euros in 2017 primarily reflect the impact of the rise in discount rates in eurozone countries, partially offset by the impact of a fall in discount rates in the United States.

2016

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2016	**246**	**527**	**604**	**149**	**1,526**
Actuarial gains and losses recognized in other comprehensive income	14	68	18	4	**104**
Benefits paid	(24)	(16)	(88)	(15)	**(143)**
Translation adjustment	-	(14)	17	5	**8**
Changes in scope of consolidation[1]	-	2	1	-	**3**
Expenses (income) for the year:	26	25	16	17	**84**
■ *Service cost*	*18*	*17*	*3*	*14*	*52*
■ *Interest cost*	*5*	*13*	*25*	*3*	*46*
■ *Other*[2]	*3*	*(5)*	*(12)*	*-*	*(14)*
BENEFIT OBLIGATIONS AT DECEMBER 31, 2016	**262**	**592**	**568**	**160**	**1,582**

(1) Changes in the scope of consolidation relate to the acquisitions of peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, respectively, on pages 304 and 303, respectively).
(2) "Other" mainly includes actuarial gains and losses recognized immediately in income, as well as past service costs and gains on settlements.

Actuarial losses totaling 104 million euros in 2016 primarily reflect the impacts of the decrease in discount rates in eurozone countries and in the United States. A limited-term lump-sum program was offered to eligible participants of the four pension plans in the United States during the second half of 2016, generating a 12 million euro gain linked to the settlement of obligations with regard to participants in the program.

5.3.4 Movements in provisions

Movements in provisions in 2017 and 2016, including items relating to pensions and other employee benefits, are shown in the table below:

(in millions of euros)	France	Other European countries	North America	Asia	Total
PROVISIONS AT JANUARY 1, 2016	**236**	**449**	**250**	**65**	**1,000**
Actuarial gains and losses recognized in other comprehensive income	14	59	15	4	**92**
Amounts utilized during the year	(21)	(17)	(40)	(17)	**(95)**
Translation adjustment	-	(3)	7	3	**7**
Changes in scope of consolidation	-	2	1	-	**3**
Expenses (income) for the year:	26	22	1	16	**65**
■ *Service cost*	*18*	*17*	*3*	*14*	*52*
■ *Net interest cost*	*5*	*10*	*10*	*2*	*27*
■ *Other*	*3*	*(5)*	*(12)*	*-*	*(14)*
PROVISIONS AT DECEMBER 31, 2016	255	512	234	71	**1,072**
Actuarial gains and losses recognized in other comprehensive income	(5)	(32)	(23)	(9)	**(69)**
Amounts utilized during the year	(16)	(18)	(31)	(26)	**(91)**
Translation adjustment	-	(3)	(25)	(14)	**(42)**
Changes in scope of consolidation	-	68	-	108	**176**
Reclassifications[1]	-	(2)	-	-	**(2)**
Expenses (income) for the year:	21	30	13	22	**86**
■ *Service cost*	*20*	*21*	*2*	*21*	***64***
■ *Net interest cost*	*4*	*10*	*9*	*1*	***24***
■ *Other*	*(3)*	*(1)*	*2*	*-*	***(2)***
PROVISIONS AT DECEMBER 31, 2017	**255**	**555**	**168**	**152**	**1,130**
Of which current portion (less than one year)	16	21	62	18	**117**

(1) Provisions relating to the Passive Hydraulic Actuator business were reclassified within liabilities held for sale at December 31, 2017 (see Note 2.2.2.1, page 305).

The lower period expense for 2016 compared to 2017 essentially reflects the impact of the lump-sum program launched in the United States in the second half of 2016. An expense of 86 million euros was recognized in 2017 in respect of pensions and other employee benefits (65 million euros in 2016), of which 60 million euros were included in operating margin, 24 million euros in other financial income and expenses and 2 million euros in other income and expenses.

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2017 and 2016 is shown in the tables below:

2017

(in millions of euros)	France	Other European countries	North America	Asia(1)	Total
Cash at bank	-	1	3	44	**48**
Shares	6	49	203	48	**306**
Government bonds	-	18	65	42	**125**
Corporate bonds	-	16	65	15	**96**
Real estate	-	-	-	3	**3**
Other(2)	-	3	-	38	**41**
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2017	**6**	**87**	**336**	**190**	**619**

(1) At December 31, 2017, a Japanese plan was overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized a non-current financial asset for the amount of the surplus, i.e., 5 million euros, as it considers the right to a refund is unconditional within the meaning of IFRIC 14.
(2) "Other" mainly relates to investments in financing vehicles.

2016

(in millions of euros)	France	Other European countries	North America	Asia	Total
Cash at bank	-	-	15	38	**53**
Shares	7	44	195	15	**261**
Government bonds	-	19	62	4	**85**
Corporate bonds	-	17	62	31	**110**
Real estate	-	-	-	1	**1**
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2016	**7**	**80**	**334**	**89**	**510**

These assets are managed by specialized asset management companies.

In managing the risk arising on these assets, the diversification of the funds among the different asset classes (equities, bonds, cash equivalents) is defined by the Investment Committees or trustees specific to each country concerned, acting on recommendations from external advisors. Asset allocation decisions depend on the market outlook and the characteristics of the pension obligations. These committees carry out regular reviews of the investments made and of their performance.

The Group is not exposed to margin calls on its pension obligations due to the nature of its plan assets.

Movements in the value of plan assets in 2017 and 2016 can be analyzed as follows:

2017

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2017	**7**	**80**	**334**	**89**	**510**
Expected return on plan assets	-	2	12	2	**16**
Contributions paid to external funds	4	4	23	18	**49**
Benefits paid	(5)	(6)	(28)	(16)	**(55)**
Actuarial gains and losses	-	6	39	9	**54**
Changes in scope of consolidation[1]	-	3	-	99	**102**
Translation adjustment	-	(2)	(44)	(11)	**(57)**
PLAN ASSETS AT DECEMBER 31, 2017	**6**	**87**	**336**	**190**	**619**

(1) Changes in the scope of consolidation relate to the acquisitions of Ichikoh, FTE automotive, and Valeo-Kapec (see Notes 2.2.1.5, 2.2.1.2 and 2.2.1.1, respectively, pages 299 to 300).

The increase in the fair value of plan assets in 2017 is chiefly attributable to acquisitions in the period for 102 million euros, as well as a good fund performance. The actual return on plan assets for the period totaled 70 million euros (versus an expected return of 16 million euros), recognized in other financial income and expenses. The 54 million euro difference results from actuarial gains which were recognized within other comprehensive income in 2017.

Contributions totaling 49 million euros were paid to external funds in 2017, representing a sharp increase compared with initial estimates owing to acquisitions during the period and to higher-than-expected payments in the United States. Contributions in 2018 are estimated at 46 million euros.

2016

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2016	**10**	**78**	**354**	**84**	**526**
Expected return on plan assets	-	3	15	1	**19**
Contributions paid to external funds	8	4	30	9	**51**
Benefits paid	(11)	(3)	(29)	(7)	**(50)**
Actuarial gains and losses	-	9	3	-	**12**
Translation adjustment	-	(11)	10	2	**1**
Other movements	-	-	(49)	-	**(49)**
PLAN ASSETS AT DECEMBER 31, 2016	**7**	**80**	**334**	**89**	**510**

In 2016, the decrease in the fair value of plan assets in North America was chiefly attributable to the lump-sum program in the United States.

5.3.6 Data for previous years

Benefit obligations, financial assets and actuarial gains and losses for previous years can be analyzed as follows:

(in millions of euros)	2017	2016	2015	2014	2013[1]
Benefit obligations	1,749	1,582	1,526	1,552	1,146
Financial assets	(619)	(510)	(526)	(493)	(368)
NET BENEFIT OBLIGATIONS	**1,130**	**1,072**	**1,000**	**1,059**	**778**
Actuarial (losses) gains recognized in other comprehensive income	69	(92)	93	(225)	102

(1) The data shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis.

Net actuarial gains recognized in other comprehensive income in 2017 reflected:

- 10 million euros in actuarial gains on changes in actuarial assumptions, chiefly due to the rise in discount rates in the eurozone, partially offset by the fall in discount rates in the United States;
- 6 million euros in actuarial gains resulting from experience adjustments on benefit obligations; and
- 53 million euros in actuarial gains arising on the return on plan assets.

5.3.7 Sensitivity of obligations

The discount rates and inflation rates applied in each geographic area or country have a significant impact on the amount of the Group's benefit obligations.

A 0.5-point increase or decrease in these rates would have the following impact on the projected benefit obligation at December 31, 2017:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5-point increase	(14)	(55)	(29)	(14)	**(112)**
Impact of a 0.5-point decrease	15	59	30	15	**119**
Salary inflation rate					
Impact of a 0.5-point increase	15	2	1	4	**22**
Impact of a 0.5-point decrease	(13)	(2)	(1)	(4)	**(20)**

At December 31, 2017, the value of the Group's benefit obligation is less sensitive to changes in the salary inflation rate than to changes in the discount rate, particularly in the United States and the United Kingdom. This is due to the existence of plans which have now been frozen and which only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2018 service cost. A 0.5-point decrease in the discount rate would lead to an additional expense of 5 million euros, while a 0.5-point increase in the discount rate would reduce the expense by 5 million euros.

A 1-point rise or fall in the rate of increase for medical costs in the United States would not have a material impact on the benefit obligation or expense for the period.

5.3.8 Estimated payouts over the next ten years

Payouts due over the next ten years by the Group in respect of pension plans and other employee benefits can be estimated as follows:

(in millions of euros)	France	Other European countries	North America	Asia	Total
2018	13	15	7	10	**45**
2019	19	15	7	10	**51**
2020	11	16	7	10	**43**
2021	10	17	6	10	**43**
2022	17	18	6	11	**53**
2023/2027	91	103	33	62	**289**
TOTAL	**161**	**186**	**66**	**112**	**524**

5.4 Share-based payment

Some Group employees receive equity-settled compensation in the form of share-based payment.

Free share plans

The fair value of the benefit granted to employees within the scope of free share plans is estimated based on the share price at the grant date, taking into account a discount corresponding to the dividends forfeited over the vesting period and a discount to reflect the lock-up period requirement, calculated using the approach set out in the French national accounting board's (CNC) December 2004 statement.

The overall cost of equity-settled plans is calculated and fixed at the grant date of the plan concerned. The number of instruments that Valeo expects to deliver to beneficiaries factors in the turnover of the beneficiary populations concerned by each plan. Since the final allotment of free shares is subject to a presence condition, this personnel expense is recognized against equity on a straight-line basis over the rights vesting period.

Stock purchase option plans

The cost of stock purchase option plans is also recorded in personnel expenses. It corresponds to the fair value of the instrument issued and is recognized over the applicable vesting period. Fair value is estimated on the basis of valuation models adapted to the characteristics of the instruments (Black-Scholes-Merton model for options). The Group regularly reviews the number of potentially exercisable options. Where appropriate, the impact of any changes in these estimates is recorded in the statement of income.

Stock purchase options and free shares are included in the calculation of diluted earnings per share, as described in Note 10.2, page 365.

An expense of 27 million euros was booked in 2017 in respect of stock option and free share plans (21 million euros in 2016).

5.4.1 Free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by Valeo at December 31, 2017 are as follows:

Year in which plan was set up	Number of free shares authorized	*of which subject to conditions*[(1)]	Outstanding shares not yet remitted at Dec. 31, 2017	Year of vesting[(2)]
2013	1,421,442	669,942	448,716	2016/2018
2014	970,440	316,770	358,029	2017/2019
2015	957,027	260,805	807,990	2018/2020
2016	1,267,022	573,522	873,326	2019/2021
2017	1,012,043	466,551	754,806	2020/2022
TOTAL	**5,627,974**	**2,287,590**	**3,242,867**	

(1) These free shares are subject to the Group meeting performance conditions.
(2) The vesting year varies depending on the country in which the plan's beneficiaries are based.

The main data and assumptions underlying the valuation of free share plans at fair value were as follows:

	2017		2016	
Free shares	**France**	**Other countries**	**France**	**Other countries**
Share price at authorization date *(in euros)*	59.0	59.0	46.1	46.1
Risk-free rate *(%)*	0.0	N/A	(0.1)	N/A
Dividend rate *(%)*	1.4	N/A	1.1	N/A
FAIR VALUE OF EQUITY INSTRUMENTS *(IN EUROS)*	**50.9**	**51.4**	**38.9**	**39.5**

5.4.2 Stock purchase option plans

The terms and conditions of the employee stock purchase option plans operated by the Valeo Group at December 31, 2017 were as follows:

Year in which plan was set up	Number of shares under option	*of which subject to conditions*[(1)]	Exercise price *(in euros)*[(2)]	Outstanding options not yet exercised at Dec. 31, 2017	Expiration date
2010	3,000,000	1,834,095	8.02	267,695	2018
2011	878,520	631,110	14.14	82,175	2019
2012	1,101,480	795,690	13.59	226,735	2020
TOTAL	**4,980,000**	**3,260,895**		**576,605**	

(1) These stock purchase options are subject to the Group meeting performance conditions.
(2) The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options, or 100% of the average purchase price of treasury shares held if this is higher than the Valeo quoted share price.

5.4.3 Movements in stock purchase option and free share plans

Movements in stock purchase option and free share plans in 2017 and 2016 are detailed below:

2017

	Number of options and free shares	Weighted average exercise price
OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT JANUARY 1, 2017	**4,001,486**	**2.36**
Options/free shares granted	772,572	-
Options/free shares canceled	(171,414)	0.61
Options/free shares expired	(19,623)	0.00
Options exercised/free shares remitted	(763,549)	3.87
OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT DECEMBER 31, 2017	**3,819,472**	**1.67**
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2017	**576,605**	**11.08**

2016

	Number of options and free shares	Weighted average exercise price
OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT JANUARY 1, 2016	**5,075,178**	**3.86**
Options/free shares granted	1,267,022	-
Options/free shares canceled	(480,941)	0.19
Options/free shares expired	(85,374)	8.55
Options exercised/free shares remitted	(1,774,399)	5.24
OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT DECEMBER 31, 2016	**4,001,486**	**2.36**
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2016	**826,673**	**11.43**

5.4.4 Employee share ownership plan: Shares4U

In countries that meet the Group's eligibility criteria and where permitted by local laws and regulations, Valeo offers its employee beneficiaries the possibility of becoming shareholders through an employee share issue carried out specifically for this purpose.

As in 2016, a new standard plan was offered to employees during the year, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chairman and Chief Executive Officer acting on the authority of the Board of Directors on June 3, 2017. The subscription price of 51.62 euros is the average of the Group's opening share price on the 20 trading days preceding the date of the decision, less a 20% discount. The shares are locked up for five years (except in the case of an early release event provided for by the applicable local law). Employees bear the risk of fluctuations in the share price relative to the subscription price.

By subscribing to shares within the scope of the Group Employee Savings Plan (*Plan d'Épargne de Groupe* – PEG), employees can benefit from a contribution from their employer. Outside France, employees are awarded free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan. Free shares awarded are existing Valeo shares repurchased on the market.

In all, 509,990 shares were subscribed at a price of 51.62 euros each, representing a 26 million euro capital increase on July 27, 2017.

The cost of this plan was estimated in accordance with the CNC statement, taking into account the applicable five-year lock-up period for employees.

The assumptions used to value the equity instruments were as follows:

	2017	2016
Date rights granted	June 3	September 19
Reference price *(in euros)*	64.5	47.7
Face value discount *(%)*	20.0	20.0
Subscription price *(in euros)*	51.6	38.1
Beneficiary's 5-year interest rate *(%)*	3.93	3.87
Risk-free interest rate *(%)*	0.26	(0.11)
Repo rate *(%)*	0.480	(0.147)

Including a discount to reflect the lock-up period requirement, the total cost of Shares4U 2017 is 14 million euros, of which 8 million euros were recognized in personnel expenses for the period (including social security charges).

5.5 Executive compensation (Related party transactions)

The Group's key management personnel include the Chairman and Chief Executive Officer, the members of the Board of Directors, and the members of the Operations Committee. At December 31, 2017, the Operations Committee had 14 members.

Valeo's Board of Directors approved a number of agreements resulting in the Chairman and Chief Executive Officer's eligibility for the following benefits:

- life insurance covering death, disability, or any consequences of accidents during business travel;
- a non-competition payment over a period of 12 months in the event of his departure from Valeo. If this clause is adopted, the Chairman and Chief Executive Officer will receive a non-competition payment equal to 12 months of compensation. A prior decision of the Board of Directors is required to decide whether or not the non-competition agreement will be upheld at the time the Chairman and Chief Executive Officer leaves, in particular when he leaves Valeo to claim or after having claimed his pension rights;
- a defined benefit pension including the option of paying over benefits to the surviving beneficiary in the event of death if the main beneficiary is still working and if the event occurs after the legal voluntary retirement age. The supplementary pension is capped at 20% of the reference salary. The reference salary takes into account the basic fixed compensation and the portion of variable compensation actually paid for the periods after February 1, 2014. Since February 18, 2016, vesting of rights to this supplementary pension is subject to a performance condition, the attainment of which is reviewed each year.

Compensation and other benefits accruing to the members of the Board of Directors and to the members of the Operations Committee can be analyzed as follows:

(in millions of euros)	2017	2016
SHORT-TERM BENEFITS		
■ Fixed, variable, exceptional and other compensation	13	13
■ Attendance fees	1	1
OTHER BENEFITS		
■ Post-employment benefits	3	2
■ Share-based compensation	7	5

At December 31, 2017, provisions included in the Group's statement of financial position in respect of pension obligations accruing to executive managers amount to 19 million euros, compared with 21 million euros in 2016.

Note 6 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

6.1 Goodwill

Goodwill is initially recognized on business combinations as described in Note 2.1.3, page 297.

Goodwill is not amortized but is tested for impairment at least once a year and whenever there is an indication that it may be impaired. Impairment tests in 2017 and 2016 were carried out as described in Note 6.4, page 336.

Changes in goodwill in 2017 and 2016 are analyzed below:

(in millions of euros)	2017	2016(1)
NET GOODWILL AT JANUARY 1	**1,944**	**1,450**
Acquisitions during the year	766	475
Disposals during the year	-	(4)
Impairment(2)	(14)	-
Translation adjustment	(81)	23
NET GOODWILL AT DECEMBER 31	**2,615**	**1,944**
Including accumulated impairment losses at December 31	-	-

(1) Goodwill shown for 2017 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, respectively, on pages 304 and 303, respectively).
(2) Goodwill allocated to the Passive Hydraulic Actuator business was written down in full at December 31, 2017 and reclassified within assets held for sale (see Notes 2.2.2.1 and 4.6.2.1, pages 305 and 319, respectively).

The increase in goodwill in 2017 primarily reflects goodwill generated on the creation of Valeo-Kapec (see Note 2.2.1.1, page 299), and on the acquisition of controlling interests in FTE automotive (see Note 2.2.1.2, page 299), Ichikoh (see Note 2.2.1.5, page 300), gestigon (see Note 2.2.1.4, page 300) and Valeo Malaysia CDA Sdn (formerly Precico) (see Note 2.2.1.3, page 300). These impacts were marginally offset by the depreciation in the US dollar (45 million euros) and the Japanese yen (26 million euros) against the euro between the two periods.

The increase in goodwill during 2016 primarily related to the acquisitions of peiker (see Note 2.2.1.10, page 304) and Spheros (see Note 2.2.1.9, page 303) and, to a lesser extent, the increase in the value of the Japanese yen over the period. These impacts were very slightly offset by the derecognition of goodwill related to the high-voltage powertrain systems business following the creation of the joint venture with Siemens (see Note 2.2.1.6, page 302).

Goodwill can be broken down by Business Group as follows:

(in millions of euros)		December 31, 2017	December 31, 2016(1)
21%	- Comfort & Driving Assistance Systems	557	534
39%	- Powertrain Systems	1,014	344
22%	- Thermal Systems	581	599
17%	- Visibility Systems	456	466
1%	- Other(2)	7	1
	GOODWILL	**2,615**	**1,944**

(1) Goodwill shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, pages 304 and 303, respectively).
(2) As part of the allocation of goodwill to Ichikoh (see Note 2.2.1.5, page 300), goodwill in the amount of 6 million euros was allocated to the Valeo Service business in respect of the aftermarket business acquired.

6.2 Other intangible assets

Separately acquired intangible assets are initially recognized at cost in accordance with IAS 38. Intangible assets acquired as part of a business combination are recognized at fair value, separately from goodwill. Intangible assets are subsequently carried at cost, less accumulated amortization and impairment losses. They are tested for impairment using the methodology described in Note 6.4, page 336.

Capitalized development costs recognized within other intangible assets in the statement of financial position correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization described in Note 4.5.1.1, page 312. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

Intangible assets are amortized on a straight-line basis over their expected useful lives:

- software 3 to 5 years
- patents and licenses based on their useful lives or duration of protection
- capitalized development expenditure 4 years
- customer relationships acquired up to 25 years
- other intangible assets 3 to 5 years

Other intangible assets can be analyzed as follows:

	December 31, 2017			December 31, 2016
(in millions of euros)	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	348	(268)	**80**	70
Patents and licenses	157	(96)	**61**	80
Capitalized development expenditure	2,772	(1,456)	**1,316**	993
Customer relationships and other intangible assets	563	(223)	**340**	206
Intangible assets in progress	34	(1)	**33**	23
OTHER INTANGIBLE ASSETS	**3,874**	**(2,044)**	**1,830**	**1,372**

(1) The amount shown for Patents and licenses in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, pages 304 and 303, respectively).

Changes in intangible assets in 2017 and 2016 are analyzed below:

2017

(in millions of euros)	Software	Patents and licenses[(1)]	Capitalized development expenditure	Customer relationships and other intangible assets	Intangible assets in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2017	**308**	**175**	**2,300**	**354**	**23**	**3,160**
Accumulated amortization and impairment	(238)	(95)	(1,307)	(148)	-	**(1,788)**
NET CARRYING AMOUNT AT JANUARY 1, 2017	**70**	**80**	**993**	**206**	**23**	**1,372**
Acquisitions	24	6	577	3	21	**631**
Disposals	-	-	-	(2)	-	**(2)**
Changes in scope of consolidation	6	10	45	151	-	**212**
Impairment	-	1	(4)	-	-	**(3)**
Amortization	(34)	(10)	(263)	(26)	-	**(333)**
Translation adjustment	(2)	(1)	(33)	(16)	-	**(52)**
Reclassifications	16	(25)	1	24	(11)	**5**
NET CARRYING AMOUNT AT DECEMBER 31, 2017	**80**	**61**	**1,316**	**340**	**33**	**1,830**

(1) The amount shown for Patents and licenses in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, pages 304 and 303, respectively).

Changes in the scope of consolidation in 2017 resulted primarily from the takeover of Ichikoh and FTE automotive (see Notes 2.2.1.5 and 2.2.1.2, respectively, pages 300 and 299, respectively).

2016

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Intangible assets in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2016	**244**	**109**	**1,973**	**272**	**31**	**2,629**
Accumulated amortization and impairment	(201)	(73)	(1,080)	(127)	-	**(1,481)**
NET CARRYING AMOUNT AT JANUARY 1, 2016	**43**	**36**	**893**	**145**	**31**	**1,148**
Acquisitions	23	1	437	3	19	**483**
Disposals	-	-	(36)	-	-	**(36)**
Changes in scope of consolidation[(1)]	2	54	-	75	-	**131**
Impairment	-	-	(20)	1	-	**(19)**
Amortization	(25)	(14)	(238)	(18)	-	**(295)**
Translation adjustment	1	(1)	-	1	(1)	**-**
Reclassifications	26	4	(43)	(1)	(26)	**(40)**
NET CARRYING AMOUNT AT DECEMBER 31, 2016	**70**	**80**	**993**	**206**	**23**	**1,372**

(1) The amount shown for Patents and licenses in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, pages 304 and 303, respectively).

Changes in the scope of consolidation in 2016 resulted primarily from the acquisitions of peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, respectively, pages 304 and 303, respectively).

Reclassifications chiefly relate to intangible assets contributed on creation of the joint venture with Siemens, which were recognized as held for sale (see Note 2.2.1.4, page 303).

6.3 Property, plant and equipment

Separately acquired property, plant and equipment are initially recognized at cost in accordance with IAS 16. Cost includes expenses directly attributable to the acquisition of the asset and the estimated cost of the Group's obligation to rehabilitate certain assets, where appropriate. Property, plant and equipment acquired as part of a business combination are recognized at fair value, separately from goodwill.

Property, plant and equipment are subsequently carried at cost, less accumulated depreciation and impairment losses. Material revaluations, recorded in accordance with laws and regulations applicable in countries in which the Group operates, have been eliminated in order to ensure that consistent valuation methods are used for all capital assets in the Group.

Any subsequent costs incurred in respect of property, plant and equipment are expensed as incurred, unless they are designed to extend the asset's useful life.

Property, plant and equipment are tested for impairment using the methodology described in Note 6.4, page 336.

Depreciation method and useful life

All property, plant and equipment except land are depreciated over their estimated useful lives using the components approach.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

- buildings 20 years
- fixtures and fittings 8 years
- machinery and industrial equipment 8 to 15 years
- other property, plant and equipment 3 to 8 years

Tooling

Tooling specific to a given project undergoes an economic analysis of contractual relations with the automaker in order to determine which party has control over the associated future risks and rewards. Tooling is capitalized in the consolidated statement of financial position when Valeo has control over these risks and rewards, or is carried in inventories (until it is sold) if no such control exists.

Any financing received from customers in respect of capitalized tooling is recognized under liabilities in the statement of financial position and taken to income under "Sales" in line with the depreciation charged against the related assets.

Tooling is depreciated on a straight-line basis over its estimated useful life, not exceeding four years.

Tax credits

In certain countries, the government can contribute to the Group's investment effort in the form of tax credits. The tax credits received are analyzed to determine whether they fall within the scope of IAS 12 – "Income Taxes" or whether they should be considered as a government subsidy. In the latter case, the tax credit is recognized in income over the period during which the subsidized assets are depreciated, as a deduction from depreciation expense.

Property, plant and equipment can be analyzed as follows:

	December 31, 2017			December 31, 2016(1)
(in millions of euros)	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	296	(14)	**282**	243
Buildings	1,581	(1,006)	**575**	454
Machinery and industrial equipment	6,328	(4,480)	**1,848**	1,535
Specific tooling	1,855	(1,645)	**210**	193
Other property, plant and equipment	677	(562)	**115**	62
Property, plant and equipment in progress	1,030	(5)	**1,025**	576
PROPERTY, PLANT AND EQUIPMENT	**11,767**	**(7,712)**	**4,055**	**3,063**

(1) The amounts shown for Land, Buildings and Property, plant and equipment in progress in 2016 differ from those presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, pages 304 and 303, respectively).

Certain items of property, plant and equipment were pledged as security at December 31, 2017 (see Note 6.5.2, page 304).

Changes in property, plant and equipment in 2017 and 2016 are analyzed below:

2017

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2017[1]	**256**	**1,358**	**5,649**	**1,837**	**555**	**578**	**10,233**
Accumulated depreciation and impairment	(13)	(904)	(4,114)	(1,644)	(493)	(2)	**(7,170)**
NET CARRYING AMOUNT AT JANUARY 1, 2017[1]	**243**	**454**	**1,535**	**193**	**62**	**576**	**3,063**
Acquisitions	8	46	276	59	38	844	**1,271**
Disposals	(22)	(1)	(18)	(5)	(3)	(7)	**(56)**
Changes in scope of consolidation	66	142	258	18	34	32	**550**
Impairment	-	-	7	2	-	(2)	**7**
Depreciation	-	(65)	(387)	(123)	(44)	-	**(619)**
Translation adjustment	(15)	(24)	(81)	(8)	(3)	(35)	**(166)**
Reclassifications	2	23	258	74	31	(383)	**5**
NET CARRYING AMOUNT AT DECEMBER 31, 2017	**282**	**575**	**1,848**	**210**	**115**	**1,025**	**4,055**

(1) The amounts shown for Land, Buildings and Property, plant and equipment in progress in 2016 differ from those presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, pages 304 and 303, respectively).

Changes in the scope of consolidation in the period resulted primarily from the creation of Valeo-Kapec and the takeover of FTE automotive and Ichikoh (see Notes 2.2.1.1, 2.2.1.2, and 2.2.1.5, respectively, pages 299 to 300).

2016

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2016	**212**	**1,283**	**5,170**	**1,713**	**488**	**522**	**9,388**
Accumulated depreciation and impairment	(12)	(844)	(3,816)	(1,537)	(431)	(4)	**(6,644)**
NET CARRYING AMOUNT AT JANUARY 1, 2016	**200**	**439**	**1,354**	**176**	**57**	**518**	**2,744**
Acquisitions	6	32	259	81	28	472	**878**
Disposals	-	(2)	(8)	(2)	(1)	(2)	**(15)**
Changes in scope of consolidation[1]	8	21	23	-	15	3	**70**
Impairment	-	-	(43)	(1)	3	(1)	**(42)**
Depreciation	-	(57)	(330)	(116)	(42)	-	**(545)**
Translation adjustment	5	-	4	-	-	(1)	**8**
Reclassifications	24	21	276	55	2	(413)	**(35)**
NET CARRYING AMOUNT AT DECEMBER 31, 2016	**243**	**454**	**1,535**	**193**	**62**	**576**	**3,063**

(1) The amounts shown for Land, Buildings and Property, plant and equipment in progress in 2016 differ from those presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, pages 304 and 303, respectively).

Changes in the scope of consolidation in 2016 resulted primarily from the acquisitions of peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, respectively, pages 304 and 303, respectively).

Reclassifications chiefly relate to assets brought into service during the year along with property, plant and equipment contributed on creation of the joint venture with Siemens which were recognized as held for sale (see Note 2.2.1.6, page 303).

Finance leases

Finance leases transferring substantially all of the risks and rewards related to ownership of the leased asset to the Group are accounted for as follows:

- the leased assets are recognized in property, plant and equipment in the Group's statement of financial position at the inception of the lease, at an amount equal to the lower of the fair value of the leased asset and the present value of future minimum lease payments. This amount is then reduced by depreciation and by any impairment losses;
- the corresponding financial obligation is recorded in debt;
- lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Leases in which the lessor retains substantially all of the risks and rewards related to ownership of the leased asset are classified as operating leases. Lease payments under an operating lease are recognized as an operating expense on a straight-line basis over the lease term. Outstanding lease payments are detailed in Note 6.5.1, page 339.

Finance leases included within property, plant and equipment can be analyzed as follows:

(in millions of euros)	December 31, 2017	December 31, 2016
Buildings	10	12
Machinery and industrial equipment	15	4
Specific tooling	4	-
Other property, plant and equipment	4	3
TOTAL	**33**	**19**

6.4 Impairment losses on non-current assets

Property, plant and equipment and intangible assets with definite useful lives are tested for impairment whenever objective indicators exist that they may be impaired. Goodwill and intangible assets not yet ready to be brought into service are tested for impairment at least once a year and whenever there is an indication that they may be impaired.

Cash-generating units (CGUs) and goodwill

CGUs are operating entities that generate independent cash flows. Based on the Group's organizational structure, CGUs generally correspond to groups of plants belonging to the same Product Line or Product Group. At December 31, 2017, there was a total of 27 CGUs. A new CGU was created further to the takeover of FTE automotive (see Note 2.2.1.2, page 299) and the South Korean Clutch and Transmission CGUs were merged.

CGUs represent the level at which all property, plant and equipment and intangible assets are tested for impairment if there is an indication that they may be impaired. However, specific impairment tests may be carried out on certain idle property, plant and equipment and intangible assets.

Valeo may review the value in use of certain assets and recognize non-recurring impairment losses where appropriate, if significant, prolonged adverse factors arise for the Group such as a deterioration in a country's economic environment or in one of the Group's plants, or contractual disputes.

Goodwill is tested for impairment at the level of the Business Groups, as set out in Note 3 on segment information. The Business Groups are groups of CGUs and correspond to the level at which Management monitors goodwill.

At the end of the year, goodwill is tested for impairment using the same methodology and assumptions as those used for CGUs and as described below.

Impairment tests

Impairment tests compare the recoverable amount of a non-current asset with its net carrying amount. If the asset's carrying amount is greater than its recoverable amount, it is written down to its recoverable amount. The recoverable amount of an asset or group of assets is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is determined using available information allowing Valeo to establish a best estimate of the selling price net of the costs necessary to make the sale, between knowledgeable, willing parties in an arm's length transaction.

Value in use corresponds to the present value of the future cash flows expected to be derived from an asset or group of assets, taking into account its residual value.

Since there is seldom a reliable basis to measure the fair value less costs to sell of a group of assets belonging to Valeo, the Group uses value in use for CGUs and goodwill impairment tests to determine the recoverable amount of such assets or groups of assets, unless otherwise specified.

The value in use of CGUs and goodwill is determined as follows:

- post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term business plans drawn up by Group entities and approved by General Management, are discounted;
- cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted where applicable for non-recurring items;
- cash flows are discounted based on a rate which reflects current market assessments of the time value of money and the risks specific to the asset (or group of assets). This rate corresponds to the post-tax weighted average cost of capital (WACC). The use of a post-tax rate applied to post-tax cash flows results in recoverable amounts that are similar to those that would have been obtained by applying pre-tax rates to pre-tax cash flows.

The impairment loss to be recognized against a CGU is allocated to the CGU's assets in proportion to their net carrying amount.

Impairment losses recognized for goodwill may not be reversed.

Impairment losses recognized for assets other than goodwill may only be reversed if there are indications that the impairment may no longer exist or may have decreased. If this is the case, the carrying amount of the asset is increased to its revised estimated recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset.

6.4.1 Impairment testing

The tests are carried out using the following assumptions:

- the projections used are based on past experience, macroeconomic data for the automotive market, order books and products under development;
- a perpetuity growth rate of 1.5%, which is the same as that used in 2016 and is in line with the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 9% (unchanged from 2016), calculated using the discount rate method reviewed by an independent expert in 2015. The sample of comparable companies includes around a dozen companies from the automotive equipment industry. The main components of WACC are a market risk premium, a risk-free rate corresponding to the average interest rate on long-term government bonds, and beta calculated based on a sample of companies in the industry, which came out at 1.08 (1.09 in 2016).

The key assumptions underpinning the perpetuity growth rate and the discount rate are the same for each group of CGUs to which goodwill has been allocated. Business Groups were created in the organization set up in 2010 to adapt to the increasing globalization of automotive markets and customers. Business Groups are largely similar in terms of market and positioning, and enjoy a global geographic base as well as relations with the world's leading automakers.

To prepare these medium-term business plans and the budget used to perform impairment tests on CGUs and goodwill, the Group based itself in particular on projected data for the automotive market, as well as its own order book and its development prospects on emerging markets.

Forecasts are made at the smallest level (for each CGU), based on detailed projections of the automotive market by automaker, country, model and powertrain, taking into account expected product developments in the CGU's order book.

The medium-term business plans for 2018-2022 are underpinned by the following assumptions:

- world automotive production of 106 million vehicles in 2022, representing average annual growth of 2.4% for 2017-2022. This assumption is consistent with several independent external forecasts available in April 2017, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 55% of global production, Europe and Africa 24%, North America 18% and South America 3%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.20 US dollars, 8.28 Chinese renminbi, 132 Japanese yen, 1,344 South Korean won and 4.20 Brazilian real at the end of the plan;
- Group sales were forecast based on the orders known at the time the business plan was drawn up and by reference to an estimate of the orders to be taken over the term of the business plan. These target order numbers represent less than 30% of cumulative original equipment sales over the five-year forecast period and less than 60% of original equipment sales for the final year.

6.4.2 Goodwill

No impairment losses were recognized against goodwill in 2017 as a result of the impairment tests carried out at the level of Business Groups in line with the methodology described above. This was also the case in 2016.

6.4.3 Sensitivity of goodwill impairment tests

A one-year pushback in medium-term business plans would have no impact on the results of goodwill impairment tests.

The following changes in the three main assumptions were used to check the sensitivity of goodwill impairment tests:

- 1-point increase in the discount rate;
- 0.5-point decrease in the perpetuity growth rate;
- 0.5-point decrease in the rate of operating income over sales used to calculate the terminal value.

No additional impairment losses would be recognized as a result of these changes in assumptions, either individually or taken as a whole.

The headroom of the tests, representing the difference between the value in use and the net carrying amount, as well as the impacts of changes in key assumptions on this margin, are presented by Business Group in the table below:

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on assumptions for 2017	WACC of 10.0% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.5-pt decrease in the operating margin used to calculate the terminal value	Combination of all three factors
Comfort & Driving Assistance Systems Business Group	1,222	(476)	(209)	(202)	(795)
Powertrain Systems Business Group	3,218	(787)	(334)	(275)	(1,259)
Thermal Systems Business Group	3,013	(638)	(273)	(236)	(1,033)
Visibility Systems Business Group	4,201	(785)	(334)	(274)	(1,256)

6.4.4 Property, plant and equipment and intangible assets (excluding goodwill)

The main impairment indicators used by the Group as the basis for impairment tests of cash-generating units (CGUs) are a negative operating margin for 2017, a fall of more than 20% in 2017 sales compared to 2016, and a recurring substantial shortfall with respect to the objectives set in the medium-term plans.

The scope of the CGUs tested for impairment was defined at the end of October 2017 and remained unchanged at the end of the period, since no adverse events occurred. Four CGUs were selected:

- the Electronic Systems Product Group (part of the Powertrain Systems Business Group);
- the Air Charging Systems Product Line (part of the Powertrain Systems Business Group);
- the Active Safety Systems Product Line (part of the Comfort & Driving Assistance Systems Business Group);
- the Compressors Product Group (part of the Thermal Systems Business Group).

At December 31, 2017, the assumptions used in the medium-term business plan for the Compressors Product Group factor in the changes made at end-2016 mainly to take into account the downward revision of objectives under productivity plans aimed at significantly improving the profitability of certain products. The impairment test carried out on this basis at December 31, 2016 led the Group to recognize an impairment loss of 49 million euros for this CGU (see Note 4.6.2.4, page 319). At December 31, 2017, despite a rise in the potential order intake for years 2018 to 2022 of the medium-term business plan for the Compressors Product Group, and in light of cash flow forecasts, the Group maintains its impairment loss for this CGU.

The impairment test carried out on the Electronic Systems Product Group at December 31, 2016 led the Group to recognize an impairment loss of 12 million euros (see Note 4.6.2.4, page 319). This reflected the operational difficulties of the Electronics Product Group in meeting its targets in terms of technical productivity gains. At December 31, 2017, in light of cash flow forecasts, the Group maintains its impairment loss for this CGU.

6.4.5 Sensitivity of CGU impairment tests

Changes in the following assumptions were used to check the sensitivity of CGU impairment tests:

- 1-point increase in the discount rate;
- 0.5-point decrease in the perpetuity growth rate;
- 0.5-point decrease in the rate of operating income over sales used to calculate the terminal value.

The impact on this headroom of changes in key assumptions is set out in the following table for each of the four CGUs tested for impairment:

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on assumptions for 2017	WACC of 10.0% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.5-pt decrease in the operating margin used to calculate the terminal value	Combination of all three factors
Electronic Systems Product Group CGU	-	(34)	(15)	(30)	(69)
Air Charging Systems Product Line CGU	27	(12)	(5)	(5)	(20)
Active Safety Systems Product Line CGU	330	(113)	(52)	(47)	(191)
Compressors Product Group CGU	3	(39)	(18)	(27)	(75)

6.4.6 Impairment of Brazilian and Argentinian assets

Since cash flow forecasts remain very weak for the whole of the 2018-2022 period, the Group has maintained the impairment losses it recognized against its Brazilian and Argentinian assets which had been included in other income and expenses in the 2015 consolidated statement of income.

6.5 Off-balance sheet commitments relating to operating activities

6.5.1 Leases

Future minimum lease commitments outstanding at December 31, 2017 and 2016 (excluding capital leases) are as follows:

(in millions of euros)	December 31, 2017	December 31, 2016
Less than 1 year	77	68
1 to 5 years	167	173
More than 5 years	103	87
TOTAL	**347**	**328**

Lease rentals recognized as expenses in the period in respect of outstanding lease agreements (excluding payments under finance leases) totaled 100 million euros in 2017 and 84 million euros in 2016.

Lease commitments in respect of capital leases are as follows at December 31, 2017 and 2016:

(in millions of euros)	December 31, 2017	December 31, 2016
Future minimum lease payments:		
Less than 1 year	15	3
1 to 5 years	17	9
More than 5 years	7	7
TOTAL	**39**	**19**
Of which interest charges	(2)	-
Present value of future lease payments:		
Less than 1 year	14	3
1 to 5 years	16	9
More than 5 years	7	7
TOTAL	**37**	**19**

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 496 million euros at December 31, 2017, versus 401 million euros at December 31, 2016.

The following items recognized in assets in the Group's statement of financial position have been pledged as security:

(in millions of euros)	December 31, 2017	December 31, 2016
Property, plant and equipment	11	11
Financial assets	2	2
TOTAL	**13**	**13**

Note 7 OTHER PROVISIONS AND CONTINGENT LIABILITIES

7.1 Other provisions

A provision is recognized when:

- the Group has a present legal, contractual or constructive obligation resulting from a past event;
- it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation; and
- the amount of the obligation can be estimated reliably.

Provisions are measured in accordance with IAS 37 and take into account assumptions deemed most probable at the end of the reporting period.

Provisions for customer warranties are set aside to cover the estimated cost of returns of goods sold and are computed either on a statistical basis or based on specific quality risks. Statistical warranty provisions cover risks related to contractual warranty obligations, and are determined based on both historical data and probability calculations. The provision for specific quality risks covers costs arising in specific situations not covered by usual warranties. The corresponding expense is recognized in cost of sales.

Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or by announcing its main features.

A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group under said contracts.

Provisions for tax disputes relate to probable risks arising on positions taken by the Group or its subsidiaries. Each position is assessed individually and not offset, and reflects the best estimate of the risk at the end of the reporting period. Where applicable, it includes any late-payment interest and fines.

Provisions intended to cover commercial risks and disputes arising in the ordinary course of operations are also included in this caption.

Provisions relating to events that are expected to materialize in more than one year or whose timing cannot be reliably determined are classified within "Other provisions – long-term portion".

Movements in provisions in 2017 and 2016 are shown in the table below:

(in millions of euros)	Provisions for product warranties	Provisions for restructuring costs	Other provisions	Total
PROVISIONS AT JANUARY 1, 2017[(1)]	**244**	**84**	**332**	**660**
Additions	102	15	51	**168**
Amounts utilized during the year	(80)	(46)	(82)	**(208)**
Reversals	(48)	(1)	(66)	**(115)**
Changes in scope	72	4	40	**116**
Translation adjustment and other movements	(14)	(2)	(10)	**(26)**
PROVISIONS AT DECEMBER 31, 2017	**276**	**54**	**265**	**595**
Of which current portion (less than one year)	110	30	67	**207**

(1) The amount shown for Other provisions in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of changes in the scope of consolidation (see Note 2.2, page 298).

At December 31, 2017, the Group did not recognize any individually material income offsetting expected outflows of resources in respect of the above provisions.

At December 31, 2017 and 2016, provisions break down as follows:

(in millions of euros)		December 31, 2017	December 31, 2016[(1)]
46%	Provisions for product warranties	276	244
9%	Provisions for restructuring costs	54	84
9%	Provisions for tax-related disputes	54	94
3%	Environmental provisions	16	14
10%	Provisions for onerous contracts	56	40
23%	Provisions for employee-related and other disputes	139	184
	PROVISIONS FOR OTHER CONTINGENCIES	**595**	**660**

(1) The amount shown for Other provisions in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of changes in the scope of consolidation (see Note 2.2, page 298).

"Provisions for employee-related and other disputes", which totaled 139 million euros at December 31, 2017, cover risks arising in connection with former employees (in particular relating to asbestos), intellectual property disputes and various other disputes related to Valeo's operating activities across the globe, as well as the main risks relating to antitrust investigations. Each known dispute was reviewed at the end of the reporting period. Based on the opinions of the Group's legal counsel, the provisions set aside are considered adequate to cover the estimated risks. Movements in the period primarily result from developments in ongoing antitrust proceedings and, in particular, the completion of investigations by the European antitrust authorities (see Note 7.2, page 341).

7.2 Antitrust investigations

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

In the United States, a settlement was reached on September 20, 2013 between the Department of Justice and the Japanese subsidiary Valeo Japan Co. Ltd, which agreed to pay a fine of 13.6 million US dollars. This agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings instituted or likely to be instituted by the US federal authorities against the Valeo Group for practices that came to light during their investigations.

Three class actions were filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, which Valeo has settled. The first class action, which was brought by automotive dealers, was settled on August 25, 2016 and was definitively approved by the competent court on November 30, 2016. The second, which was brought by automotive end purchasers, was settled on September 28, 2016 and was definitively approved by the competent court on April 19, 2017. The third class action in the United States, which was brought by direct customers, was settled on March 21, 2017 pending definitive approval by the competent court, which is expected in 2018.

Separately, two class actions remain ongoing in Canada.

Investigations by the European antitrust authorities have been concluded and the related fines, totaling 26.7 million euros, were paid in June 2017. At December 31, 2016, provisions had been set aside to cover these risks in full, along with the main risks relating to all other investigations and proceedings involving the Group.

7.3 Contingent liabilities

Unlike a provision (see definition above), a contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

The Group has contingent liabilities relating to legal, arbitration or regulatory proceedings arising in the normal course of its business. Known or ongoing claims and litigation involving Valeo or its subsidiaries were reviewed at the end of the reporting period. Based on the advice of legal counsel, all provisions deemed necessary have been made to cover the related risks.

Note 8 FINANCING AND FINANCIAL INSTRUMENTS

8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- long-term debt, liabilities relating to put options granted to holders of non-controlling interests, and short-term debt and bank overdrafts, which make up gross debt (see Note 8.1.2, page 344);
- loans and other non-current financial assets (see Note 8.1.3.1, page 350);
- cash and cash equivalents (see Note 8.1.3.2, page 350);
- derivative instruments (see Note 8.1.4, page 350);
- other current and non-current financial assets and liabilities (see Note 8.1.5, page 351).

8.1.1 Fair value of financial assets and liabilities

(in millions of euros)	2017 carrying amount under IAS 39 Amortized cost	Fair value through equity	Fair value through income	December 31, 2017 Carrying amount	December 31, 2016[(1)] Carrying amount
ASSETS					
Non-current financial assets:					
■ Available-for-sale financial assets		172		**172**	44
■ Loans	78			**78**	12
■ Deposits and guarantees	27			**27**	24
■ Other non-current financial assets	5			**5**	3
■ Hedging derivatives		3		**3**	17
■ Trading derivatives			135	**135**	111
Assets relating to pensions and other employee benefits		5		**5**	-
Accounts and notes receivable	2,919			**2,919**	2,462
Other current financial assets:					
■ Hedging derivatives		14		**14**	15
■ Trading derivatives			26	**26**	5
Cash and cash equivalents			2,436	**2,436**	2,359
LIABILITIES					
Non-current financial liabilities:					
■ Hedging derivatives		36		**36**	4
■ Trading derivatives			125	**125**	110
Bonds	3,389			**3,389**	2,131
EIB (European Investment Bank) loans	21			**21**	47
Other long-term debt	210			**210**	116
Liabilities associated with put options granted to holders of non-controlling interests		82		**82**	79
Accounts and notes payable	4,394			**4,394**	3,884
Other current financial liabilities:					
■ Hedging derivatives		5		**5**	9
■ Trading derivatives			10	**10**	17
Short-term debt	664			**664**	542

(1) Other long-term debt shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7, page 303) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9, page 303).

IFRS 13 establishes a hierarchy of valuation techniques for financial instruments based on the following categories:

- Level 1: inputs directly based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: prices established using valuation techniques drawing on non-observable inputs.

The fair value of bonds is calculated based on prices quoted on an active bond market. This method corresponds to Level 1 in the fair value hierarchy.

Since the maturity of the European Investment Bank (EIB) loan was less than one year at December 31, 2017, the Group considered that the fair value of the loan was equal to its carrying amount.

The fair value of other components of Group debt, as well as of accounts and notes payable and receivable, is equal to their carrying amount.

	December 31, 2017			December 31, 2016[1]		
(in millions of euros)	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	2,436	2,436	1	2,359	2,359	1
Derivative financial instruments[2]	178	178	2-3	148	148	2-3
LIABILITIES						
Bonds	3,389	3,494	1	2,131	2,190	1
EIB (European Investment Bank) loan	21	21	2	47	47	2
Other long-term debt	210	210	2	116	116	2
Loans recognized at amortized cost	**3,620**	**3,725**		**2,294**	**2,353**	
Short-term debt	664	664	1-2	542	542	1-2
Derivative financial instruments[2]	176	176	2-3	140	140	2-3
Put options granted to holders of non-controlling interests	82	82	3	79	79	3

(1) Other long-term debt shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7, page 303) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9, page 303).
(2) The method used to estimate the fair value of derivative financial instruments recorded in assets and liabilities corresponds to Level 2 in the fair value hierarchy for derivatives hedging foreign currency, commodity and interest rate risks (see Notes 8.1.4.1, 8.1.4.2, and 8.1.4.3, respectively, pages 354, 356 and 356). The method used to estimate the fair value of other derivative financial instruments corresponds to Level 2 or Level 3 in the fair value hierarchy (see Note 8.1.4.4, page 357).

IFRS 13, effective as of January 1, 2013, prescribes the methods for assessing fair value and for taking into account the credit risk on derivatives, through:
- a Credit Value Adjustment (CVA), which is a component of the market value of a derivative financial instrument that reflects the exposure in the event of counterparty default;
- a Debit Value Adjustment (DVA), which is an adjustment to fair value reflecting the entity's own credit risk.

The net impact of taking into account credit risk was calculated according to the probabilities of default issued by Reuters.

At December 31, 2017 and 2016, this has only a minimal impact on the Group.

8.1.2 Gross debt

Gross debt includes long-term debt, liabilities relating to put options granted to holders of non-controlling interests, and short-term debt and bank overdrafts.

At December 31, 2017, the Group's gross debt can be analyzed as follows:

	December 31, 2017			December 31, 2016[1]		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	3,237	383	**3,620**	2,069	225	**2,294**
Put options granted to holders of non-controlling interests	17	65	**82**	23	56	**79**
Short-term debt	-	664	**664**	-	542	**542**
Gross debt	**3,254**	**1,112**	**4,366**	**2,092**	**823**	**2,915**

(1) Gross debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7, page 303) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9, page 303).

8.1.2.1 Long-term debt

This caption primarily includes bonds and other borrowings.

Bonds and other borrowings are valued at amortized cost. The amount of interest recognized in financial expenses is calculated by multiplying the loan's effective interest rate by its carrying amount. Any difference between the expense calculated using the effective interest rate and the actual interest payment impacts the value at which the loan is recognized.

Analysis of long-term debt

(in millions of euros)	December 31, 2017	December 31, 2016(1)
Bonds	3,389	2,131
EIB (European Investment Bank) loans	21	47
Lease obligations	37	19
Other borrowings	132	50
Accrued interest	41	47
LONG-TERM DEBT	**3,620**	**2,294**

(1) The amount of other borrowings shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7, page 303) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9, page 303).

Change in and characteristics of long-term debt

(in millions of euros)	Bonds	EIB (European Investment Bank) loans	Other loans and lease obligations	Accrued interest	Total
CARRYING AMOUNT AT JANUARY 1, 2017	**2,131**	**47**	**69**	**47**	**2,294**
Increases/subscriptions	1,450	-	36	-	**1,486**
Redemptions/repayments	(145)	(22)	(463)	-	**(630)**
Changes in scope of consolidation(1)	-	-	540	-	**540**
Value adjustments	14	1	1	-	**16**
Translation adjustment	(61)	(5)	(14)	-	**(80)**
Other movements	-	-	-	(6)	**(6)**
CARRYING AMOUNT AT DECEMBER 31, 2017	**3,389**	**21**	**169**	**41**	**3,620**

(1) Changes in the scope of consolidation under Other loans and lease obligations mainly relate to the takeover of FTE automotive and Ichikoh (see Notes 2.2.1.2 and 2.2.1.5, respectively, on pages 299 and 300, respectively).

Valeo carried out the following debt issues under its Euro Medium Term Note financing program:

- on September 12, 2017, Valeo issued 600 million euros' worth of five-year bonds maturing in 2022 and paying a fixed coupon of 0.375%;
- on January 11, 2017, Valeo issued 500 million euros' worth of six-year bonds maturing in 2023 and paying a fixed coupon of 0.625%.

On November 6, 2017, Valeo also issued a 350 million euro private placement maturing in 2019 and paying a variable coupon of 3-month Euribor +0.25% with a 0% floor.

The Group also made the following redemptions and repayments in the period:

- in January 2017, the Group redeemed the 145 million euro bond issued in 2012 under the Euro Medium Term Note financing program;
- in November 2017, the Group repaid an installment on the EIB loan for 22 million euros;
- the Group also (i) redeemed ahead of maturity the bond issued by FTE automotive for 276 million euros and (ii) paid down a 68 million euro loan granted by the former shareholder, representing a total of 344 million euros.

At December 31, 2017, the key terms and conditions of long-term debt were as shown below:

Type	Outstanding at Dec. 31, 2017 *(in millions of euros)*	Issuance	Maturity	Nominal *(in millions)*	Nominal amount outstanding *(in millions)*	Currency	Nominal interest rate	Other information
Bond (EMTN program)	273	May 2011	May 2018	500	273	EUR	4.875%	-
European Investment Bank	21	November 2011	November 2018	103	25	USD	6-month USD Libor +1.90%	Euro/dollar cross currency swaps for a total of 25 million US dollars with the same maturity
Bond (EMTN program)	351	November 2017	November 2019	350	350	EUR	3-month Euribor +0.25%	Variable rate floor: 0%
Convertible bond	443	June/ November 2016	June 2021	575	575	USD	0%	Euro/dollar cross currency swaps set up for each operation for a total of 575 million US dollars with the same maturity
Bond (EMTN program)	597	September 2017	September 2022	600	600	EUR	0.375%	-
Bond (EMTN program)	496	January 2017	January 2023	500	500	EUR	0.625%	-
Bond (EMTN program)	638	January 2014	January 2024	700	700	EUR	3.25%	-
Bond (EMTN program)	591	March 2016	March 2026	600	600	EUR	1.625%	-
Other long-term debt(1)	210	-	-	-	210	-	-	-
TOTAL LONG-TERM DEBT	**3,620**							

(1) *Other long-term debt chiefly comprises debt contracted by Ichikoh entities in an amount of 116 million euros and debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.*

At December 31, 2017, the Group had drawn an amount of 3 billion euros under its Euro Medium Term Note financing program capped at 4 billion euros (versus 1.7 billion euros drawn at December 31, 2016).

The Group also has confirmed bank credit lines with an average maturity of 4.3 years, representing an aggregate amount of 1.1 billion euros. None of these credit lines had been drawn down at December 31, 2017. These bilateral credit lines were taken out with ten leading banks with an average rating of A from S&P and A2 from Moody's.

Maturity of long-term debt

		Maturity					
			≥ 1 year and ≤ 5 years				> 5 years
(in millions of euros)	Carrying amount	< 1 year	2019	2020	2021	2022	2023 and beyond
Bonds	**3,389**	273	351	-	443	597	1,725
EIB (European Investment Bank) loans	**21**	21	-	-	-	-	-
Lease obligations	**37**	14	9	5	1	1	7
Other borrowings	**132**	34	29	19	17	14	19
Accrued interest	**41**	41	-	-	-	-	-
LONG-TERM DEBT	**3,620**	**383**	**389**	**24**	**461**	**612**	**1,751**

At December 31, 2017, the current portion of long-term debt primarily includes:

- the redemption of the 273 million euro bond drawn in 2011 in May 2018; and
- the repayment of the last installment on the EIB loan drawn in US dollars in November 2018 for 21 million euros.

Contractual maturity of long-term debt

In managing its liquidity risk, the Group seeks to ensure a balanced long-term debt repayment profile. At December 31, 2017, the average maturity of Valeo's (the parent company) debt was 4.8 years, down from 5.8 years at December 31, 2016.

The future cash flows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2017 was used for variable-rate interest.

(in millions of euros)	Carrying amount	Contractual cash flows						Total
			≥ 1 year and ≤ 5 years				> 5 years	
		< 1 year	2019	2020	2021	2022	2023 and beyond	
Bonds	3,389	273	388	38	517	638	1,888	**3,742**
EIB (European Investment Bank) loans	21	22	-	-	-	-	-	**22**
Other long-term debt	210	89	38	24	18	15	26	**210**
LONG-TERM DEBT	**3,620**	**384**	**426**	**62**	**535**	**653**	**1,914**	**3,974**

Off-balance sheet commitments relating to Group financing

Certain financing contracts include early repayment clauses in the event of failure to comply with specified financial ratios. The table below sets out the main covenants:

Financing agreements	Ratios	Thresholds	Ratio at December 31, 2017[1]
Credit lines			
EIB (European Investment Bank) loans	Consolidated net debt/consolidated EBITDA	< 3.25	0.76

(1) Calculated over 12 months.

Bonds issued within the scope of the Euro Medium Term Note financing program and most bank credit lines include an option granted to bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a withdrawal of the rating or a downgrade in the rating to below investment grade (assuming that the bonds were previously rated investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one-category downgrade in the rating (e.g., from Ba1 to Ba2).

For the outstanding European Investment Bank loan, the EIB may ask the borrower to put up security or collateral in the event of a change of control, or otherwise request early repayment of the loan.

The convertible loan also includes a change of control clause under which investors can request early repayment or – on the choice of the issuer – buyback.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

At the date the consolidated financial statements were authorized for issue, the Group expects to comply with all debt covenants over the next few months.

Group credit ratings

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status and were as follows at December 31, 2017:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	January 29, 2018	BBB	Stable	A-2
Moody's	January 3, 2018	Baa2	Stable	P-2

8.1.2.2 Liabilities associated with put options granted to holders of non-controlling interests

The Group may grant put options to third parties holding non-controlling interests, on all or some of their shares. These puts are considered by the Group as non-interest bearing debt.

In accordance with IAS 32, this debt is recognized at the present value of the option exercise price. The offsetting entry for the debt associated with these commitments is a decrease in Stockholders' equity – Non-controlling interests.

The difference between the present value of the exercise price of the options granted and the carrying amount of non-controlling interests is posted to Stockholders' equity and reduces consolidated retained earnings.

The amount of the debt is adjusted at the end of each period in order to reflect changes in the option exercise price and a corresponding entry is recorded in Stockholders' equity.

(in millions of euros)	**Total**	**Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd**	**Spheros Climatização do Brasil SA**
LIABILITIES AT JANUARY 1, 2016	**39**	**39**	**-**
New transactions	**19**	-	19
Fair value adjustments recognized against non-controlling interests	**3**	1	2
Fair value adjustments recognized in retained earnings	**18**	16	2
LIABILITIES AT DECEMBER 31, 2016	**79**	**56**	**23**
Fair value adjustments recognized against non-controlling interests	**4**	4	-
Fair value adjustments recognized in retained earnings	**(1)**	5	(6)
LIABILITIES AT DECEMBER 31, 2017	**82**	**65**	**17**

At December 31, 2017, Valeo and STEC owned 73% and 27%, respectively, of China-based Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd. STEC has been granted a put option which it may exercise at any time up to June 2025.

At December 31, 2017, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. The Group's partner, Marco Polo, was granted a put option which it may exercise at any time following an agreed period of one year. In the opening balance sheet after the acquisition of Spheros (see Note 2.2.1.9, page 303), a debt corresponding to the present value of the exercise price of this put option had been recognized in an amount of 19 million euros.

The maturity of these financial liabilities is as follows:

		Maturity						
				≥ 1 year and ≤ 5 years				**> 5 years**
(in millions of euros)	**Carrying amount**	**On demand**	**< 1 year**	**2019**	**2020**	**2021**	**2022**	**2023 and beyond**
Liabilities associated with put options granted to holders of non-controlling interests	82	65	-	17	-	-	-	-

8.1.2.3 Short-term debt

This caption mainly includes credit balances with banks and commercial paper issued by Valeo for its short-term financing needs. Commercial paper has a maturity of between 3 and 12 months and is valued at amortized cost.

(in millions of euros)	December 31, 2017	December 31, 2016
Commercial paper	542	515
Short-term loans and overdrafts	122	27
SHORT-TERM DEBT	**664**	**542**

Valeo has a short-term commercial paper financing program for a maximum amount of 1.4 billion euros. At December 31, 2017, a total of 542 million euros (515 million euros at December 31, 2016) had been drawn on this program.

The 122 million euros in short-term bank loans relate mainly to overdraft facilities.

8.1.3 Net debt

Net debt includes all long-term debt, liabilities relating to put options granted to non-controlling interests (see Note 8.1.2.2, page 348), and short-term debt and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents, and the fair value of derivative instruments hedging interest rate and currency risks associated with these items (see Note 8.1.4, page 351).

	December 31, 2017			December 31, 2016[1]		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	3,237	383	**3,620**	2,069	225	**2,294**
Put options granted to holders of non-controlling interests	17	65	**82**	23	56	**79**
Short-term debt	-	664	**664**	-	542	**542**
GROSS DEBT	**3,254**	**1,112**	**4,366**	**2,092**	**823**	**2,915**
Long-term loans and receivables	(78)	-	**(78)**	(12)	-	**(12)**
Cash and cash equivalents	-	(2,436)	**(2,436)**	-	(2,359)	**(2,359)**
Derivative instruments associated with interest rate and currency risks[2]	**15**	**(15)**	**-**	**(20)**	**13**	**(7)**
NET DEBT	**3,191**	**(1,339)**	**1,852**	**2,060**	**(1,523)**	**537**

(1) Net debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7, page 303) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9, page 303).
(2) The fair value of derivative instruments associated with an item of net debt solely comprises the fair value of derivatives hedging financial currency risk.

8.1.3.1 Long-term loans and receivables

This category consists essentially of long-term loans, which are measured on an amortized cost basis using the effective interest rate. They are shown in the statement of financial position as "Non-current financial assets".

8.1.3.2 Cash and cash equivalents

Cash and cash equivalents are comprised of marketable securities such as money market and short-term money market funds, deposits and very short-term risk-free securities which can be readily sold or converted into cash, and cash at bank.

The cash equivalents included in this line are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. These current financial assets are carried at fair value through income and are held with a view to meeting short-term cash requirements.

(in millions of euros)	December 31, 2017	December 31, 2016
Marketable securities	1,182	1,691
Cash	1,254	668
CASH AND CASH EQUIVALENTS	**2,436**	**2,359**

Cash and cash equivalents totaled 2,436 million euros at December 31, 2017, consisting of 1,182 million euros of marketable securities with a low price volatility risk, and 1,254 million euros in cash. Marketable securities chiefly comprise money market mutual funds (FCP).

These items were measured using Level 1 inputs of the fair value hierarchy.

Short-term liquidity management

Cash is pooled whenever this is permitted by local legislation. In this case, subsidiaries' surplus cash or financing requirements are pooled and invested or funded by Valeo, the parent company. A cross-border cash pooling arrangement in euros is in place in 12 European countries, enabling day-to-day cash to be managed on a centralized basis. In other countries, local cash pooling arrangements exist and loans and borrowings are regularly taken out with the parent company (Valeo). In some countries, these cross-border transactions can give rise to tax issues or may be subject to specific regulations and require approval from the local tax authorities. The Group also manages liquidity by ensuring that dividends from subsidiaries are systematically transferred to Valeo.

Bank counterparty risk management

The Group invests its surplus liquidity according to the same principles, with asset management companies that are subsidiaries of leading banks. Securities are held by leading custodians.

8.1.3.3 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	December 31, 2017	December 31, 2016[(1)]
Euro	2,146	487
US dollar	296	508
Japanese yen	20	(21)
Brazilian real	(25)	23
South Korean won	(55)	(37)
Chinese renminbi	(328)	(245)
Other currencies	(202)	(178)
TOTAL	**1,852**	**537**

(1) Net debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7, page 303) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9, page 303).

8.1.4 Derivative financial instruments

The Group uses derivative financial instruments to manage and reduce its exposure to foreign exchange, commodity and interest rate risks.

Derivatives are recognized in the statement of financial position at fair value under other non-current financial assets or other non-current financial liabilities when the underlying transaction matures beyond one year, and under other current financial assets or other current financial liabilities when the underlying transaction matures within one year.

The accounting impact of changes in the fair value of these derivative instruments depends on whether or not hedge accounting is applied.

When hedge accounting is applied:

- for fair value hedges of assets and liabilities recognized in the statement of financial position, the hedged item of these assets or liabilities is stated at fair value. Changes in fair value are recognized through income and offset (for the effective portion of the hedge) by symmetrical changes in the fair value of the derivative;
- for future cash flow hedges, changes in fair value of the derivatives relating to the effective portion of the hedge are recognized directly in other comprehensive income, while the ineffective portion is taken to other financial income and expenses. The amounts recognized in other comprehensive income are recycled to income when the hedged risk itself affects income.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in other financial income and expenses.

Foreign currency derivatives

Although they may act as hedges, foreign currency derivatives hedging balance sheet positions and foreign currency financing do not always meet the criteria for hedge accounting (automatic hedging). In these cases, changes in the fair value of the derivatives are recognized in other financial income and expenses and are generally offset by changes in the fair value of the underlying receivables and payables.

Foreign currency derivatives hedging highly probable future transactions that are generally material and will impact the operating margin are classified as hedges. In these cases, changes in the fair value of the derivatives are recognized in other comprehensive income for the effective portion of the hedge, and subsequently taken to operating income when the hedged item itself affects operating income. The ineffective portion of the hedge is recognized in other financial income and expenses.

Commodity derivatives

In principle, the Group applies cash flow hedge accounting to commodity derivatives. Gains and losses relating to the effective portion of the hedge are reclassified from other comprehensive income to operating income when the hedged position itself affects income. Gains and losses relating to the ineffective portion of the hedge are recognized in other financial income and expenses. When a forecast transaction is no longer highly probable, the cumulative gains and losses carried in other comprehensive income are transferred immediately to other financial income and expenses.

Interest rate derivatives

The Group generally applies fair value hedge accounting when it uses interest rate derivatives swapping fixed-rate debt for variable-rate debt.

Changes in the fair value of debt attributable to changes in interest rates, and symmetrical changes in the fair value of the interest rate derivatives, are recognized in other financial income and expenses for the period.

Variable interest rate hedges protect the Group against the impact of fluctuations in interest rates on its interest payments. These hedges are eligible for cash flow hedge accounting.

Hedging instruments are measured at fair value and recognized in the statement of financial position. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income, while changes relating to the ineffective portion are recognized in other financial income and expenses. Amounts carried in other comprehensive income in respect of the effective portion of the hedge are taken to income as and when the hedged interest expenses themselves affect income.

Certain interest rate derivatives are not designated as hedging instruments within the meaning of IAS 39. Changes in the fair value of these derivatives are recognized in other financial income and expenses for the period.

Level 2 in the fair value hierarchy is generally used to measure the fair value of the Group's derivative financial instruments.

The Group's operating entities are responsible for identifying, measuring and hedging financial risks. However, the Group's Finance Department is responsible for managing derivatives on behalf of subsidiaries with risk exposure. At monthly Treasury Committee meetings, the main risks and exposures are assessed, the required hedges are approved (in accordance with the strategy described below), and the results of these hedges are analyzed.

To reduce its exposure to market risk, the Group uses derivative financial instruments which had the following fair values at December 31, 2017 and 2016:

	Other financial assets		Other financial liabilities		December 31, 2017	December 31, 2016
(in millions of euros)	Non-current	Current	Non-current	Current	Total	Total
Cash flow hedge	3	7	(36)	(4)	**(30)**	**13**
Fair value hedge	-	-	-	-	**-**	**-**
Non-hedging derivatives and trading derivatives	17	25	(4)	(10)	**28**	**(9)**
Total foreign currency derivatives	**20**	**32**	**(40)**	**(14)**	**(2)**	**4**
Cash flow hedge	-	7	-	(1)	**6**	**6**
Fair value hedge	-	-	-	-	**-**	**-**
Non-hedging derivatives and trading derivatives	-	-	-	-	**-**	**-**
Total commodity derivatives	**-**	**7**	**-**	**(1)**	**6**	**6**
Total interest rate derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Other non-hedging derivatives and trading derivatives	118	1	(121)	-	**(2)**	**(2)**
Total other derivatives	**118**	**1**	**(121)**	**-**	**(2)**	**(2)**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	**138**	**40**	**(161)**	**(15)**	**2**	**8**

Bank counterparty risk management

The Group contracts derivatives with leading banks and sets limits for each counterparty, taking into account ratings provided by rating agencies. Special reports are drawn up enabling counterparty risk on each market to be monitored.

8.1.4.1 Fair value of foreign currency derivatives

Operational currency risk management

The Group's subsidiaries are exposed to foreign currency risk arising within the scope of their industrial and commercial activities. These risks and the related hedges are monitored by the Financing and Treasury Department.

The Group systematically hedges statement of financial position exposures (non-financial foreign currency receivables and payables). Subsidiaries primarily hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties. The corresponding currency instruments are classified as trading derivatives within the meaning of IAS 39 – "Financial Instruments".

The Group also hedges its operating margin against foreign currency risk, on a regular basis over the budget period and on an exceptional basis over a contractual period (beyond one year) for specific major contracts. In this case, it applies hedge accounting rules as permitted by the standard on financial instruments. The principal hedging instruments used by the Group are forward purchases and sales of foreign currencies.

The fair value of derivative financial instruments associated with operational currency risk is shown below:

	December 31, 2017		December 31, 2016	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Forward foreign currency purchases	310	7	297	11
Forward foreign currency sales	(84)	2	(18)	1
Total assets	**226**	**9**	**279**	**12**
Forward foreign currency purchases	362	(10)	455	(12)
Forward foreign currency sales	(83)	(1)	(264)	(3)
Total liabilities	**279**	**(11)**	**191**	**(15)**
NET IMPACT		**(2)**		**(3)**

The fair value of these derivatives is computed as follows: future cash flows are calculated using forward exchange rates at the end of the reporting period and are then discounted using the interest rate of the functional currency. This method corresponds to Level 2 in the fair value hierarchy.

In 2017, the result of these hedges of operational currency risk was not material. In 2016, an unrealized loss of 4 million euros related to these hedges was recognized directly in other comprehensive income.

Financial currency risk management

Centralizing cash surpluses, the financing needs of foreign subsidiaries and certain Group financing transactions exposes the Group to financial currency risk. This risk corresponds to the risk of changes in the value of financial receivables or payables denominated in currencies other than the functional currency of the borrowing or lending entity. This currency risk is primarily hedged by currency swaps.

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

The Group's borrowings are generally denominated in euros, in particular for debt issues under the Euro Medium Term Note (EMTN) financing program.

At December 31, 2017, the Group's foreign currency borrowings were:

- the EIB loan contracted in November 2011, of which 25 million US dollars was outstanding at December 31, 2017;
- the convertible bond subscribed on June 16, 2016 for 450 million US dollars, to which the Group added 125 million US dollars under the same conditions on November 16, 2016.

These US dollar borrowings are hedged by EUR/USD currency swaps until they fall due and have been documented as cash flow hedges.

At December 31, 2017, derivative instruments hedging currency risk on debt essentially relate to currency swaps, with the following fair values:

	December 31, 2017		December 31, 2016	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Currency swaps	568	43	415	21
Total assets	**568**	**43**	**415**	**21**
Currency swaps	1,192	(43)	252	(14)
Total liabilities	**1,192**	**(43)**	**252**	**(14)**
NET IMPACT		**-**		**7**

Changes in the fair value of derivatives not designated as hedges are recognized in other financial income and expenses and are offset by changes in the fair value of the underlying debt.

The amount of 43 million euros recognized in assets mainly includes currency swaps relating to hedges of the Group's internal loans and borrowings. In 2017, an unrealized loss of 30 million euros relating to the EUR/USD currency swap set up at inception of the 575 million US dollar convertible bond was recorded in liabilities.

Analysis of the Group's overall net exposure

The Group's overall net exposure (on its balance sheet positions) based on notional amounts arises on the following main currencies (excluding entities' functional currencies):

	December 31, 2017				December 31, 2016
(in millions of euros)	USD	JPY	EUR	Total	Total
Accounts and notes receivable	144	13	454	**611**	**568**
Other financial assets	419	66	112	**597**	**243**
Accounts and notes payable	(213)	(50)	(685)	**(948)**	**(871)**
Long-term debt	(986)	(42)	(420)	**(1,448)**	**(1,151)**
GROSS EXPOSURE	**(636)**	**(13)**	**(539)**	**(1,188)**	**(1,211)**
Forward sales	(334)	(72)	(357)	**(763)**	**(467)**
Forward purchases	1,309	122	255	**1,686**	**1,326**
NET EXPOSURE	**339**	**37**	**(641)**	**(265)**	**(352)**

In the table above, the EUR column represents the euro exposure of Group entities whose functional currency is not the euro. Exposure arises chiefly on subsidiaries based in Central and Eastern Europe – mainly the Czech Republic – which are financed in euros by Valeo.

At December 31, 2016, the breakdown by currency of the net exposure in the statement of financial position (a negative 352 million euros) was as follows:

- a negative amount of 108 million euros relating to the US dollar;
- a positive amount of 38 million euros relating to the Japanese yen;
- a negative amount of 282 million euros relating to the euro.

Analysis of the sensitivity of net foreign currency risk exposure

The sensitivity analysis was based on an exchange rate of 1.20 US dollars, 135.01 Japanese yen, and 25.53 Czech koruna for 1 euro at December 31, 2017 (1.05 US dollars, 124.4 Japanese yen and 27.02 Czech koruna, respectively, at December 31, 2016).

An increase of 10% in the value of the euro against these currencies at December 31, 2017 and December 31, 2016 would have had the following pre-tax impacts:

	December 31, 2017		December 31, 2016	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Exposure to US dollar	(4)	(29)	5	6
Exposure to Japanese yen	2	(6)	-	(4)
Exposure to euro	(35)	(29)	(10)	(5)
TOTAL	**(37)**	**(64)**	**(5)**	**(3)**

For the purpose of these analyses, it is assumed that all other variables, particularly interest rates, remained unchanged.

Assuming that all other variables remained unchanged, a 10% fall in the value of the euro against these currencies at December 31, 2017 would have the opposite effect to the one shown above.

Remaining contractual maturities of foreign currency derivatives

The European Central Bank (ECB) closing rates and forward rates at December 31, 2017 were used to value foreign currency derivatives.

		Contractual cash flows						
			≥ 1 year and ≤ 5 years				> 5 years	
(in millions of euros)	Carrying amount	< 1 year	2019	2020	2021	2022	2023 and beyond	Total
Forward foreign currency contracts used as hedges:								
■ Assets	9	8	1	-	-	-	-	**9**
■ Liabilities	(11)	(6)	(1)	(1)	(1)	(1)	(1)	**(11)**
Currency swaps used as hedges:								
■ Assets	43	24	2	-	16	1		**43**
■ Liabilities	(43)	(9)	-	-	(34)	-	-	**(43)**

8.1.4.2 Fair value of commodity (non-ferrous metals) derivatives

Commodity risk management

The Group manages its exposure to raw materials by using price indexation clauses in commercial contracts as far as possible. This is the case particularly for non-ferrous metals and steel, for which such clauses cover approximately three-quarters and one-half of the Group's exposure, respectively.

Residual exposure to non-ferrous metals listed on the London Metal Exchange, and to a lesser extent exposure to propylene, is hedged with leading banks using hedging instruments. These hedges are designed to limit the impact of fluctuations in commodity prices on the Group's earnings and to give Valeo the time it needs to negotiate the corresponding price rises with its customers.

The Group favors hedging instruments which do not involve physical delivery of the underlying commodity (primarily swaps on the average monthly price). These transactions are eligible for cash flow hedge accounting within the meaning of IAS 39.

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

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

Volumes of non-ferrous metals hedged at December 31, 2017 and December 31, 2016 break down as follows:

(in tons)	December 31, 2017	December 31, 2016
Aluminum	40,321	19,882
Secondary aluminum	13,623	9,102
Copper	9,253	8,556
Zinc	708	816
TOTAL	**63,905**	**38,356**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 6 million euros related to existing hedges was recognized directly in other comprehensive income for 2017 in accordance with IAS 39.

An unrealized gain of 6 million euros recognized in other comprehensive income in 2016 and arising on existing commodity hedges was reclassified in full to operating income in 2017.

Fair value of commodity (non-ferrous metals) derivatives

	December 31, 2017		December 31, 2016	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Swaps – Purchases	135	7	80	7
Swaps – Sales	-	-	-	-
TOTAL ASSETS	**135**	**7**	**80**	**7**
Swaps – Purchases	12	(1)	5	(1)
Swaps – Sales	-	-	-	-
TOTAL LIABILITIES	**12**	**(1)**	**5**	**(1)**
NET IMPACT		**6**		**6**

The fair value of commodity derivatives is computed as follows: future cash flows are calculated using forward commodity prices and forward exchange rates at the end of the reporting period and are then discounted using the interest rate of the functional currency. This method corresponds to Level 2 in the fair value hierarchy.

Analysis of the sensitivity of the net exposure to metal price risk

The table below shows the pre-tax impact on equity and income of a 10% variation in metal futures prices at December 31, 2017 and 2016.

	December 31, 2017		December 31, 2016	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 10% rise in metal futures prices	-	13	-	7
Impact of a 10% fall in metal futures prices	-	(13)	-	(7)

For the purposes of the sensitivity analysis, it is assumed that all other variables remain unchanged over the period.

Remaining contractual maturities of commodity derivatives

Forward prices on the London Metal Exchange (LME) at December 31, 2017 were used to determine contractual maturities for commodity derivatives.

		Contractual cash flows						
			≥ 1 year and ≤ 5 years				> 5 years	
(in millions of euros)	Carrying amount	< 1 year	2019	2020	2021	2022	2023 and beyond	Total
Commodity derivatives:								
■ Assets	7	7	-	-	-	-	-	**7**
■ Liabilities	(1)	(1)	-	-	-	-	-	**(1)**

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8.1.4.3 Fair value of interest rate derivatives

Interest rate risk management

The Group uses interest rate swaps to convert the interest rates on its debt into either a variable or a fixed rate, either at origination or during the term of the loan. Cash and cash equivalents are mainly invested in variable-rate instruments. At December 31, 2017, 90% of long-term debt (i.e., due in more than one year) was at fixed rates (98% at December 31, 2016).

The interest rate derivatives used by the Group to hedge changes in the value of its fixed-rate debt are designated as fair value hedges under IAS 39.

The Group had no outstanding interest rate derivatives at either December 31, 2017 or December 31, 2016.

Analysis of the Group's net exposure

At the end of the reporting period, the Group's net interest rate position based on nominal values can be analyzed as follows:

2017

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	904	143	1,174	350	1,826	-	3,904	493	**4,397**
Loans	-	-	-	(78)	-	-	-	(78)	**(78)**
Cash and cash equivalents	-	(2,436)	-	-	-	-	-	(2,436)	**(2,436)**
NET POSITION BEFORE HEDGING	**904**	**(2,293)**	**1,174**	**272**	**1,826**	**-**	**3,904**	**(2,021)**	**1,883**
Derivative instruments	-	-	-	-	-	-	-	-	-
NET POSITION AFTER HEDGING	**904**	**(2,293)**	**1,174**	**272**	**1,826**	**-**	**3,904**	**(2,021)**	**1,883**

2016

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount(1)		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	200	569	841	35	1,321	6	2,362	610	**2,972**
Loans	-	-	-	(12)	-	-	-	(12)	**(12)**
Cash and cash equivalents	-	(2,359)	-	-	-	-	-	(2,359)	**(2,359)**
NET POSITION BEFORE HEDGING	**200**	**(1,790)**	**841**	**23**	**1,321**	**6**	**2,362**	**(1,761)**	**601**
Derivative instruments	-	-	-	-	-	-	-	-	**-**
NET POSITION AFTER HEDGING	**200**	**(1,790)**	**841**	**23**	**1,321**	**6**	**2,362**	**(1,761)**	**601**

(1) Net debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7, page 303) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9, page 303).

Financial liabilities include the nominal amount of long- and short-term debt and bank overdrafts.

Analysis of sensitivity to interest rate risk

At December 31, 2017, 90% of long-term debt is at fixed rates (98% at December 31, 2016).

Fixed-rate debt carried at amortized cost is not included in the calculation of sensitivity to interest rate risk. The Group's exposure to interest rate risk therefore arises solely on its variable-rate debt.

The tables below show the pre-tax impact on income and other comprehensive income of a sudden 1% rise in the interest rates applied to variable-rate financial assets and liabilities, after hedging:

	December 31, 2017		December 31, 2016	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 1-point increase in interest rates	20	-	18	-

Similarly, at December 31, 2017, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

8.1.4.4 Fair value of other derivative financial instruments

At December 31, 2017, other derivative financial instruments included the following:

- Conversion options embedded in the June 2016 and November 2016 bond issues, along with call options purchased. These options are perfectly matched. They had a fair value of 88 million euros at December 31, 2017 versus 73 million euros at December 31, 2016.
- Put and call options granted by Valeo and Siemens on the creation of their joint venture (see Note 2.2.1.6, page 302):
  - Valeo has a call option by virtue of which Siemens is required to sell part or all of its stake in the joint venture on exercise of the option. The fair value of this call option was 28 million euros at December 31, 2017 and 35 million euros at December 31, 2016;
  - Siemens has a put option by virtue of which Valeo is required to purchase its entire stake in the joint venture on exercise of the option. The fair value of this put option was 31 million euros at December 31, 2017 and 37 million euros at December 31, 2016.

  These options are not perfectly matched given the specific contractual terms that govern their exercise. They were valued by an independent expert using a probability-based approach. This method corresponds to Level 3 in the fair value hierarchy.
- Put and call options granted by Valeo and the partners of the CloudMade joint venture, each valued at 2 million euros (see Note 2.2.1.7, page 303).

Contractual maturities of other material derivative financial instruments

		Contractual cash flows					
			≥ 1 year and ≤ 5 years				> 5 years
(in millions of euros)	Carrying amount	< 1 year	2019	2020	2021	2022	2023 and beyond
Convertible bond options							
■ Assets	88	-	-	-	88	-	-
■ Liabilities	(88)	-	-	-	(88)	-	-
Put and call options relating to the Valeo-Siemens joint venture(1)							
■ Assets	28	-	-	-	28	-	-
■ Liabilities	(31)	-	(31)	-	-	-	-

(1) Options that can be exercised as from the date indicated if certain contractually specified criteria are met.

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8.1.5 Other financial assets and liabilities

8.1.5.1 Other non-current financial assets and liabilities

This caption primarily includes guarantee deposits and available-for-sale financial assets.

Guarantee deposits are valued at amortized cost.

Available-for-sale financial assets include investments in non-consolidated companies and are initially recognized at fair value with any subsequent changes in fair value recognized through other comprehensive income or in income for the period in the event of a significant or prolonged decline in fair value. Unrealized gains and losses recognized in other comprehensive income are taken to income on the sale of the shares, unless the decline in value relative to the historical cost was considered prolonged or significant enough to entail an impairment loss, which is recognized in income.

The fair value of securities listed on an active market is their market value. Unlisted securities whose fair value cannot be estimated reliably are carried at cost, and are classified in non-current financial assets.

Available-for-sale financial assets amounted to 172 million euros at December 31, 2017. Movements in this item were as follows:

(in millions of euros)	2017	2016
AVAILABLE-FOR-SALE SECURITIES AT JANUARY 1	**44**	**31**
Acquisitions	79	12
Changes in scope of consolidation	51	-
Changes in fair value recognized in equity	5	-
Translation adjustment	(7)	1
AVAILABLE-FOR-SALE SECURITIES AT DECEMBER 31	**172**	**44**

The main changes in 2017 related to the following:

- acquisition of a stake in the Cathay CarTech fund for 49 million euros, representing Valeo's total commitment, of which 10 million euros was paid in 2017. The fund is a cross-border investment vehicle providing venture capital financing for innovative start-ups in China;
- acquisition of a stake in the IrisNext fund for 20 million euros, representing Valeo's total commitment. The purpose of this fund is to invest in innovative companies in the digital economy, primarily in the eurozone;
- acquisition of an additional stake in Navya for 8 million euros;
- acquisition of a controlling interest in Ichikoh (see Note 2.2.1.5, page 300), which holds securities listed on an active market, for 47 million euros. Changes in the scope of consolidation during the year primarily relate to this transaction.

The main changes in 2016 related to the following:

- acquisition of a stake in Navya for 5 million euros by subscribing to Navya's capital increase. This capital increase allows Valeo to take on a role as observer in order to track the development of this company, which specializes in autonomous, driverless shuttles;
- acquisition of a stake in US-based Trucks Venture Fund 1, LP for 4 million US dollars, of which 2 million US dollars have been called and paid up. The purpose of this fund is to invest in start-ups that respond to the latest trends in the transport industry such as autonomous, connected and shared vehicles;
- acquisition of an additional stake in Cathay Capital's Sino-French Innovation Fund for 3 million euros.

8.1.5.2 Other current financial assets and liabilities

Other current financial assets and liabilities include accounts and notes receivable and payable.

Accounts and notes receivable and payable are initially recognized at fair value and subsequently carried at amortized cost, less any accumulated impairment losses. The fair value of accounts and notes receivable and payable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable are detailed in Note 4.2, page 310. In the ordinary course of its operations in China, Valeo may be paid by its customers or may pay its suppliers using a payment instrument specific to the Chinese market known as a "bank acceptance draft". Owing to their nature, receivables and payables under bank acceptance drafts continue to be recognized within accounts and notes receivable and payable until they fall due. At December 31, 2017, these instruments represented 145 million euros of accounts and notes receivable and 92 million euros of accounts and notes payable (140 million euros and 91 million euros, respectively, at December 31, 2016).

Valeo also operates a reverse factoring program, which has been in place since 2014. This program involves a sale of accounts and notes receivable to a financial institution ("factor") initiated by Valeo (and not by the supplier). Relations between the parties are structured based on two separate agreements:

- Valeo suppliers enter into a sale agreement with the factor for the amounts they are owed by Valeo;
- Valeo enters into an agreement with the factor under which it agrees to pay the invoices sold by its suppliers to the factor at the date they fall due (pre-approved invoices), without recourse.

This program allows the suppliers concerned to ensure that their receivables will be promptly settled by the financial institution. Valeo settles the invoices with the factor at their contractual due dates.

An analysis by the Group indicates that the reverse factoring arrangement does not alter the substance of its payables, which continue to be included in working capital.

8.2 Financial income and expenses

Financial income and expenses comprise interest income, interest expense (cost of net debt), and other financial income and expenses.

8.2.1 Cost of net debt

Interest expense corresponds to interest recognized on debt, while interest income corresponds to interest earned on cash and cash equivalents.

(in millions of euros)	2017	2016
Interest expense[(1)]	(88)	(90)
Interest income	15	7
COST OF NET DEBT	**(73)**	**(83)**

(1) Including in 2017 finance costs for 2 million euros on undrawn credit lines and financial expenses for 5 million euros arising on discounting arrangements for accounts and notes receivable and amounts receivable under French research and CICE tax credits.

8.2.2 Other financial income and expenses

Other financial income and expenses notably include:

- gains and losses on interest rate hedging transactions;
- gains and losses on foreign exchange transactions or non-ferrous metals purchases that do not meet the definition of hedges under IAS 39 on financial instruments;
- the cost of credit insurance and write-downs taken in respect of credit risk and losses on bad debts in the event of client default;
- the net interest cost arising on provisions for pensions and other employee benefits, which includes the impact of unwinding the discount on the obligations to take into account the passage of time, and financial income related to the expected return on plan assets.

(in millions of euros)	2017	2016
Net interest cost on provisions for pensions and other employee benefits	(24)	(27)
Currency gains (losses)	(20)	(6)
Gains (losses) on commodity derivatives (trading and ineffective portion)	-	(1)
Gains (losses) on interest rate derivatives (ineffective portion)	1	(1)
Other	(4)	(11)
OTHER FINANCIAL INCOME AND EXPENSES	**(47)**	**(46)**

Note 9 INCOME TAXES

9.1 Income taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies.

Taxes relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income and not in income.

9.1.1 Breakdown of income tax expense

(in millions of euros)	2017	2016
Current taxes	(229)	(253)
Deferred taxes	(96)	64
INCOME TAX EXPENSE	**(325)**	**(189)**

The Group recognized income tax expense of 325 million euros in 2017, corresponding to an effective tax rate of 25.6%.

This rate notably includes a 117 million euro expense relating to US tax reform, under which the federal corporate tax rate is reduced from 35% to 21% as of January 1, 2018. Valeo had recognized a deferred tax asset of 89 million euros for this tax consolidation group in 2016, and 248 million euros in prior periods.

This negative impact on income tax expense was partly offset by the recognition of deferred taxes at certain entities, in particular in India, the United States and France, in an amount of 35 million euros. The deferred tax assets were recognized in view of the earnings performance for these scopes and their five-year profitability outlook as per the fiscal plan.

9.1.2 Tax proof

(in millions of euros)	2017	2016
NET INCOME BEFORE INCOME TAXES EXCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	1,268	**1,111**
Standard tax rate in France	34.43%	34.43%
THEORETICAL INCOME TAX EXPENSE	**(437)**	**(383)**
Impact of:		
■ Unrecognized deferred tax assets and unused tax losses (current year)	(19)	(95)
■ Recognition of previously unrecognized deferred tax assets	87	100
■ Other tax rates	(15)	34
■ Utilization of prior-year tax losses	43	84
■ Permanent differences between accounting income and taxable income	35	87
■ Tax credits	2	3
■ *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE)	(21)	(19)
GROUP INCOME TAX EXPENSE	**(325)**	**(189)**

- In 2017, unrecognized deferred tax assets and unused tax losses not used by main country mainly relate to Latin America for 10 million euros and Germany for 6 million euros.
- Previously unrecognized deferred tax assets for 87 million euros essentially relate to deferred tax assets recognized in 2017 in France (35 million euros), India (18 million euros) and the United States at an entity outside the scope of the tax consolidation group (18 million euros).
- The unfavorable 15 million euro impact relating to tax rates that are different from the standard tax rate chiefly results from changes in US tax legislation. It breaks down as follows:

Country	Current tax rate(1)	2017	2016
China	25.0%	40	14
Poland	19.0%	17	14
South Korea	24.2%	11	12
Thailand	20.0%	8	4
Turkey	20.0%	5	4
Spain	25.0%	4	7
Czech Republic	19.0%	6	1
Japan	32.8%	3	(2)
United States	21.0%	(116)	(7)
Germany	27.8%	(6)	(8)
Other countries		14	(5)
TOTAL		**(15)**	**34**

(1) *The current tax rate shown is the effective tax rate at the end of the reporting period. The tax rate used to calculate deferred taxes takes into account any changes adopted in the tax rate for the coming years.*

- Utilizations of prior-year tax losses for which no deferred tax assets were recognized chiefly reflect the use of 13 million euros in tax losses for the French tax consolidation group and 11 million euros for the Irish tax consolidation group.
- Permanent differences between accounting income and taxable income mainly result from the impact of tax credits and reductions granted in respect of the Group's Research and Development activities.
- The Group considers that the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE) tax on company value-added meets the definition of income tax set out in IAS 12. Income tax in 2017 therefore includes a net expense of 21 million euros in respect of the CVAE tax (19 million euros in 2016).

9.2 Deferred taxes

Deferred taxes are accounted for using the liability method for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements, and for all tax loss carryforwards.

The main temporary differences relate to tax loss carryforwards, provisions for pensions and other employee benefits, other temporarily non-deductible provisions and capitalized development costs. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are only recognized to the extent that it appears probable that Valeo will generate future taxable profits against which these tax assets will be able to be recovered. The Group reviews the probability of future recovery of deferred tax assets on a periodic basis for each tax entity. This review can, where appropriate, lead the Group to derecognize deferred tax assets that it had recognized in prior years. The probability of recovery is assessed using the approach deemed most appropriate in light of the entity's legal and tax organization, tax history and projected taxable earnings outlook. These are assessed on the basis of a tax plan which uses assumptions consistent with those used in the medium-term business plans and budgets prepared by the Group's entities and approved by General Management. Taxes payable and tax credits receivable on planned dividend distributions by subsidiaries are recorded in the statement of income.

Deferred tax assets and liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities concern income taxes levied by the same taxation authority. In France, Valeo has elected for tax consolidation. The tax group includes the parent company and its principal French subsidiaries that are eligible for tax consolidation. Valeo also elected for tax consolidation for its subsidiaries in other countries where this is permitted by local legislation (Germany, Spain, the United Kingdom and the United States).

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	December 31, 2017	December 31, 2016
Loss carryforwards	703	872
Capitalized development expenditure	(232)	(187)
Pensions and other employee benefits	246	259
Other provisions	131	112
Inventories	57	61
Provisions for restructuring costs	8	17
Tooling	(2)	(3)
Non-current assets	(26)	30
Other	122	130
TOTAL DEFERRED TAXES, GROSS	**1,007**	**1,291**
Unrecognized deferred tax assets	(624)	(731)
TOTAL DEFERRED TAXES	**383**	**560**
Of which:		
■ Deferred tax assets	456	626
■ Deferred tax liabilities	(73)	(66)

A 35 million euro deferred tax asset was recognized in respect of tax loss carryforwards for the tax consolidation group in France, reflecting a more favorable economic outlook.

In contrast, due to particularly tough economic conditions, no deferred tax assets were recognized for Brazil. Residual unrecognized net deferred tax assets stood at 73 million euros at December 31, 2017.

Similarly, deferred taxes in Germany have been written down since 2015, reflecting the five-year profitability outlook as per the fiscal plan. Residual unrecognized net deferred tax assets represented 37 million euros at December 31, 2017.

At December 31, 2017, deferred tax assets not recognized by the Group can be analyzed as follows:

(in millions of euros)	Tax basis	Potential tax saving
Tax losses available for carryforward from 2018 through 2022	74	(18)
Tax losses available for carryforward in 2022 and thereafter	77	(18)
Tax losses available for carryforward indefinitely	1,643	(430)
CURRENT TAX LOSS CARRYFORWARDS	**1,794**	**(466)**
Unrecognized deferred tax assets on temporary differences		(158)
TOTAL		**(624)**

Note 10 STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

10.1 Stockholders' equity

10.1.1 Change in share capital

10.1.1.1 Change in the number of shares outstanding

The number of shares outstanding and the number of treasury shares held at December 31, 2017 can be analyzed as follows:

	2017	2016
NUMBER OF SHARES OUTSTANDING AT JANUARY 1	**237,902,266**	**235,362,555**
Number of treasury shares purchased/sold under the liquidity agreement[(1)] or delivered following the exercise of stock options or free shares granted	739,753	1,784,200
Number of shares purchased under the 2017 share buyback program[(2)]	(1,228,009)	-
Number of shares issued under employee stock ownership plans: Shares4U[(3)]	509,990	755,511
NUMBER OF SHARES OUTSTANDING AT DECEMBER 31	**237,924,000**	**237,902,266**
Number of treasury shares held by the Group	1,729,121	1,240,865
NUMBER OF SHARES REPRESENTING THE COMPANY'S SHARE CAPITAL AT DECEMBER 31[(4)]	**239,653,121**	**239,143,131**

(1) *See Note 10.1.1.2, page 363.*
(2) *See Note 10.1.1.3, page 364.*
(3) *As part of the Shares4U 2017 plan (see Note 5.4.4, page 329), a capital increase reserved for employees took place on July 27, 2017, issuing 509,990 new shares, each with a par value of 1 euro. This new standard plan was offered to employees, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chairman and Chief Executive Officer, acting on the authority of the Board of Directors on June 3, 2017, at 51.62 euros. This gave rise to 25 million euros in additional paid-in capital.*
(4) *Each share has a par value of 1 euro at end-2017 and end-2016 and is fully paid up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (5,387,423 shares at December 31, 2017).*

10.1.2.2 Equity management

The Group seeks to maintain a solid capital base in order to retain the confidence of investors, creditors and the market, and to secure its future development. Its objective is to strike a balance between levels of debt and equity compatible with an investment grade rating.

The Group may be required to buy back treasury shares on the market to cover its obligations with regard to stock option and free share plans, as well as Company savings plans and the liquidity agreement. The liquidity agreement was signed with an investment services provider on April 22, 2004 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI). At December 31, 2017, 75,000 shares and 22,400,662 euros had been allocated to the liquidity agreement, compared with 44,364 shares (after taking into account the three-for-one stock split) and 23,171,495 euros at December 31, 2016. On the date the liquidity agreement was signed, 660,000 Valeo shares (after taking into account the three-for-one stock split) and 6,600,000 euros were allocated for its implementation.

10.1.1.3 Share buyback program

Valeo requested the assistance of an investment services provider to meet certain objectives of its share buyback program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016. The share buyback program will be allocated in full to cover any stock purchase option plans, the allotment of shares to employees under profit-sharing plans, and the implementation of any company savings plans.

Upon expiry of the agreement signed on March 6, 2017, the parties agreed that the investment services provider would sell a certain quantity of Valeo shares to Valeo, who undertook to acquire them at term, within the limit of 75 million euros, at an average price determined in an objective and independent manner by the market during the full term of the agreement. This average price could not in any case exceed the maximum purchase price set by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016.

This agreement was effective between March 7, 2017 and May 17, 2017. At this date, Valeo was therefore bound to purchase all of the treasury shares acquired by the investment services provider over the term of the agreement. Delivery of 1,228,009 treasury shares at an average price of 61.0745 euros each resulted in a cash outflow of 75 million euros.

10.1.2 Dividend per share

A dividend of 1.25 euros per share was paid in June 2017, representing a total payout of 297 million euros. The cash dividend paid in 2016 was 3 euros per share (before the three-for-one stock split), representing a total payout of 236 million euros.

10.1.3 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized loss of 318 million euros (unrealized gain of 37 million euros at December 31, 2016). In 2017, this essentially reflected (i) the depreciation in the value of the US dollar (159 million euros), Chinese renminbi (70 million euros), Japanese yen (57 million euros) and, to a lesser extent, the Turkish lira (15 million euros).

10.1.4 Non-controlling interests

Changes in non-controlling interests can be analyzed as follows:

(in millions of euros)	2017	2016
NON-CONTROLLING INTERESTS AT JANUARY 1	**236**	**219**
Equity in net earnings	79	58
Dividends paid	(20)	(27)
Changes in scope of consolidation	379	(12)
Fair value adjustments to put options granted to holders of non-controlling interests(1)	(4)	(3)
Other movements	-	(1)
Translation adjustment	(21)	2
NON-CONTROLLING INTERESTS AT DECEMBER 31	**649**	**236**

(1) *See Note 8.1.2.2, page 348.*

Changes in the scope of consolidation in the year primarily reflect the creation of Valeo-Kapec and the takeover of Ichikoh (see Notes 2.2.1.1 and 2.2.1.5, respectively, pages 299 and 300).

Changes in the scope of consolidation in 2016 chiefly reflected the impacts of the acquisition of Hitachi's stake in Valeo Unisia Transmissions (see Note 2.2.1.8, page 303).

Non-controlling interests can be analyzed as follows:

	Percentage interest held by non-controlling interests *(%)*		Stockholders' equity attributable to non-controlling interests *(in millions of euros)*	
	December 31, 2017	December 31, 2016	2017	2016
Pyeong Hwa Company(1)	50.0	50.0	462	143
Ichikoh China Alliance entities	6.7	10.3	25	36
Other Ichikoh entities(2)	44.9	N/A	108	-
Other individually non-material interests	N/A	N/A	54	57
NON-CONTROLLING INTERESTS			**649**	**236**

(1) *Pyeong Hwa Company is our longstanding partner in Valeo Pyeong Hwa entities in South Korea and, as from this year, our partner in Valeo-Kapec (see Note 2.2.1.1, page 299). This explains the sharp increase in non-controlling interests relating to this company.*
(2) *Related to the takeover of Ichikoh in 2017 (see Note 2.2.1.5, page 300).*

10.2 Earnings per share

Earnings per share (before dilution) is calculated by dividing consolidated net income by the weighted average number of shares outstanding during the year, excluding the average number of shares held in treasury stock.

Diluted earnings per share is calculated by dividing consolidated net income by the weighted average number of shares outstanding during the year, plus the weighted average number of ordinary shares that would be outstanding had all the potentially dilutive ordinary shares been converted. Stock options and free shares have a dilutive impact when their exercise price is below market price. This calculation method – known as the treasury stock method – serves to determine the "unpurchased" shares to be added to the shares of common stock outstanding for the purposes of computing the dilution.

	2017	2016
Net income attributable to owners of the Company *(in millions of euros)*	886	925
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	237,879	236,352
BASIC EARNINGS PER SHARE *(IN EUROS)*	**3.72**	**3.91**

	2017	2016
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	237,879	236,352
Dilutive effect from *(in thousands)*:		
■ Stock options	548	860
■ Free shares	2,311	2,159
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES *(IN THOUSANDS OF SHARES)*	**240,738**	**239,371**
DILUTED EARNINGS PER SHARE *(IN EUROS)*	**3.68**	**3.86**

Note 11 BREAKDOWN OF CASH FLOWS

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11.1 Expenses (income) with no cash effect

Expenses and income with no cash effect can be analyzed as follows in 2017 and 2016:

(in millions of euros)	2017	2016
Depreciation, amortization and impairment of non-current assets	949	890
Net additions to (reversals from) provisions	(121)	107
Losses (gains) on sales of non-current assets	27	(2)
Expenses related to share-based payment	27	21
Losses (gains) on remeasurement of previously held interests	-	(162)
TOTAL	**882**	**854**

In 2016, Valeo had recognized a 162 million euro capital gain (excluding transaction costs) in connection with the creation of the joint venture with Siemens (see Note 2.2.1.6, page 302).

11.2 Changes in working capital

Changes in the main components of working capital in 2017 and 2016 are shown in the table below:

(in millions of euros)	2017	2016
Inventories	(204)	(155)
Accounts and notes receivable	(242)	(425)
Accounts and notes payable	393	608
Other receivables and payables	88	28
TOTAL	**35**	**56**

Accounts and notes receivable falling due after December 31, 2017 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position are detailed in Note 4.2 (accounts and notes receivable), page 310, and in Note 4.5.2 (amounts receivable in respect of the French research tax credit or the CICE tax credit), page 314.

11.3 Acquisitions of investments with gain of control, net of cash acquired

In 2017, the net cash outflow of 537 million euros relates mainly to the impact of acquiring a controlling interest in FTE automotive for 386 million euros (see Note 2.2.1.2, page 299), Valeo-Kapec for 111 million euros (see Note 2.2.1.1, page 299), gestigon for 33 million euros (see Note 2.2.1.4, page 300) and Valeo Malaysia CDA Sdn (formerly Precico) for 26 million euros (see Note 2.2.1.3, page 300), partially offset by the net cash inflow of 21 million euros from the acquisition of a controlling interest in Ichikoh (see Note 2.2.1.5, page 300).

Acquisitions of controlling interests in 2016 resulted in a cash outflow of 630 million euros (see Notes 2.2.1.9 and 2.2.1.10, pages 300 and 304, respectively).

11.4 Acquisitions of investments in associates and/or joint ventures

In 2017, the net cash outflow of 7 million euros primarily relates to the 33% stake acquired in Kuantic, the leading European player in machine-to-machine solutions for connected vehicle fleet management. Valeo has joint control over Kuantic, which has therefore been accounted for using the equity method and did not have a material impact on the 2017 consolidated financial statements.

A net cash outflow of 17 million euros in 2016 chiefly corresponded to the stake acquired in CloudMade (see Note 2.2.1.7, page 305).

11.5 Disposals of investments with loss of control, net of cash transferred

In 2016, a net cash inflow of 22 million euros chiefly relates to the impact of the sale of the Engine Control business (see Note 2.2.1.11, page 305).

11.6 Sale (purchase) of treasury stock

The net cash outflow of 73 million euros chiefly relates to the impact of the share buyback program implemented during the period, giving rise to a cash outflow of 75 million euros (see Note 10.1.1.3, page 364).

11.7 Issuance and repayment of long-term debt

In 2017, the Group carried out two bond issues: a 500 million euro issue maturing in 2023 and paying a fixed coupon of 0.625%, and a 600 million euro issue maturing in 2022 and paying a fixed coupon of 0.375%. Valeo also issued a 350 million euro private placement maturing in 2019. The Group redeemed the 145 million euro bond issued in 2012 under the Euro Medium Term Note financing program, repaid an installment on the EIB loan amounting to 22 million euros, redeemed ahead of maturity the bond issued by FTE automotive for 276 million euros and paid down a loan granted by the former shareholder for 68 million euros (see Note 8.1.2.1, page 345).

On March 18, 2016, the Group issued 600 million euros' worth of ten-year bonds maturing in 2026 and paying a fixed coupon of 1.625%. On June 16, 2016, the Group issued 450 million US dollars' worth of five-year non-dilutive convertible bonds maturing in 2021, to which it added 125 million US dollars in November 2016. Repayments during the period mainly related to the syndicated loan for 250 million euros, two subscriptions to private placements for 100 million euros, and two annual installments on loans contracted with the European Investment Bank (EIB).

Loan issue costs and premiums amounted to 64 million euros in 2016, and mainly concerned the two bond issues carried out.

11.8 Acquisitions of investments without gain of control

The net cash outflow of 16 million euros chiefly relates to the impact of the increase in Valeo's indirect ownership interest in the entities of the China Lighting Alliance following the acquisition of a controlling interest in Ichikoh (see Note 2.2.1.5, page 300).

The net cash outflow of 24 million euros in 2016 chiefly related to the impact of acquiring non-controlling interests in Valeo Unisia Transmissions (see Note 2.2.1.8, page 303).

11.9 Free cash flow and net cash flow

Free cash flow corresponds to net cash from operating activities (excluding the change in non-recurring sales of accounts and notes receivable) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets. This indicator reflects the Group's ability to generate cash from its operations and is taken into account by General Management to define its investment strategy and financing policy.

Net cash flow corresponds to free cash flow less (i) cash flows from investing activities, relating to acquisitions and disposals of investments and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities relating to share capital, dividends paid, treasury share purchases and sales, interest paid and received, loan issue costs and premiums and acquisitions of investments without gain of control, and (iii) changes in non-recurring sales of accounts and notes receivable.

Free cash flow and net cash flow can be reconciled as follows with the consolidated statement of cash flows between 2017 and 2016:

(in millions of euros)	2017	2016
Gross operating cash flows	2,269	2,091
Income taxes paid	(265)	(257)
Changes in working capital	35	56
NET CASH FLOWS FROM OPERATING ACTIVITIES	**2,039**	**1,890**
Net payments for purchases of intangible assets and property, plant and equipment	(1,745)	(1,249)
Elimination of change in non-recurring sales of accounts and notes receivable[1]	(16)	20
FREE CASH FLOW	**278**	**661**
Change in non-recurring sales of accounts and notes receivable[1]	16	(20)
Net change in non-current financial assets	(91)	(38)
Acquisitions of investments with gain of control, net of cash acquired	(537)	(630)
Acquisitions of investments in associates and/or joint ventures	(7)	(17)
Disposals of investments with loss of control, net of cash transferred	(1)	22
Acquisitions of investments without gain of control	(16)	(24)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(317)	(263)
Capital increase in cash	26	29
Sale (purchase) of treasury stock	(73)	13
Net interest paid/received	(63)	(58)
Loan issue costs and premiums	(7)	(64)
NET CASH FLOW	**(792)**	**(389)**

(1) Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. An agreement spanning one or more years is drawn up for recurring transactions. Each contract is analyzed in light of IAS 39 on the derecognition of financial assets in order to determine whether the risks and rewards inherent to ownership of the receivables has been transferred (see Note 4.2, page 310).

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Note 12 FEES PAID TO THE STATUTORY AUDITORS

Fees paid to the Group's Statutory Auditors in France and recognized in the consolidated statement of income are as follows:

	Ernst & Young		Mazars	
(in millions of euros)	**2017**	**2016**	**2017**	**2016**
Audit				
Statutory audit, certification and review of the individual and consolidated financial statements	1.8	1.8	1.4	1.3
Non-audit services	0.1	0.4	0.1	0.2
TOTAL FEES	**1.9**	**2.2**	**1.5**	**1.5**

Non-audit services provided by Ernst & Young et Autres to the Group and entities it controls concern (i) comfort letters in connection with bond issues, (ii) financial due diligence in connection with an acquisition, (iii) statements issued to validate information presented in expenditure reports relating to subsidized projects and in connection with sales of receivables, and (iv) a review of the financial reporting obligations of listed company Ichikoh.

Non-audit services provided by Mazars concern (i) comfort letters in connection with bond issues, (ii) agreed-upon procedures reports in connection with the sale of the Passive Hydraulic Actuator business and the creation of Valeo-Kapec, and (iii) statements issued to validate information presented in expenditure reports relating to subsidized projects and in connection with sales of receivables.

Note 13 LIST OF CONSOLIDATED COMPANIES

Company	December 31, 2017 Consolidation method	December 31, 2017 % interest	December 31, 2016 Consolidation method	December 31, 2016 % interest
EUROPE				
FRANCE				
Valeo (parent company)				
DAV	FC	100	FC	100
Equipement 2	FC	100	FC	100
Equipement 11	FC	100	FC	100
SC2N	FC	100	FC	100
Société de Participations Valeo	FC	100	FC	100
Valeo Bayen	FC	100	FC	100
Valeo Embrayages	FC	100	FC	100
Valeo Equipements Electriques Moteur	FC	100	FC	100
Valeo Finance	FC	100	FC	100
Valeo Management Services	FC	100	FC	100
Valeo Matériaux de Friction	FC	100	FC	100
Valeo Comfort and Driving Assistance	FC	100	FC	100
Valeo Service	FC	100	FC	100
Valeo Systèmes de Contrôle Moteur	FC	100	FC	100
Valeo Systèmes d'Essuyage	FC	100	FC	100
Valeo Systèmes Thermiques	FC	100	FC	100
Valeo Vision	FC	100	FC	100
peiker France SAS(10)	FC	100	FC	100
Valeo Siemens eAutomotive France SAS(6)	EM	50	EM	50
Spheros Climatechnics France SAS(9)	FC	100	FC	100
Kuantic	EM	33	-	-
Axodel	EM	33	-	-
FTE automotive France S.a.r.l.(2)	FC	100	-	-
SPAIN				
Valeo Climatización, S.A.U.	FC	100	FC	100
Valeo España, S.A.U.	FC	100	FC	100
Valeo Iluminación, S.A.U.	FC	100	FC	100
Valeo Service España, S.A.U.	FC	100	FC	100
Valeo Termico, S.A.U.	FC	100	FC	100
ITALY				
Valeo Service Italia, S.p.A.	FC	100	FC	100
Valeo, S.p.A.	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 296).
(1) See Note 2.2.1.1, page 299.
(2) See Note 2.2.1.2, page 299.
(3) See Note 2.2.1.3, page 300.
(4) See Note 2.2.1.4, page 300.
(5) See Note 2.2.1.5, page 300.
(6) See Note 2.2.1.6, page 302.
(7) See Note 2.2.1.7, page 302.
(8) See Note 2.2.1.8, page 303.
(9) See Note 2.2.1.9, page 303.
(10) See Note 2.2.1.10, page 304.
(11) Mergers and liquidations.
(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

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Company	December 31, 2017 Consolidation method	December 31, 2017 % interest	December 31, 2016 Consolidation method	December 31, 2016 % interest
EUROPE				
GERMANY				
Valeo Auto-Electric GmbH[12]	FC	100	FC	100
Valeo GmbH[12]	FC	100	FC	100
Valeo Holding GmbH[12]	FC	100	FC	100
Valeo Klimasysteme GmbH[12]	FC	100	FC	100
Valeo Schalter und Sensoren GmbH[12]	FC	100	FC	100
Valeo Service Deutschland GmbH[12]	FC	100	FC	100
Valeo Wischersysteme GmbH[12]	FC	100	FC	100
peiker acustic GmbH[10][12]	FC	100	FC	100
Valeo peiker Telematik GmbH[10]	FC	100	FC	100
CloudMade Deutschland GmbH[7]	EM	50	EM	50
Smexx GmbH[11]	-	-	FC	100
Spheros Holding GmbH[9][11]	-	-	FC	100
Valeo Thermal Commercial Vehicles Germany GmbH (formerly Spheros GmbH)[9][12]	FC	100	FC	100
Spheros Europa GmbH[11]	-	-	FC	100
Valeo Siemens eAutomotive GmbH[6]	EM	50	EM	50
Valeo Siemens eAutomotive Germany GmbH[6]	EM	50	EM	50
Valeo Siemens eAutomotive BSAES Holding GmbH[6]	EM	50	EM	50
FTE Group Holding GmbH[2][12]	FC	100	-	-
FTE Holding GmbH[2][12]	FC	100	-	-
FTE Verwaltungs GmbH[2][12]	FC	100	-	-
FTE Asia GmbH[2][12]	FC	100	-	-
FTE automotive GmbH[2][12]	FC	100	-	-
FTE automotive systems GmbH[2][12]	FC	100	-	-
FTE automotive Möve GmbH[2][12]	FC	100	-	-
gestigon GmbH[4][12]	FC	100	-	-
UNITED KINGDOM				
Valeo (UK) Limited	FC	100	FC	100
Valeo Climate Control Limited	FC	100	FC	100
Valeo Engine Cooling UK Limited	FC	100	FC	100
Valeo Management Services UK Limited	FC	100	FC	100
Valeo Service UK Limited	FC	100	FC	100
Valeo Air Management UK Limited	FC	100	FC	100
CloudMade Holdings Limited[7]	EM	50	EM	50
CloudMade Limited[7]	EM	50	EM	50
FTE automotive UK Limited[2]	FC	100	-	-

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 296).
(1) See Note 2.2.1.1, page 299.
(2) See Note 2.2.1.2, page 299.
(3) See Note 2.2.1.3, page 300.
(4) See Note 2.2.1.4, page 300.
(5) See Note 2.2.1.5, page 300.
(6) See Note 2.2.1.6, page 302.
(7) See Note 2.2.1.7, page 302.
(8) See Note 2.2.1.8, page 303.
(9) See Note 2.2.1.9, page 303.
(10) See Note 2.2.1.10, page 304.
(11) Mergers and liquidations.
(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2017 Consolidation method	December 31, 2017 % interest	December 31, 2016 Consolidation method	December 31, 2016 % interest
IRELAND				
Connaught Electronics Limited	FC	100	FC	100
HI-KEY Limited	FC	100	FC	100
Valeo Ichikoh Holding Limited(5)	FC	93	FC	90
BELGIUM				
Valeo Service Belgique	FC	100	FC	100
Valeo Vision Belgique	FC	100	FC	100
LUXEMBOURG				
Coreval	FC	100	FC	100
NORWAY				
Valeo Siemens eAutomotive Norway AS(6)	EM	50	EM	50
DENMARK				
FTE automotive Denmark ApS(2)	FC	100	-	-
FINLAND				
Spheros-Parabus Oy(9)	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 296).
(1) See Note 2.2.1.1, page 299.
(2) See Note 2.2.1.2, page 299.
(3) See Note 2.2.1.3, page 300.
(4) See Note 2.2.1.4, page 300.
(5) See Note 2.2.1.5, page 300.
(6) See Note 2.2.1.6, page 302.
(7) See Note 2.2.1.7, page 302.
(8) See Note 2.2.1.8, page 303.
(9) See Note 2.2.1.9, page 303.
(10) See Note 2.2.1.10, page 304.
(11) Mergers and liquidations.
(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2017 Consolidation method	December 31, 2017 % interest	December 31, 2016 Consolidation method	December 31, 2016 % interest
NETHERLANDS				
Valeo CV (Netherlands)	FC	100	FC	100
Valeo Holding Netherlands B.V.	FC	100	FC	100
Valeo International Holding B.V.	FC	100	FC	100
Valeo Service Benelux B.V.	FC	100	FC	100
CZECH REPUBLIC				
Valeo Autoklimatizace k.s.	FC	100	FC	100
Valeo Compressor Europe s.r.o.	FC	100	FC	100
Valeo Vymeniky Tepla k.s.	FC	100	FC	100
FTE automotive Czechia s.r.o (2)	FC	100	-	-
SLOVAKIA				
FTE automotive Slovakia s.r.o. (2)	FC	100	-	-
POLAND				
Valeo Autosystemy Sp.ZO.O	FC	100	FC	100
Valeo Electric and Electronic Systems Sp.ZO.O	FC	100	FC	100
Valeo Service Eastern Europe Sp.ZO.O	FC	100	FC	100
Valeo Siemens eAutomotive Poland Sp.ZO.O(6)	EM	50	EM	50
HUNGARY				
Valeo Auto-Electric Hungary LLC	FC	100	FC	100
Valeo Siemens eAutomotive Hungary Kft.(6)	EM	50	EM	50
ROMANIA				
Valeo Lighting Injection S.A.	FC	100	FC	100
Valeo Sisteme Termice S.R.L	FC	100	FC	100
RUSSIA				
Valeo Climate Control Tomilino LLC	FC	100	FC	100
Valeo Service Limited Liability Company	FC	100	FC	100
UKRAINE				
CloudMade Ukraine LLC(7)	EM	50	EM	50
Spheros-Elektron TzOV(9)	EM	20	EM	20
TURKEY				
Valeo Otomotiv Sanayi ve Ticaret A.S.	FC	100	FC	100
Spheros Termo Sistemleri A.S.(9)	FC	100	FC	100
AFRICA				
TUNISIA				
DAV Tunisie S.A.	FC	100	FC	100
Valeo Embrayages Tunisie S.A.	FC	100	FC	100
Valeo Tunisie S.A.	FC	100	FC	100
MOROCCO				
Cablinal Maroc, S.A.	FC	100	FC	100
Valeo Vision Maroc, S.A.	FC	100	FC	100
EGYPT				
Valeo Internal Automotive Software Egypt	FC	100	FC	100
SOUTH AFRICA				
Valeo Systems South Africa (Proprietary) Ltd	FC	51	FC	51
Spheros SA (Pty) Ltd(9)	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 296).
(1) See Note 2.2.1.1, page 299.
(2) See Note 2.2.1.2, page 299.
(3) See Note 2.2.1.3, page 300.
(4) See Note 2.2.1.4, page 300.
(5) See Note 2.2.1.5, page 300.
(6) See Note 2.2.1.6, page 302.
(7) See Note 2.2.1.7, page 302.
(8) See Note 2.2.1.8, page 303.
(9) See Note 2.2.1.9, page 303.
(10) See Note 2.2.1.10, page 304.
(11) Mergers and liquidations.
(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2017 Consolidation method	% interest	December 31, 2016 Consolidation method	% interest
NORTH AMERICA				
UNITED STATES				
Valeo Climate Control Corp.(11)	-	-	FC	100
Valeo North America, Inc.	FC	100	FC	100
Valeo Radar Systems, Inc.	FC	100	FC	100
Detroit Thermal Systems LLC	EM	49	EM	49
Detroit Thermal Systems Leverage Lender LLC	EM	49	EM	49
CloudMade, Inc.(7)	EM	50	EM	50
Automotive Climate Control, Inc.(9)	FC	100	FC	100
Spheros North America, Inc.(9)	FC	100	FC	100
peiker acustic, Inc.(11)	-	-	FC	100
PIAA Corp., USA(5)	FC	55	-	-
Valeo Kapec North America, Inc.(1)	FC	50	-	-
FTE automotive USA, Inc.(2)	FC	100	-	-
FTE automotive North America, Inc.(2)	FC	100	-	-
CANADA				
Valeo Canada, Inc.	FC	100	FC	100
MEXICO				
Delmex de Juarez S de RL de CV	FC	100	FC	100
Valeo Sistemas Automotrices de México, SA de CV	FC	100	FC	100
Valeo Sistemas Electricos, SA de CV	FC	100	FC	100
Valeo Sistemas Electronicos, S de RL de CV	FC	100	FC	100
Valeo Iluminacion Servicios, S de RL de CV	FC	100	FC	100
Valeo Termico Servicios, S de RL de CV	FC	100	FC	100
Valeo Technical Center(9)	FC	100	FC	100
Spheros Mexico, SA de CV(9)	FC	60	FC	60
peiker acustic de Mexico, SA de CV(10)	FC	100	FC	100
Valeo Kapec, SA de CV(1)	FC	50	-	-
FTE Mexicana SA de CV(2)	FC	100	-	-
SOUTH AMERICA				
BRAZIL				
Valeo Sistemas Automotivos Ltda	FC	100	FC	100
Spheros Climatização do Brasil S/A(9)	FC	60	FC	60
Reparts Industria E Comercio de Peças para veiculos Ltda(9)	FC	60	FC	60
Setbus Soluções Automotivas Ltda(9)	FC	45	EM	33
FTE Indústria e Comércio Ltda(2)	FC	100	-	-
ARGENTINA				
Cibie Argentina, SA	FC	100	FC	100
Emelar Sociedad Anonima	FC	100	FC	100
Valeo Embragues Argentina, SA	FC	100	FC	100
Valeo Termico Argentina, SA	FC	100	FC	100
COLOMBIA				
Spheros Thermosystems Colombia Ltda(9)	FC	60	FC	60

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 296).
(1) See Note 2.2.1.1, page 299.
(2) See Note 2.2.1.2, page 299.
(3) See Note 2.2.1.3, page 300.
(4) See Note 2.2.1.4, page 300.
(5) See Note 2.2.1.5, page 300.
(6) See Note 2.2.1.6, page 302.
(7) See Note 2.2.1.7, page 302.
(8) See Note 2.2.1.8, page 303.
(9) See Note 2.2.1.9, page 303.
(10) See Note 2.2.1.10, page 304.
(11) Mergers and liquidations.
(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

	December 31, 2017		December 31, 2016	
Company	Consolidation method	% interest	Consolidation method	% interest
ASIA PACIFIC				
THAILAND				
Valeo Niles (Thailand) Co. Ltd	FC	100	FC	100
Valeo Compressor Clutch (Thailand) Co. Ltd	FC	100	FC	100
Valeo Siam Thermal Systems Co. Ltd	FC	74.9	FC	74.9
Valeo Thermal Systems Sales (Thailand) Co. Ltd	FC	74.9	FC	74.9
Valeo Comfort and Driving Assistance Systems (Thailand) Ltd	FC	100	FC	100
Ichikoh Industries (Thailand) Co. Ltd[5]	FC	55	-	-
SOUTH KOREA				
Valeo Automotive Korea	FC	100	FC	100
Valeo Electrical Systems Korea, Ltd	FC	100	FC	100
Valeo Pyeong HWA Co. Ltd	FC	50	FC	50
Valeo Pyeong Hwa Automotive Components Co. Ltd (VPHC)	FC	50	-	-
Valeo Pyeong HWA International Co. Ltd	FC	50	FC	50
Valeo Samsung Thermal Systems Co. Ltd	FC	50	FC	50
Valeo Pyeong HWA Metals Co. Ltd	EM	49	EM	49
Valeo Kapec Co. Ltd[1]	FC	50	-	-
PHVS Co. Ltd[1]	FC	49	-	-
INDONESIA				
PT Valeo AC Indonesia	FC	100	FC	100
VPH Indonesia Ltd	FC	50	FC	50
PT. Ichikoh Indonesia[5]	FC	55	-	-
MALAYSIA				
Valeo Malaysia SDN BHD	FC	100	FC	100
Ichikoh (Malaysia) SDN BHD[5]	FC	38.6	-	-
Valeo Malaysia CDA SDN BHD (formerly Precico)[3]	FC	100	-	-
UNITED ARAB EMIRATES				
Spheros Middle East FZE[9]	FC	100	FC	100
HONG KONG				
Spheros Ltd[9]	FC	100	FC	100
TAIWAN				
Niles CTE Electronic Co. Ltd	FC	51	FC	51
AUSTRALIA				
Valeo Service Australia Pty Ltd	FC	100	FC	100
Valeo Thermal Commercial Vehicles Australia Pty Ltd (formerly Spheros Australia Pty Ltd)[9]	FC	100	FC	100
JAPAN				
Ichikoh Industries Limited[5]	FC	55.1	EM	31.6
Life Elex. Inc.[5]	FC	32.6	-	-
Kyushu Ichikoh Industries Ltd[5]	FC	55.1	-	-
Hakuden Ltd[5]	FC	55.1	-	-
Misato Industries Ltd[5]	FC	55.1	-	-
PIAA Corporation[5]	FC	55.1	-	-
Valeo Japan Co. Ltd	FC	100	FC	100
Valeo Kapec Japan K.K. (formerly Valeo Unisia Transmissions K.K.)[8]	FC	50	FC	100
Nitto Manufacturing Co. Ltd	FC	87.2	FC	87.2

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(1) See Note 2.2.1.1, page 299.
(2) See Note 2.2.1.2, page 299.
(3) See Note 2.2.1.3, page 300.
(4) See Note 2.2.1.4, page 300.
(5) See Note 2.2.1.5, page 300.
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(11) Mergers and liquidations.
(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

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CHINA				
Faw-Valeo Climate Control Systems Co. Ltd	EM	36.5	EM	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd(5)	FC	93.3	FC	89.7
Fuzhou Niles Electronic Co. Ltd	FC	51	FC	51
Guangzhou Valeo Engine Cooling Co. Ltd	FC	100	FC	100
Huada Automotive Air Conditioner (Hunan) Co. Ltd	EM	45	EM	45
Nanjing Valeo Clutch Co. Ltd	FC	55	FC	55
Shanghai Valeo Automotive Electrical Systems Company Ltd	EM	50	EM	50
Shenyang Valeo Auto Lighting Co. Ltd(5)	FC	93.3	FC	89.7
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	FC	50	FC	50
Tianjin Valeo Xinyue Auto Parts Co. Ltd	FC	100	FC	100
Taizhou Valeo-Wenling Automotive Systems Co. Ltd	FC	73	FC	73
Valeo Auto Parts Trading (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	FC	100	FC	100
Valeo Kapec Torque Converters (Nanjing) Co. Ltd (formerly Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd)(1)	FC	50	FC	100
Valeo Engine Cooling (Foshan) Co. Ltd	FC	100	FC	100
Valeo Engine Cooling (Shashi) Co. Ltd	FC	100	FC	100
Valeo Compressor (Changchun) Co. Ltd	FC	100	FC	100
Valeo Friction Materials (Nanjing) Co. Ltd	FC	50	FC	50
Valeo Ichikoh (China) Auto Lighting Co., Ltd(5)	FC	93.3	FC	89.7
Valeo Interior Controls (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Interior Controls (Shenzhen) Co. Ltd	FC	100	FC	100
Valeo Lighting Hubei Technical Center Co. Ltd(5)	FC	93.3	FC	89.7
Valeo Management (Beijing) Co. Ltd	FC	100	FC	100
Valeo Management (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Niles (Guangzhou) Electronics Co. Ltd	FC	100	FC	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	FC	73	FC	73
Wuhu Valeo Automotive Lighting Systems Co. Ltd(5)	FC	93.3	FC	89.7
Wuxi Valeo Automotive Components and System Co. Ltd	FC	100	FC	100
Changshu Valeo Automotive Wiper System Co. Ltd	FC	73	FC	73

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 296).
(1) See Note 2.2.1.1, page 299.
(2) See Note 2.2.1.2, page 299.
(3) See Note 2.2.1.3, page 300.
(4) See Note 2.2.1.4, page 300.
(5) See Note 2.2.1.5, page 300.
(6) See Note 2.2.1.6, page 302.
(7) See Note 2.2.1.7, page 302.
(8) See Note 2.2.1.8, page 303.
(9) See Note 2.2.1.9, page 303.
(10) See Note 2.2.1.10, page 304.
(11) Mergers and liquidations.
(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2017 Consolidation method	% interest	December 31, 2016 Consolidation method	% interest
Shanghai VPHI Co. Ltd	FC	50	FC	50
Valeo ePowertrain (Shenzhen) Co. Ltd(6)	EM	50	EM	50
Valeo Siemens eAutomotive Shanghai Co. Ltd(6)	EM	50	EM	50
Beijing Valeo Siemens Automotive E-Drive Systems Co. Ltd Changzhou(6)	EM	30	EM	30
Foshan Valeo Electronic Auto Parts Co. Ltd	FC	100	FC	100
Valeo Thermal Commercial Vehicles Systems (Suzhou) Co. Ltd (formerly Spheros (Suzhou) Co. Ltd)(9)	FC	100	FC	100
Spheros (Yangzhou) Limited(9)	FC	100	FC	100
peiker (Shanghai) Automotive Technology Co. Ltd(10)	FC	100	FC	100
Ichikoh (Wuxi) Automotive Parts Co. Ltd(5)	FC	55	-	-
Roncheng Life(5)	EM	10	-	-
Valeo Powertrain (Nanjing) Co. Ltd	FC	100	-	-
Valeo Siemens eAutomotive (Tianjin) Co. Ltd	EM	50	-	-
Valeo Siemens eAutomotive (Changshu) Co. Ltd	EM	50	-	-
APG-FTE automotive Co. Ltd(2)	EM	49	-	-
FTE automotive (Taicang) Co. Ltd(2)	FC	100	-	-
INDIA				
Amalgamations Valeo Clutch Private Ltd	EM	50	EM	50
Valeo Friction Materials India Ltd	FC	60	FC	60
Valeo Lighting Systems (India) Private Ltd	FC	100	FC	100
Valeo India Private Ltd	FC	100	FC	100
Valeo Service India Auto Parts Private Ltd	FC	60	FC	60
Spheros Motherson Thermal Systems Ltd(9)	EM	51	EM	51

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 296).
(1) See Note 2.2.1.1, page 299.
(2) See Note 2.2.1.2, page 299.
(3) See Note 2.2.1.3, page 300.
(4) See Note 2.2.1.4, page 300.
(5) See Note 2.2.1.5, page 300.
(6) See Note 2.2.1.6, page 302.
(7) See Note 2.2.1.7, page 302.
(8) See Note 2.2.1.8, page 303.
(9) See Note 2.2.1.9, page 303.
(10) See Note 2.2.1.10, page 304.
(11) Mergers and liquidations.
(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

5.4.7. Statutory auditors' report on the consolidated financial statements

For the year ended December 31, 2017

This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users. This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of Valeo for the year ended December 31, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics *(code de déontologie)* for statutory auditors.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Impairment tests of goodwill and CGUs

Risk identified

As of 31 December 2017, goodwill amounted to 2 615 m€ and other intangible assets and properties, plants and equipment amounted to 5 885 m€. Every year management conducts an impairment test of goodwill balances at the level of the Business Groups, to measure the risk that these assets cannot be supported by sufficient future cash flows. All property, plant and equipment and other intangible assets are tested for impairment at the level of Cash-generating units (CGUs) if there is an indication that they may be impaired.

The implementation method of these tests and the main hypotheses are described in Notes 6.1, 6.2, 6.3 and 6.4, pages 297 and 300 of the financial statements.

We considered the recoverable value of goodwill and CGUs, which represent a particularly significant amount, to be a key audit matter as the evaluation of the recoverable amounts of the non-current assets, based on the discounted value of future cash flows, are based on significant estimates, judgments and assumptions of the management.

Our response

We analyzed the existence of impairment indicators, triggering impairment test of CGUs.

Through the expertise of our valuation specialists, we:

- reconciled the carrying amounts of each tested CGU and each Business Group with the consolidated accounts;
- evaluated the consistency of the cash flow projections with the latest management's estimates, as they were reported to the board of directors during the preparation process of the medium-term business plan;
- examined the implementation methods, the valuation method of the recoverable values and its arithmetical implementation;
- conducted an analysis of the management's business plans, by Business Groups and, for the ones having a significant impairment risk, by CGUs, including by comparing with the financial performance of the fiscal year;
- analyzed the main valuation hypotheses (discount rate and long-term growth rate and perpetuity growth rate), which we compared with the values provided by the main financial analysts;
- evaluated the impact of variations in discount rate and main operational assumptions through sensitivity analyses.

Finally, we assessed the content of the disclosures in the financial statements regarding the impairment losses on goodwill and CGUs' assets in Note 6.4, page 336.

Evaluation of the provisions for specific quality risks

Risk identified

Provisions for customer warranties are set aside to cover the estimated cost of future returns of goods sold. Those provisions are computed either on a statistical basis or based on specific quality risks.

These provisions cover costs related to legal or contractual warranty obligations and costs arising in specific situations not covered by usual warranties with respect to the products already sold.

The estimation of these costs is based on both historical data and probability calculations: returns rates observed by products for statistical provisions and reparation costs estimation for provisions for specific quality risks.

These provisions are described in Note 7.1, page 340 of the financial statements.

We considered the accounting of provisions for specific quality risk to be a key audit matter as the evaluation of those provisions requires significant estimates and judgments of the management.

Our response

We got acquainted with the identification and assessment process of these provisions.

As part of our audit work on this topic we also:

- assessed the group valuation methodology;
- analyzed the hypotheses used in the assessment of the warranties provisions, in particular with the briefing notes prepared by the quality department that summarize the main causes and reparation scenarios of identified technical issues;
- analyzed the available documentation, in particular the communication between the group and its customers;
- conducted interviews with site financial controllers and with financial direction of the Business Groups on specific quality risks, in order to assess the main hypotheses underlying the estimation of the risk;
- assessed the completeness of provisions for specific quality risks by conducting interviews with the director in charge of the monitoring of quality at group level and with site financial controllers.

Finally, we assessed the content of the disclosures in the financial statements regarding the customer warranties provisions in Note 7.1, page 340.

Initial accounting of Ichikoh

Risk identified

On November 22, 2016, Valeo announced the launch of a partial takeover bid for the shares of the company Ichikoh, listed on the First Section of the Tokyo Stock Exchange.

Since the settlement-delivery on January 20, 2017, the group holds 55.08% of the Ichikoh's capital (compared with 31.58% of its capital previously).

This takeover resulted in:

- recognizing at fair value the Group's previously-held equity-accounted interest, which gave rise to a disposal gain of M€ 14 ; and
- recognizing Ichikoh's assets and liabilities in full, which resulted in accounting a goodwill of M€ 34.

The terms and details of this takeover is described in Notes 2.1.3 and 2.2.1.5, pages 297 and 300, respectively of the financial statements.

We considered the accounting of this takeover to be a key audit matter as this is a significant transaction during the year which requires significant management judgement regarding the evaluation of the previously-held equity interest and the identification and the determination of the fair value of each acquired assets and liabilities. Management has been accompanied by valuation external experts in this exercise of purchase price allocation.

Our response

We have obtained and read the legal documentation of the transaction and assessed the related accounting treatment.

Through the expertise of our valuation specialists, we:

- examined the method used by management to evaluate the previously-held equity interest and to calculate the related disposal gain;
- assessed the identification of intangible assets acquired by corroborating it with (i) our discussion with management (ii) sectorial benchmarks and (iii) our understanding of the business of the acquired entity;
- examined the valuation methodologies used by management and their external valuation expert in the fair value determination of acquired assets and liabilities;
- analyzed the valuation assumptions used such as discount rate, fixed assets useful lives, royalties rates and internal rate of return by comparing them to source data and sectorial market data.

Finally, we assessed the content of the disclosures in the financial statements regarding this takeover.

Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were initially appointed as statutory auditors of Valeo by the annual general meeting held on June 3, 2010.

As at December 31, 2017, our firms were in the 8th year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, February 22, 2018

The Statutory Auditors
French original signed by

MAZARS		ERNST & YOUNG et Autres	
Thierry Colin	Gaël Lamant	Jean-François Ginies	Philippe Berteaux

5.5 Analysis of Valeo's results AFR

Following the creation of subsidiaries for its industrial activities in 2002, Valeo is now solely a holding and cash management company on behalf of the Group. It holds financial investments that give it direct or indirect control over the Group's companies and is the head of the tax consolidation group in France. It also implements the financing policy and centralizes the management of the market risks to which the subsidiaries and Group are exposed.

Valeo reported a net operating loss of 53 million euros in 2017, compared with a net operating loss of 46 million euros in 2016.

Operating income was 77 million euros for 2017 (70 million euros for 2016), chiefly reflecting the rise in brand royalties and fees rebilled to Valeo Group subsidiaries over the period.

Operating expenses totaled 130 million euros in the year, 14 million euros more than in 2016, due mainly to the 17 million euros set aside for provisions for contingencies and charges related to free share and stock option plans.

Net financial income came in at 313 million euros for 2017, up 27 million euros compared to 2016 (286 million euros).

Following 179 million euros in net reversals of impairment provisions for investments in subsidiaries and affiliates in 2016, net reversals totaled 74 million euros in 2017, reflecting the positive medium-term outlook of the Group and its subsidiaries. Financial income for 2017 included a sharp rise in dividends received or receivable by the Company, from 35 million euros in 2016 to 153 million euros in 2017. Dividends in 2017 included an amount of 130 million euros from the holding company Valeo International Holding BV, whereas no dividends were recognized by Valeo for this subsidiary in 2016. Valeo's cash management activities generated a 26 million euro rise in net interest income in 2017.

Non-recurring items represented income of 2 million euros in the year, compared to an expense of 2 million euros in 2016.

Income tax for 2017 represented a tax benefit of 56 million euros, up 32 million euros on 2016. Valeo reported a net benefit for the year in respect of tax consolidation amounting to 35 million euros versus 32 million euros one year earlier.

On October 6, 2017, the French Constitutional Council ruled that France's additional tax on dividend payouts was unconstitutional. Since this ruling is applicable to all dividends on which the tax was paid, the full amount of provisions set aside in respect of this additional tax on dividend payouts was reversed in an amount of 17 million euros and accrued income of 4 million euros was booked in respect of the additional tax paid on 2013 dividends.

Net income came in at 318 million euros for 2017, compared with 262 million euros in 2016.

At December 31, 2017, Valeo's stockholders' equity stood at 3,804 million euros, up 47 million euros compared to the December 31, 2016 figure. This reflects net income of 318 million euros for the year, the 26 million euro share capital increase reserved for employees as part of the Group's 2017 employee share ownership plan (Shares4U), and the June 2017 payment to shareholders of a dividend totaling 297 million euros in respect of 2016 earnings. Valeo had paid 236 million euros in dividends in 2016.

The two employee share subscription offers, available in 2016 and 2017 to employees in the Group's 20 main countries, is part of Valeo's employee share ownership policy being rolled out in France and abroad, with the goal of involving employees more closely in the Group's performance.

Valeo did not recognize any sumptuary expenses that were not deductible for tax purposes in 2017. No overheads were added back to income for tax purposes in 2017.

Since January 1, 2009, Valeo has applied new statutory payment terms in its dealings with suppliers, as required under the French Law on the Modernization of the Economy. At December 31, 2017, trade payables less accrued payables totaled 6 million euros, including 1 million euros payable by end-December 2017 and 5 million euros payable in January 2018. At December 31, 2016, trade payables totaled 1.0 million euros, including 0.7 million euros payable by end-December 2016 and 0.3 million euros payable in January 2017.

Pursuant to the provisions of Article D.441-4 of the French Commercial Code (*Code de commerce*), details of payment terms for the Company's suppliers and customers are provided below and include outstanding incoming and outgoing invoices as of December 31, 2017.

TRADE PAYABLES

(in thousands of euros)	1 to 30 days	31 to 60 days	61 to 90 days	91+ days	Total (1 day or more)
(A) By aging category					
Number of invoices					72
Total amount of invoices (incl. VAT)	517	75	441	4	1,037
Percentage of total amount of purchases over the period (incl. VAT)	1.6%	0.2%	1.3%	0.0%	3.2%
(B) Invoices excluded from (A) relating to doubtful payables not yet recognized					
Number of invoices excluded	None				
Total amount of invoices excluded	None				
(C) Standard payment terms used					
Payment terms used to calculate late payments	The contractual period does not exceed net 60 days for French suppliers				

TRADE RECEIVABLES

(in thousands of euros)	1 to 30 days	31 to 60 days	61 to 90 days	91+ days	Total (1 day or more)
(A) By aging category					
Number of invoices					10
Total amount of invoices (incl. VAT)	-	-	42	43	85
Percentage of total sales over the period (incl. VAT)	-	-	0.1%	0.1%	0.2%
(B) Invoices excluded from (A) relating to doubtful receivables not yet recognized					
Number of invoices excluded	None				
Total amount of invoices excluded	None				
(C) Standard payment terms used					
Payment terms used to calculate late payments	The contractual period does not exceed net 60 days for French customers				

5.6 2017 parent company financial statements AFR

In accordance with Article 28 of European Regulation no. 809/2004 dated April 29, 2004, the following information is incorporated by reference in this Registration Document:

- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2016, set out on pages 371 to 393 and 394 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 24, 2017 under number D.17-0226;
- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2015, set out on pages 339 to 359 and 359 to 360 of the Registration Document registered with the AMF on March 25, 2016 under number D.16-0211.

5.6.1 Income statement

(in millions of euros)	Notes	2017	2016
Provision reversals	3.1.2	29	30
Other operating income	4.1.1	43	36
Expense transfers	4.1.2	5	4
TOTAL OPERATING INCOME		**77**	**70**
Other purchases and external charges	4.1.3	(34)	(32)
Personnel expenses	3.2	(29)	(35)
Other taxes		(2)	(1)
Depreciation and amortization	4.1.4	(11)	(11)
Provisions	3.1.2	(54)	(37)
TOTAL OPERATING EXPENSES		**(130)**	**(116)**
OPERATING LOSS		**(53)**	**(46)**
Net financial income	7	313	286
INCOME BEFORE TAX AND NON-RECURRING ITEMS		**260**	**240**
Non-recurring expense	8	2	(2)
Income tax	9.2	56	24
NET INCOME FOR THE YEAR		**318**	**262**

The Notes are an integral part of these financial statements.

5.6.2 Balance sheet

		December 31, 2017			December 31, 2016
(in millions of euros)	*Notes*	Gross	Depr., amort. & impairment losses	Net	Net
ASSETS					
Intangible assets		1	-	1	-
Property, plant and equipment		6	(5)	1	1
Long-term financial assets	*5*	5,676	(453)	5,223	4,653
TOTAL NON-CURRENT ASSETS		**5,683**	**(458)**	**5,225**	**4,654**
Prepaid and recoverable taxes	*9.4/11.1*	121	-	121	101
Other operating receivables	*11.1*	14	-	14	2
Financial receivables	*6.1.4*	3,344	-	3,344	2,091
Cash and cash equivalents	*6.1.5*	1,624	-	1,624	1,702
Accrued assets	*4.2.2*	112	-	112	138
TOTAL CURRENT ASSETS		**5,215**	**-**	**5,215**	**4,034**
TOTAL ASSETS		**10,898**	**(458)**	**10,440**	**8,688**

(in millions of euros)	*Notes*	December 31, 2017	December 31, 2016
EQUITY AND LIABILITIES			
Share capital	*10.1*	240	239
Additional paid-in capital	*10.2*	1,487	1,462
Legal reserve		25	25
Untaxed reserves		4	4
Other reserves		263	263
Retained earnings		1,467	1,502
Net income for the year		318	262
STOCKHOLDERS' EQUITY	*10*	**3,804**	**3,757**
Provisions for contingencies arising on stock option and free share plans	*3.1.2*	111	85
Provisions for pensions and other employee benefits	*3.3*	1	2
Other provisions for contingencies and charges	*4.2.1*	11	30
PROVISIONS FOR CONTINGENCIES AND CHARGES		**123**	**117**
Long-term portion of long-term debt	*6.1.2*	3,229	2,143
Current portion of long-term debt	*6.1.2*	336	216
Short-term debt	*6.1.3*	2,641	2,158
Operating payables	*11.1*	16	12
Other payables	*9.5/11.1*	285	277
Accrued liabilities		6	8
TOTAL LIABILITIES		**6,513**	**4,814**
TOTAL EQUITY AND LIABILITIES		**10,440**	**8,688**

The Notes are an integral part of these financial statements.

5.6.3 Statement of cash flows

(in millions of euros)	*Notes*	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		318	262
Expenses (income) with no cash effect:			
■ depreciation and amortization/deferred charges		17	13
■ net additions to/(reversals from) impairment and provisions		(73)	(165)
■ other expenses (income) with no cash effect		-	-
GROSS OPERATING CASH FLOWS		**262**	**110**
Changes in working capital:			
■ operating receivables		(33)	(25)
■ operating payables		4	-
■ other receivables and payables		(58)	(49)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**175**	**36**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions and capital increases in long-term financial assets	*5.2*	-	(2)
Loans and advances to subsidiaries and affiliates	*5.2*	(495)	(176)
Disposals and capital decreases in long-term financial assets	*5.2*	-	-
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(495)**	**(178)**
Net cash generated (used) before financing activities		**(320)**	**(142)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	*10.4*	(297)	(236)
Change in share capital:			
■ issuance of shares paid up in cash		26	29
Change in long-term debt:			
■ issuance of long-term debt	*6.1.2*	1,450	1,145
■ repayment of long-term debt	*6.1.2*	(167)	(430)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**1,012**	**508**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**692**	**366**
Cash and cash equivalents at beginning of year	*6.1.1*	**1,635**	**1,269**
Cash and cash equivalents at end of year	*6.1.1*	**2,327**	**1,635**

The Notes are an integral part of these financial statements.

5

5.6.4 Notes to the parent company financial statements

Note 1 DESCRIPTION OF THE COMPANY

Valeo is the parent company of the Valeo Group.

It acts as a holding company through financial investments, which give it direct or indirect control over the Group's companies. It is the head of the tax consolidation group in France.

It also implements the Group financing policy and ensures that the subsidiaries' financing requirements are covered, and centralizes the management of market risks (changes in interest rates, exchange rates and listed commodity prices) to which the subsidiaries and the Group are exposed.

Note 2 ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of Valeo (the Company) have been prepared in accordance with Standard no. 2016-07 issued by the ANC on December 28, 2016. Assets and liabilities are measured at historical cost, contribution value or revalued amount. The accounting policies applied in order to prepare the 2017 parent company financial statements are consistent with those used to prepare the 2016 financial statements, with the exception of the policies resulting from ANC Regulation no. 2015-05 on future financial instruments and hedge accounting, effective as of January 1, 2017. In the context of increased financial market volatility, the current French General Chart of Accounts was not wholly aligned with the operations and instruments carried out or used by companies in today's business world. The new ANC regulation adopts and explains a reliable accounting treatment for certain operations. The application of this new regulation did not have a material impact on Valeo's parent company financial statements at December 31, 2017.

The financial statements are presented in millions of euros and are rounded to the nearest million.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets and liabilities for both Valeo and its subsidiaries and affiliates. These estimates and assumptions concern risks specific to the automotive supply business as well as more general risks to which Group companies are exposed on account of their industrial and commercial operations around the globe. The Group based the medium-term business plans on projected data for the automotive market, as well as its own order book and its outlook for various markets. These business plans were used to measure investments in subsidiaries and affiliates (when these measurements are based on subsidiaries' projected data).

The medium-term business plans for 2018-2022 are underpinned by the following assumptions:

- world automotive production of 106 million vehicles in 2022, representing average annual growth of 2.4% for 2017-2022. This assumption is consistent with several independent external forecasts available in April 2017, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 55% of global production, Europe and Africa 24%, North America 18% and South America 3%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.20 US dollars, 8.28 Chinese renminbi, 132 Japanese yen, 1,344 South Korean won and 4.20 Brazilian real at the end of the plan;
- Group sales were estimated based on the orders known at the time the business plan was drawn up and by reference to an estimate of the orders to be taken over the term of the business plan. These target order numbers represent less than 30% of cumulative original equipment sales over the five-year forecast period and less than 60% of original equipment sales for the final year.

The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in future financial statements may differ from the amounts resulting from these estimates.

2.2 Foreign currency translation

Transactions in foreign currencies are translated using the exchange rates prevailing at the transaction date.

Assets and liabilities denominated in foreign currencies are translated using the year-end exchange rate.

If no foreign currency hedges are in place, the differences resulting from the translation of foreign currency receivables and payables at the year-end exchange rate are recognized within accruals in the balance sheet. Provisions are recognized for unrealized foreign exchange losses at year-end to the extent of the unhedged risk (see Note 6.3, page 396, for transactions subject to a foreign currency hedge).

Note 3 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

3.1 Free shares and stock options

Some Valeo Group employees receive equity-settled compensation in the form of share-based payment, consisting of free share or stock option plans. Virtually all costs relating to these plans are recognized in Valeo's financial statements.

The different types of plans in place within the Group and their respective accounting treatment are described below.

3.1.1 Equity-settled plans involving the issue of new shares

No provision has been recognized in respect of these plans pursuant to Article 624-6 of the French General Chart of Accounts. Shares subscribed by employees within the scope of the plans described in Note 10.1, page 400 fall within this category.

3.1.2 Free share and stock option plans involving the delivery of existing shares

Personnel expenses relating to these free shares and stock options are not recorded at the grant date but at the date the free shares are delivered or the stock options are exercised. However, a provision for contingencies and charges is recognized when it is probable that there will be an outflow of resources at the date of the decision by Valeo's Board of Directors to allot this plan.

To determine the provision amount, plans are classified into one of two categories: exercisable or non-exercisable plans.

Plans are considered to be non-exercisable when:

- the beneficiaries of stock option plans are not deemed likely to exercise their stock options. This situation is assessed at the end of each reporting period and is the case when the market value of the shares is lower than the option's exercise price;
- performance conditions are highly unlikely to be met for performance share plans.

In the case of exercisable plans, a provision is recognized for treasury shares set aside to cover these plans, corresponding to:

- the number of shares to be allotted; multiplied by
- the cost of the shares at the date they are allotted to the plan, or the probable cost of buying back the shares as assessed at the end of the reporting period, less the exercise price likely to be paid by employees. The exercise price is zero for free share plans.

When the vesting of free shares is explicitly dependent on the grantee remaining employed by Valeo over a certain future period ("vesting period"), the provision is recognized on a straight-line basis over this vesting period.

The amount of the provision recognized takes into account whether or not treasury shares have been allocated for the purpose of serving the relevant stock option or free share plans. These treasury shares are recognized within marketable securities in the balance sheet (see Note 6.1.5, page 395) at their repurchase price. When they are allotted to specific plans as from the acquisition date, the value of the shares in the balance sheet continues to be their repurchase price, until they are delivered to the beneficiaries: no impairment is therefore recognized if their acquisition price moves above their market price.

More generally, amounts set aside to these provisions for contingencies and charges are shown on the "Provisions" line within operating income. When the shares are delivered to their beneficiaries, the provision is reversed for the corresponding amount on the "Provision reversals" line within operating items. A personnel expense is also recognized for the carrying amount of the shares delivered. The balance of provisions recognized in respect of these plans is shown under "Provisions for contingencies arising on stock option and free share plans" in the balance sheet.

Movements in these provisions along with personnel expenses are set out below.

Terms and conditions of stock option plans

The terms and conditions of the shareholder-approved employee stock option plans operated by the Valeo Group at December 31, 2017 were as follows:

Year in which plan was set up	Number of shares under option	*of which subject to conditions*[1]	Exercise price *(in euros)*[2]	Number of shares canceled[3]	Outstanding options not yet exercised at Dec. 31, 2017	Expiration date
2010	3,000,000	1,834,095	8.02	455,736	267,695	2018
2011	878,520	631,110	14.14	381,900	82,175	2019
2012	1,101,480	795,690	13.59	118,650	226,735	2020
TOTAL	**4,980,000**	**3,260,895**		**956,286**	**576,605**	

(1) These stock options are subject to the Group meeting performance conditions.
(2) The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting allotting the options, or 100% of the average purchase price of treasury shares held if this is higher than the Valeo quoted share price.
(3) Corresponding to the number of options canceled since the plan was set up.

Terms and conditions of free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by the Valeo Group at December 31, 2017 were as follows:

Year in which plan was set up	Number of free shares authorized	*of which subject to conditions*[1]	Outstanding shares not yet remitted at Dec. 31, 2017	Year of vesting[2]
2013	1,421,442	669,942	448,716	2016/2018
2014	970,440	316,770	358,029	2017/2019
2015	957,027	260,805	807,990	2018/2020
2016	1,267,022	573,522	873,326	2019/2021
2017	1,012,043	466,551	754,806	2020/2022
TOTAL	**5,627,974**	**2,287,590**	**3,242,867**	

(1) These free shares are subject to the Group meeting performance conditions.
(2) The vesting year varies depending on the country in which the plan's beneficiaries are based.

5

Provisions for contingencies arising on stock option and free share plans

Movements in provisions for contingencies arising on stock option and free share plans in 2016 and 2017 were as follows:

(in millions of euros)	2017	2016
Provisions at January 1	**85**	**78**
Utilizations	(27)	(30)
Reversals	(1)	-
Additions	54	37
Provisions at December 31	**111**	**85**
Of which current portion (less than 1 year)	*44*	*26*

At December 31, 2016 and 2017, these contingency provisions only concern treasury shares held to cover stock option and free share plans, shown within marketable securities (see Note 6.1.5, page 395).

The 27 million euro provision utilization recognized in the income statement in 2017 mainly reflects a (i) 24 million euro reversal relating to the delivery of shares to French beneficiaries under the March 27, 2014 free share plan and to the delivery of shares to non-French beneficiaries under the March 27, 2012 free share plan, and (ii) a 3 million euro reversal relating to the exercise of stock options under the March 27, 2012 stock option plan.

The 30 million euro provision utilization in 2016 mainly reflected a (i) 22 million euro reversal relating to the delivery of shares to non-French beneficiaries under the June 8, 2011 free share plan and to the delivery of shares to non-French beneficiaries under the March 27, 2013 free share plan, and (ii) a 7 million euro reversal relating to the exercise of stock options under the March 27, 2012 stock option plan.

3.2 Personnel expenses

(in millions of euros)	2017	2016
Employee compensation	(3)	(3)
Other personnel expenses	(26)	(32)
Personnel expenses	**(29)**	**(35)**

3.2.1 Employee compensation

This item includes compensation awarded to Valeo's Chairman and Chief Executive Officer (see Note 3.4, page 390).

3.2.2 Other personnel expenses

In 2017, the Company delivered 101,760 shares to non-French beneficiaries under the 2012 free share plan and 419,049 shares to French beneficiaries under the 2014 free share plan. Valeo recognized an expense of 22 million euros corresponding to the net carrying amount of the treasury shares delivered. The provision set aside in respect of these plans was also reversed in an amount of 24 million euros. Other personnel expenses also include an expense of 3 million euros arising on the exercise of stock options, and social security charges amounting to 1 million euros.

In 2016, the Company delivered 248,820 shares to non-French beneficiaries under the 2011 free share plan and 770,091 shares to French beneficiaries under the 2013 free share plan. Valeo recognized an expense of 24 million euros corresponding to the net carrying amount of the treasury shares delivered. The provision set aside in respect of these plans was also reversed in an amount of 22 million euros. Other personnel expenses also included an expense of 7 million euros arising on the exercise of stock options, and social security charges amounting to 1 million euros.

3.3 Provisions for pensions and other employee benefits

The Company accounts for its pension obligations in accordance with ANC Recommendation no. 2013-02 of November 7, 2013 on the measurement and recognition of pension and employee benefit obligations.

These pension obligations solely correspond to supplementary pension benefits payable to former employees. No additional entitlement to these benefits was therefore recognized in 2017 or 2016.

These obligations are calculated on an actuarial basis at the end of each reporting period, based on the projected unit credit method and end-of-career salaries. These calculations include macroeconomic assumptions (chiefly the discount rate) and demographic assumptions (life expectancy). The discount rate is determined by reference to the market yield at the valuation date on high-quality corporate bonds with a term consistent with that of the employee benefits concerned. The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses which are taken to income.

The calculations were made using an annual discount rate of 2.00% at December 31, 2017 and 1.80% at December 31, 2016.

The provision amounts to 1 million euros at December 31, 2017 and 2 million euros at December 31, 2016.

3.4 Other information

	2017	2016
Headcount at December 31	1	1
Compensation granted to the corporate officer *(in thousands of euros)*	2,686	2,763
Directors' fees *(in thousands of euros)*	894	916

Note 4 OTHER OPERATING ITEMS

4.1 Other operating income items

4.1.1 Other operating income

(in millions of euros)	2017	2016
Trademark license fees	28	25
Other	15	11
Other operating income	**43**	**36**

Trademark license agreements, under which Valeo allows some of its French subsidiaries to benefit from the Group's expertise, values, business model and processes, generated income of 28 million euros in 2017, up slightly on 2016.

The amount recorded under "Other" corresponds to rebillings to subsidiaries.

4.1.2 Expense transfers

Expense transfers represent 5 million euros in 2017 and relate to issue fees on the 500 million euro bond issue in January 2017 and the 600 million euro bond issue in September 2017 (see Note 6.1.2, page 393). In 2016, expense transfers represented 4 million euros and related to issue fees on the 600 million euro bond issue in March 2016, and the two tranches of the convertible bond subscribed in June 2016 for 450 million US dollars, to which the Group added 125 million US dollars in November 2016.

4.1.3 Other purchases and external charges

(in millions of euros)	2017	2016
Deferred issue fees	(5)	(4)
Other	(29)	(28)
Other purchases and external charges	**(34)**	**(32)**

"Other" items consist of fees, commissions and contributions incurred by Valeo in the course of its activities.

Other purchases and external charges also include 5 million euros in deferred issue fees on the new bond issues in 2017 (see Notes 6.1.2 and 4.1.2, respectively, pages 393 and 391). These expenses are recognized over the term of the bonds.

4.1.4 Depreciation and amortization

Depreciation and amortization expense totaling 11 million euros in 2017 relates to issue fees for all of the bonds described in the section on long-term debt (see Note 6.1.2, page 393). Depreciation and amortization expense in 2016 also came to 11 million euros.

4.2 Other provisions and accrued assets/liabilities

4.2.1 Other provisions for contingencies and charges

Breakdown of other provisions for contingencies and charges

(in millions of euros)	December 31, 2017	December 31, 2016
Provisions for contingencies related to subsidiaries	3	2
Provisions for disputes	8	28
Other provisions for contingencies and charges	**11**	**30**

At December 31, 2017, other provisions for contingencies and charges comprise:

- a 3 million euro provision for contingencies intended to cover the negative net equity of certain subsidiaries;
- a provision for disputes totaling 8 million euros, chiefly intended to cover employee disputes as well as clean-up costs for Valeo's former plants.

5

Movements

Movements in other provisions for contingencies and charges in 2017 and 2016 are shown in the table below:

(in millions of euros)	2017	2016
Other provisions at January 1	**30**	**22**
Utilizations	(1)	(3)
Reversals	(19)	(1)
Additions	1	12
Other provisions at December 31	**11**	**30**
Of which current portion (less than 1 year)	-	-

The decrease in other provisions over the period is mainly due to the 17 million euro reversal in respect of tax contingencies (see Note 9.2, page 398).

4.2.2 Accrued assets

At December 31, 2017, accrued assets mainly include 64 million euros in deferred charges relating to bonds versus 69 million euros at end-2016 and 40 million euros in call options on shares in relation to the convertible bonds versus 61 million euros at end-2016 (see Note 6.1.2, page 393).

Note 5 LONG-TERM FINANCIAL ASSETS

Investments in subsidiaries and affiliates are initially recognized at cost, including transfer duties, fees and commission and legal costs. In accordance with the opinion issued on June 15, 2007 by the CNC's Emerging Issues Task Force, since 2007 the Company has included acquisition costs in the initial recognition cost of the shares concerned.

At the year-end, the Company measures investments in subsidiaries and affiliates at their value in use, as calculated based on relevant criteria for each of the investments valued. The inputs for the value in use calculation include projected data from subsidiaries' medium-term business plans (see Note 2.1, page 387), as well as stockholders' equity and the Group's strategic interests. The calculation of value in use based on projected data draws on various methods:

- post-tax cash flow projections covering a period of five years, prepared on the basis of medium-term business plans, are discounted at the post-tax weighted average cost of capital (WACC), while cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted, where applicable, for non-recurring items. The discount rate and perpetuity growth rate assumptions are the same as those used for the Group's CGU and goodwill impairment tests , i.e., 9% and 1.5% for 2017 and 2016, respectively;
- forecast sales or operating income multiples may be used and are generally applied to the third year of the subsidiaries' medium-term business plans. The multiples used for the impairment tests in the year ended December 31, 2017 are the same as those used for the tests in the year ended December 31, 2016.

If value in use falls below the carrying amount of the investments, an impairment provision is recorded corresponding to the difference between these two amounts. However, the Company's share of the subsidiary's equity cannot exceed the carrying amount of the investments after impairment.

5.1 Analysis by type

	December 31, 2017			December 31, 2016
(in millions of euros)	Gross	Impairment	Net	Net
Investments in subsidiaries and affiliates	2,699	(452)	2,247	2,172
Loans and advances to subsidiaries and affiliates	2,974	-	2,974	2,479
Other investment securities	3	(1)	2	2
Long-term financial assets	**5,676**	**(453)**	**5,223**	**4,653**

Loans and advances to subsidiaries and affiliates mainly comprise current account advances granted to Valeo's holding companies, direct and indirect Valeo subsidiaries, where the advances are repayable on demand but are unlikely to be repaid within one year.

The 3 million euros invested in the Fonds Avenir Automobile (FAA) Fund is shown in the "Other investment securities" line.

5.2 Movements

(in millions of euros)	Investments in subsidiaries and affiliates	Loans and advances to subsidiaries and affiliates	Other investment securities	Long-term financial assets
NET CARRYING AMOUNT AT DECEMBER 31, 2015	**1,990**	**2,303**	**2**	**4,295**
Acquisitions and increase in the share capital of subsidiaries	2	-	-	2
Disposals and decrease in the share capital of subsidiaries	-	-	-	-
Changes in impairment losses and other movements	180	176	-	356
NET CARRYING AMOUNT AT DECEMBER 31, 2016	**2,172**	**2,479**	**2**	**4,653**
Acquisitions and increase in the share capital of subsidiaries	-	-	-	-
Disposals and decrease in the share capital of subsidiaries	-	-	-	-
Changes in impairment losses and other movements	75	495	-	570
NET CARRYING AMOUNT AT DECEMBER 31, 2017	**2,247**	**2,974**	**2**	**5,223**

Changes in the securities portfolio at the end of 2017 led the Company to recognize net reversals of 75 million euros from impairment provisions for investments in subsidiaries and affiliates. In 2016, the Company recognized 180 million euros in net reversals from impairment provisions for investments in subsidiaries and affiliates (see Note 7, page 398).

Loans and advances to subsidiaries and affiliates rose 495 million euros, reflecting financing for the Group's acquisitions.

Note 6 FINANCING AND RISK HEDGING

6.1 Net debt

6.1.1 Analysis of net debt

The Company's net debt at December 31, 2017 and 2016 can be analyzed as follows:

(in millions of euros)	*Notes*	December 31, 2017	December 31, 2016
Long-term portion of long-term debt	*6.1.2*	3,229	2,143
Current portion of long-term debt	*6.1.2*	336	216
Total long-term debt		**3,565**	**2,359**
Short-term debt	*6.1.3*	2,641	2,158
Financial receivables	*6.1.4*	(3,344)	(2,091)
Cash and cash equivalents	*6.1.5*	(1,624)	(1,702)
Short-term cash position		**(2,327)**	**(1,635)**
Net debt		**1,238**	**724**

6.1.2 Analysis of long-term debt

	December 31, 2017				December 31, 2016
(in millions of euros)	Less than 1 year	1 to 5 years	More than 5 years	Total	Total
Bonds	273	1,429	1,800	**3,502**	**2,264**
European Investment Bank (EIB) loans	21	-	-	**21**	**49**
Accrued interest	42	-	-	**42**	**46**
Long-term debt	**336**	**1,429**	**1,800**	**3,565**	**2,359**

Valeo carried out the following debt issues under its Euro Medium Term Note financing program:

- on September 12, 2017, Valeo issued 600 million euros' worth of five-year bonds maturing in 2022 and paying a fixed coupon of 0.375%;
- on January 11, 2017, Valeo issued 500 million euros' worth of six-year bonds maturing in 2023 and paying a fixed coupon of 0.625%.

On November 6, 2017, Valeo also issued a 350 million euro private placement maturing in 2019 and paying a variable coupon of 3-month Euribor +0.25% with a 0% floor.

The Group also made the following redemptions and repayments in the period:

- in January 2017, the Group redeemed the 145 million euro bond issued in 2012 under the Euro Medium Term Note financing program;
- in November 2017, the Group repaid an installment on the EIB loan for 22 million euros.

At December 31, 2017, the main terms and conditions of long-term debt were as shown below:

Type	Outstanding at Dec. 31, 2017 *(in millions)*	Issuance	Maturity	Nominal *(in millions)*	Currency	Nominal interest rate	Other information
Bond	350	November 2017	November 2019	350	EUR	3-month Euribor +0.25%	Variable rate floor: 0%
Bond (EMTN program)	600	September 2017	September 2022	600	EUR	0.375%	-
Bond (EMTN program)	500	January 2017	January 2023	500	EUR	0.625%	-
European Investment Bank (EIB) loan	21	November 2011	November 2018	103	USD	6-month USD Libor +1.90%	Dollar/euro currency swap for a total of 25 million US dollars with the same maturity
Bond (EMTN program)	273	May 2011	May 2018	500	EUR	4.875%	-
Convertible bond	479	June/November 2016	June 2021	575	USD	0.00%	Dollar/euro currency swap for a total of 575 million US dollars with the same maturity
Bond (EMTN program)	700	January 2014	January 2024	700	EUR	3.25%	-
Bond (EMTN program)	600	March 2016	March 2026	600	EUR	1.625%	-
Accrued interest	42						
TOTAL LONG-TERM DEBT	**3,565**						

6.1.3 Analysis of short-term debt

(in millions of euros)	December 31, 2017	December 31, 2016
Borrowings from subsidiaries	2,048	1,622
Commercial paper	542	515
Bank overdrafts	13	6
Other short-term debt	38	15
Short-term debt	**2,641**	**2,158**

Short-term debt mainly consists of borrowings from subsidiaries. Other short-term debt reflects the fair value of financial instruments hedging foreign currency loans and borrowings granted to subsidiaries in an amount of 8 million euros at December 31, 2017 (15 million euros at December 31, 2016), and the fair value of foreign currency hedging instruments in respect of the convertible bond in an amount of 30 million euros (unrealized gain of 38 million euros at December 31, 2016).

6.1.4 Analysis of financial receivables

(in millions of euros)	December 31, 2017	December 31, 2016
Loans to subsidiaries	3,178	2,048
Other financial receivables	166	43
Financial receivables	**3,344**	**2,091**

Financial receivables consist primarily of loans granted to subsidiaries.

At December 31, 2017, other financial receivables relate mainly to the dividend receivable from Valeo International Holding BV for 130 million euros, the fair value of financial instruments hedging foreign currency loans and borrowings granted to subsidiaries and the EIB loan for 27 million euros.

6.1.5 Cash and cash equivalents

Marketable securities are stated at the lower of cost and market value when the related securities correspond to treasury shares purchased for the purpose of stabilizing the Company's share price or shares that have not been allocated to employee share plans.

(in millions of euros)	December 31, 2017	December 31, 2016
Marketable securities	1,064	1,642
Cash	560	60
Cash and cash equivalents	**1,624**	**1,702**

At December 31, 2017, the Company's marketable securities portfolio mainly included money market funds for 988 million euros (1,615 million euros at December 31, 2016).

The portfolio also included 1,729,121 treasury shares with a net carrying amount of 76 million euros at December 31, 2017. At December 31, 2016, Valeo held 1,240,865 of its own shares with a net carrying amount of 27 million euros.

Valeo may be required to buy back treasury shares on the market to cover its obligations with regard to stock option and free share plans, as well as Group employee share ownership plans and the liquidity agreement.

Cash equivalents include term deposits amounting to 90 million euros at December 31, 2017.

The Company requested the assistance of an investment services provider to meet certain objectives of its share buyback program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016. Upon expiry of the agreement signed on March 6, 2017, the parties agreed that the investment services provider would sell a certain quantity of Valeo shares to Valeo, who undertook to acquire them at term, within the limit of 75 million euros, at an average price determined in an objective and independent manner by the market during the full term of the agreement. This average price could not in any case exceed the maximum purchase price set by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016. This agreement was effective between March 7, 2017 and May 12, 2017. At this date, Valeo was therefore bound to purchase all of the treasury shares acquired by the investment services provider over the term of the agreement. Delivery of 1,228,009 treasury shares at an average price of 61.0745 euros each resulted in a cash outflow of 75 million euros.

The liquidity agreement was signed with an investment services provider on April 22, 2004 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI). At December 31, 2017, 75,000 shares had been allocated to this liquidity agreement compared with 44,364 shares at December 31, 2016. In 2017, the Company purchased 1,280,669 and sold 1,250,033 of its own shares under this agreement.

For shares allotted to stock option and free share plans, the Company applies ANC Standard no. 2014-03. This opinion sets out the methods applicable for recognizing provisions over the vesting period of plans served by existing shares (see Note 3.1.2, page 388). At December 31, 2017 and 2016, shares serving stock option and free share plans only comprise shares to be allotted to employees and the specified plans. In 2017, the Company delivered 763,549 shares under stock option and free share plans.

6.2 Liquidity reserve and covenants

6.2.1 Credit lines

At December 31, 2017, Valeo had confirmed bank credit lines with an average maturity of 4.3 years, representing an aggregate amount of 1.1 billion euros. None of these credit lines were drawn down during 2017. These bilateral credit lines were taken out with ten leading banks with an average rating of A from S&P and A2 from Moody's.

6.2.2 Financing programs

At December 31, 2017, the Group had drawn an amount of 3 billion euros under its Euro Medium Term Note financing program capped at 4 billion euros (versus 1.7 billion euros drawn at December 31, 2016).

6.2.3 Commercial paper

Valeo has a short-term commercial paper financing program for a maximum amount of 1.4 billion euros. At December 31, 2017, a total of 542 million euros (515 million euros at December 31, 2016) had been drawn on this program.

6.2.4 Debt rating

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status and were as follows at December 31, 2017:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	January 29, 2018	BBB	Stable	A-2
Moody's	January 3, 2018	Baa2	Stable	P-2

6.2.5 Covenants

Certain financing contracts include early repayment clauses in the event of failure to comply with specified financial ratios. The table below sets out the main covenants:

Financing agreements	Ratio	Threshold	Ratio at December 31, 2017[1]
Credit lines European Investment Bank (EIB) loans	Consolidated net debt/consolidated EBITDA	<3.25	0.76

(1) Calculated over 12 months.

Bonds issued within the scope of the Euro Medium Term Note financing program and bank credit lines include an option granted to bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a withdrawal of the rating or a downgrade in the rating to below investment grade (assuming that the bonds were previously rated investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one-category downgrade in the rating (e.g., from Ba1 to Ba2).

For the outstanding European Investment Bank loan, the EIB may ask the borrower to put up security or collateral in the event of a change of control, or otherwise request early repayment of the loan.

The convertible loan also includes a change of control clause under which investors can request early repayment or – on the choice of the issuer – buyback.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

At the date the consolidated financial statements were authorized for issue, the Group expects to comply with all debt covenants over the next few months.

6.3 Foreign currency, commodity and interest rate risk hedging

Valeo enters into derivatives with banks as part of its pooled management of foreign currency and commodity risks. Gains and losses on such derivatives are passed on to the subsidiaries requesting the hedge.

The Company contracts derivatives to hedge the foreign currency risk on its financing and liquidity pooling activities carried out on behalf of the Group. Gains and losses on foreign currency derivatives help offset the remeasurement at year-end exchange rates of foreign currency assets and liabilities (intragroup loans and advances, external borrowings, current and bank accounts, etc.). Premiums/discounts arising on derivatives are recognized over the term of the hedge within financial income.

Financial income and expenses relating to interest rate hedges are recognized on a symmetrical basis with the income and expense on the hedged item.

6.3.1 Currency risk hedging

Certain Group entities may be subject to foreign currency risk on purchases of products, sales billed in currencies other than their functional currencies, or investments carried out in foreign countries. Subsidiaries primarily hedge their foreign currency risks with the Company, which then hedges the Group's net positions with external counterparties. Hedges of subsidiaries' current and future commercial transactions and investments are generally for durations of less than 12 months.

The principal hedging instruments used by the Company are forward purchases and sales of foreign currencies, and swaps.

At December 31, 2017, Valeo's net position in the main foreign currencies was as follows:

	December 31, 2017					December 31, 2016
(in millions of euros)	USD	GBP	JPY	Other	Total	Total
Forward sales with subsidiaries	(605)	(1)	(92)	(384)	**(1,082)**	**(720)**
Forward purchases with subsidiaries	509	29	17	28	**583**	**267**
Net position with subsidiaries	**(96)**	**28**	**(75)**	**(356)**	**(499)**	**(453)**
Forward sales with external counterparties	(537)	(114)	(73)	(14)	**(738)**	**(484)**
Forward purchases with external counterparties	1,346	9	124	378	**1,857**	**1,600**
Net position with external counterparties	**809**	**(105)**	**51**	**364**	**1,119**	**1,116**
Total net position	**713**	**(77)**	**(24)**	**8**	**620**	**663**

The net position in US dollars includes both hedges of Valeo intercompany loans and borrowings, the hedge of the EIB loan for 25 million US dollars and the hedge of the new convertible bond issued for an amount of 575 million US dollars.

The net positions in yen and pounds sterling reflect hedges of loans granted to Group subsidiaries.

The market value of currency hedging instruments included in the net position with external counterparties represented an unrealized loss of 1 million euros at December 31, 2017 (unrealized gain of 25 million euros at December 31, 2016).

6.3.2 Commodity risk hedging

In order to reduce the Group's exposure to fluctuations in non-ferrous metal prices, Valeo hedges its future purchases of base metals. Subsidiaries' exposure to these risks is hedged with Valeo.

The materials concerned (aluminum, secondary aluminum, copper and zinc) are quoted on official markets. Valeo favors hedging instruments which do not involve physical delivery of the underlying commodity, such as swaps and options based on the average monthly price.

Commodities hedged at December 31, 2017 and 2016 were as follows:

	December 31, 2017			December 31, 2016
(in millions of euros)	With subsidiaries	With external counterparties	Total	Total
Forward sales	(121)	-	**(121)**	**(63)**
Forward purchases	-	121	**121**	**63**
Total net position	**(121)**	**121**	**-**	**-**

The market value of instruments hedging metals prices included in the net position with external counterparties represented an unrealized gain of 6 million euros at both December 31, 2017 and December 31, 2016.

6.3.3 Interest rate risk hedging

Valeo uses interest rate swaps to convert interest rates on its debt into a variable or a fixed rate, either at the origination of the loan or during its term. Valeo no longer had any interest rate hedges at December 31, 2017 or 2016.

At December 31, 2017, 99% of long-term debt was at fixed rates (98% at December 31, 2016).

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	857	2,120	1,079	350	1,800	-	3,736	2,470	**6,206**
Financial receivables	-	(3,344)	-	-	-	-	-	(3,344)	**(3,344)**
Cash and cash equivalents	-	(1,624)	-	-	-	-	-	(1,624)	**(1,624)**
Net position before hedging	**857**	**(2,848)**	**1,079**	**350**	**1,800**	**-**	**3,736**	**(2,498)**	**1,238**
Derivative instruments	-	-	-	-	-	-	-	-	-
Net position after hedging	**857**	**(2,848)**	**1,079**	**350**	**1,800**	**-**	**3,736**	**(2,498)**	**1,238**

Net short-term cash was 1,624 million euros at December 31, 2017, invested on a variable-rate basis.

Note 7 NET FINANCIAL INCOME

(in millions of euros)	2017	2016
Dividend income	153	35
Interest income	153	134
Interest expense	(53)	(60)
Net additions to/(reversals from) provisions for impairment and for investments in subsidiaries and affiliates	74	179
Other financial income and expenses	(14)	(2)
Net financial income	**313**	**286**

Dividend income amounted to 153 million euros in 2017, up sharply on 2016. Dividend income chiefly relates to a 130 million euro dividend from the holding company Valeo International Holding BV. Dividend income in 2016 chiefly related to dividends from Turkish subsidiary Valeo Otomotiv Sanayi ve Ticaret AS (21 million euros) and from South Korean subsidiary Valeo Pyeong Hwa International (10 million euros).

In 2017, the measurement of the portfolio of investments in subsidiaries and affiliates led to a net reversal of 75 million euros from impairment provisions (see Note 5.2, page 393) and a net 1 million euro accrual to provisions for contingencies relating to subsidiaries (see Note 4.2.1, page 391). The 75 million euro reversal includes an 84 million euro write-back in respect of shares in Valeo Systèmes de Contrôle Moteur.

In 2016, the measurement of the portfolio of investments in subsidiaries and affiliates led to a net reversal of 180 million euros from impairment provisions and the recognition of a 1 million euro accrual to provisions for contingencies. Reversals primarily concerned investments in Valeo Vision and Valeo Systèmes de Contrôle Moteur.

Other financial income and expenses in 2017 include 12 million euros relating to the deferred recognition of bond redemption premiums and call options on shares regarding the convertible bond (7 million euros in 2016), along with foreign currency gains and losses and the net financial income on changes in the marketable securities portfolio during the year.

Note 8 NON-RECURRING ITEMS

In both 2017 and 2016, non-recurring expenses related mainly to employee disputes.

Note 9 INCOME TAX

9.1 Tax group and taxable income

Valeo has elected for tax consolidation. The tax group includes the parent company and its principal French subsidiaries.

At December 31, 2017, the amount of tax savings arising from tax losses transferred to Valeo by its subsidiaries was stable compared to end-2016, at 1,147 million euros (end-2016: 1,089 million euros).

If a subsidiary returns to profit, it will utilize the previous tax losses and Valeo SA will be required to pay over the corresponding tax savings to the French State. If a subsidiary leaves the tax consolidation group, Valeo SA may be required to pay over the related tax savings to this subsidiary, based on the terms and conditions stipulated in the sale agreement.

9.2 Income tax

(in millions of euros)	2017	2016
Net tax benefit arising on tax consolidation	35	32
Net additions to/(reversals from) provisions for tax risks	17	(8)
Accrued tax income	4	-
Income tax	**56**	**24**

Group relief arising on tax consolidation for a net amount of 35 million euros in 2017 chiefly reflects the 33 million euro tax benefit received from subsidiaries. The net tax benefit arising on tax consolidation in 2016 (32 million euros) chiefly included the tax benefit received from subsidiaries in an amount of 36 million euros and a 6 million euro tax consolidation charge.

In the absence of tax consolidation, the Company would have been liable for an income tax expense of 29 million euros in the year ended December 31, 2017 (20 million euros in the year ended December 31, 2016).

A provision of 8 million euros was recognized in 2016 in respect of the additional tax on dividend payouts in France. On October 6, 2017, France's Constitutional Council ruled that the provisions of Article 235 *ter* ZCA of the French Tax Code (*Code général des impôts*) violated the constitution insofar as they introduced a difference in the tax treatment of parent companies depending on whether or not the dividends redistributed by parent companies were paid by subsidiaries based in the European Union, even though parent companies each faced the same situation regarding the surtax. Since this ruling is applicable to all dividends on which the tax was paid, the tax authorities are now required to refund all amounts paid in respect of this surtax that are duly claimed within the allotted timeframe. Accordingly, the full amount of provisions set aside in respect of this additional tax was reversed in an amount of 17 million euros and accrued income of 4 million euros was booked in respect of the additional tax paid in 2013.

9.3 Items that could result in a decrease or increase in Valeo's future tax liability

	December 31, 2017		December 31, 2016	
(in millions of euros)	Tax basis	Corresponding tax	Tax basis	Corresponding tax
Timing differences between the recognition of income and expenses for accounting and tax purposes	58	17	61	18
Contribution premium	(134)	(39)	(134)	(39)
Tax loss carryforwards	1,269	367	1,353	391
TOTAL	**1,193**	**345**	**1,280**	**370**

9.4 Prepaid and recoverable taxes

At December 31, 2017, prepaid and recoverable taxes totaling 121 million euros included the research tax credit for 2017 amounting to 55 million euros and the tax benefit of 33 million euros arising on the 2017 tax consolidation (see Note 9.2, page 398).

The research tax credit receivable in respect of 2016 was sold by Valeo to several banks in 2017 along with the CICE tax credit in respect of 2017, for a total amount of 74 million euros. These receivables, including the 2017 CICE receivable at the so-called "seed" stage, were derecognized on the balance sheet and an adjusting entry recorded in cash received.

At December 31, 2016, prepaid and recoverable taxes totaling 101 million euros include the research tax credit for 2016 amounting to 55 million euros and the tax benefit of 36 million euros arising on the 2016 tax consolidation.

9.5 Other payables

At December 31, 2017, "Other payables" included the 283 million euros owed to subsidiaries that are members of the tax consolidation group in respect of the research tax credit and the CICE tax credit for years 2014 to 2017, representing 222 million euros and 61 million euros, respectively.

At December 31, 2016, "Other payables" totaling 277 million euros related mainly to (i) the 274 million euros owed to subsidiaries that are members of the tax consolidation group in respect of research tax credits for 2013 (55 million euros), 2014 (56 million euros), 2015 (54 million euros) and 2016 (55 million euros), and (ii) to 55 million euros in CICE tax credits for years 2013 to 2016.

Note 10 STOCKHOLDERS' EQUITY

10.1 Share capital

In 2016, a share subscription plan reserved for employees was offered in 20 of the Group's main countries. The offer was part of the development of Valeo's employee share ownership policy being rolled out in France and abroad, which aims to involve employees in the Group's performance. At the close of the subscription period, which ran from September 21, 2016 to October 4, 2016, employees had subscribed to 755,511 new shares at a unit price of 38.12 euros, reflecting a 20% discount on the reference price.

In 2017, a new share subscription plan reserved for employees was offered. At the end of the new subscription period, which ran from June 6, 2017 to June 19, 2017, 509,990 new shares were subscribed at a price of 51.62 euros each. Employees continued to receive a discount of 20% compared to the reference share price.

By subscribing to shares in the Group Employee Savings Plan, employees also benefitted from a top-up contribution from their employer. Since this plan involves new share issues, no expenses were recognized in respect of the subscription (see Note 3.1.1, page 388). Outside France, employees were allotted free shares subject to certain conditions as part of an employer contribution, which are covered by a provision for contingencies and charges as described in Note 3.1.2, page 388.

At December 31, 2017, Valeo's share capital totaled 240 million euros, divided into 239,653,121 shares of common stock with a par value of 1 euro each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (5,387,423 shares at December 31, 2017). Share capital stood at 239 million euros at December 31, 2016.

10.2 Additional paid-in capital

Additional paid-in capital represents the net amount received by the Company, either in cash or in assets, in excess of the par value on issuance of Valeo shares.

The employee share subscription offer launched in 2016 generated additional paid-in capital of 28 million euros in the year. Additional paid-in capital was 25 million euros for the employee share subscription offer launched in 2017 (see Note 10.1, page 400).

10.3 Reserves

Reserves available for distribution amounted to 1,972 million euros at December 31, 2017 (1,999 million euros at December 31, 2016) before appropriation of income for the year and after deduction of the net carrying amount of treasury shares held at December 31, 2017 (76 million euros versus 27 million euros at December 31, 2016).

10.4 Movements

(in millions of euros)	Share capital	Additional paid-in capital	Reserves and other	Stockholders' equity
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2015	**238**	**1,434**	**2,030**	**3,702**
Dividends paid	-	-	(236)	(236)
Other movements	-	-	-	-
Capital increase	1	28	-	29
Net income for the year	-	-	262	262
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2016	**239**	**1,462**	**2,056**	**3,757**
Dividends paid	-	-	(297)	(297)
Other movements	-	-	-	-
Capital increase	1	25	-	26
Net income for the year	-	-	318	318
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2017	**240**	**1,487**	**2,077**	**3,804**

Note 11 OTHER INFORMATION

11.1 Maturity of receivables and payables

(in millions of euros)	December 31, 2017	Of which non-current portion (more than 1 year)	Of which current portion (less than 1 year)
Prepaid and recoverable taxes	121	55	66
Other operating receivables	14	-	14
Operating receivables	**135**	**55**	**80**

(in millions of euros)	December 31, 2017	Of which non-current portion (more than 1 year)	Of which current portion (less than 1 year)
Trade payables	12	-	12
Accrued taxes and payroll costs	4	-	4
Operating payables	**16**	**-**	**16**
Other payables	**285**	**215**	**70**

Accrued expenses included in trade payables amount to 6 million euros at December 31, 2017.

An analysis of long-term debt is provided in Note 6.1.2, page 393.

11.2 Related party transactions

11.2.1 Transactions with related companies

The Company's financial statements include transactions carried out in the normal course of business between Valeo and its subsidiaries.

These transactions are carried out at arm's length and represented the following amounts in 2017 and 2016:

(in millions of euros)	2017	2016
Income statement		
Net financial income	290	164
Balance sheet at December 31		
Loans and advances to subsidiaries and affiliates	2,974	2,479
Financial receivables	3,307	2,040
Prepaid and recoverable taxes	15	38
Debt	2,048	1,622
Other payables	283	274

11.2.2 Transactions with related parties

All material related party transactions within the meaning of Article R.123-198 of the French Commercial Code were carried out at arm's length in 2017.

11.3 Off-balance sheet commitments

11.3.1 Commitments given

(in millions of euros)	December 31, 2017 Less than 1 year	More than 1 year	Total	December 31, 2016 Less than 1 year	More than 1 year	Total
Commitments given	-	138	**138**	27	175	**202**

Commitments given mainly include the guarantee given in 2005 to the IUE-CWA-Local 509 trade union as part of the agreement signed in September 2005 in relation to the closure of the Rochester plant (representing 123 million euros at December 31, 2017 and 160 million euros at December 31, 2016). It is a first-call guarantee with an indefinite term and covers Valeo Electrical Systems Inc.'s commitments concerning pensions and other employee benefits.

Other commitments given include a reciprocal vendor warranty commitment agreed with Siemens and related to the creation of the Valeo Siemens eAutomotive joint venture on December 1, 2016, capped at 15 million euros (this cap does not apply to the warranty given in respect of taxes).

The amount of 27 million euros at December 31, 2016 corresponded to the joint and several guarantee relating to the fine handed down by the European Commission on March 8, 2017 as part of antitrust investigations initiated at the end of July 2011 against Valeo and its subsidiaries.

11.3.2 Commitments received

(in millions of euros)	December 31, 2017 Less than 1 year	More than 1 year	Total	December 31, 2016 Less than 1 year	More than 1 year	Total
Commitments received	-	15	**15**	-	15	**15**

At December 31, 2017 and 2016, commitments received include in particular the reciprocal commitment with Siemens (see Note 11.3.1, page 402).

Note 12 LIST OF SUBSIDIARIES AND AFFILIATES

At December 31, 2017

Company *(in millions of euros)*	Share capital	Other equity[1]	% interest	Carrying amount of shares Gross	Carrying amount of shares Net	Outstanding loans and advances granted	Guarantees and endorsements given	Sales (excl. tax)	Net income (loss)	Dividends
A – SUBSIDIARIES AND AFFILIATES WITH A GROSS CARRYING AMOUNT IN EXCESS OF 1% OF VALEO'S SHARE CAPITAL										
Société de Participations Valeo Paris – France	749	(207)	100	838	838	603	-	-	(88)	-
Valeo Systèmes de Contrôle Moteur Cergy Saint Christophe – France	55	32	100	502	172	19	-	377	1	-
Valeo International Holding BV Amsterdam – Netherlands	129	1,031	100	436	436	-	-	-	115	130
Valeo Systèmes Thermiques Le Mesnil Saint-Denis – France	37	317	47	216	216	236	-	392	53	-
Valeo Vision Bobigny – France	10	271	90	377	377	-	-	585	79	-
Valeo Embrayages Amiens – France	140	(98)	100	140	48	82	-	227	4	-
Valeo Matériaux de Friction Limoges – France	60	33	100	60	60	-	-	66	3	-
Valeo Service Saint Denis – France	13	17	100	38	32	-	-	168	(2)	-
Valeo Auto-Electric GmbH Bietigheim – Germany	-	196	5	27	10	-	-	-	-	-
Valeo Otomotiv Sanayi ve Ticaret AS[3] Bursa – Turkey	8	61	100	22	22	-	-	385	29	15
Valeo Pyeong Hwa Co. Ltd[3] Daegu – South Korea	12	234	50	15	15	-	-	632	19	3
Valeo Service Benelux BV Helmond – Netherlands	4	3	100	8	8	-	-	39	-	3
Équipement 11 Paris – France	-	2	100	8	1	7	-	-	1	-
Amalgamations Valeo Clutch Private Ltd[2][3] Chennai – India	11	4	50	7	7	-	-	63	2	-
B – OTHER SUBSIDIARIES AND AFFILIATES										
Subsidiaries not listed in A:										
■ French subsidiaries (aggregate)	-	-	-	1	1	-	-	-	-	-
■ Foreign subsidiaries (aggregate)	-	-	-	4	4	-	-	-	-	2
Affiliates not listed in A:										
■ French affiliates (aggregate)	-	-	-	-	-	-	-	-	-	-
TOTAL	**-**	**-**	**-**	**2,699**	**2,247**	**-**	**-**	**-**	**-**	**153**

(1) Including net income for 2017 before appropriation.
(2) Last financial year ended March 31, 2017.
(3) Translated at the year-end exchange rate and at average exchange rates for 2017.

Note 13 SUBSEQUENT EVENTS

To Valeo's knowledge, no events have occurred since December 31, 2017 that could have a material impact on the Company's business, financial position or assets and liabilities.

5.6.5 Statutory Auditors' report on the financial statements

For the year ended December 31, 2017

This is a translation into English of the Statutory Auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users. This Statutory Auditors' report includes information required by European regulation and French law, such as information about the appointment of the Statutory Auditors or verification of the management report and other documents provided to shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the annual general meeting of Valeo,

I. Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of Valeo for the year ended December 31, 2017.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

II. Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) no. 537/2014 or in the French Code of ethics (*Code de déontologie*) for Statutory Auditors.

Furthermore, the non-audit services that we provided to your Company and its controlled undertakings during the financial year that are not disclosed in the management report or in the notes to the financial statements are as follows:

- Non-audit services provided by Ernst & Young et Autres to Valeo and entities it controls amount 0.1 million euros and concern (i) comfort letters in connection with bond issues, (ii) financial due diligence in connection with an acquisition, (iii) statements issued to validate information presented in expenditure reports relating to subsidized projects and in connection with sales of receivables, and (iv) a review of the financial reporting obligations of listed company Ichikoh.
- Non-audit services provided by Mazars to Valeo and entities it controls amount 0.1 million euros and concern (i) comfort letters in connection with bond issues, (ii) agreed-upon procedures reports in connection with the sale of the Passive Hydraulic Actuator business and the creation of Valeo-Kapec, and (iii) statements issued to validate information presented in expenditure reports relating to subsidized projects and in connection with sales of receivables.

III. Emphasis of matter

We draw attention to the following matter described in Note 2 "Accounting policies" to the financial statements relating to the change in accounting policy in accordance with Standard no. 2015-05 issued by the ANC on July 15, 2015 about financial forward instruments and hedging activities. Our opinion is not modified in respect of this matter.

IV. Justification of assessments – Key audit matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matter relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Evaluation of investments in subsidiaries and affiliates and related receivables

Risk identified

At December 31, 2017, the net carrying value of investments in subsidiaries and affiliates and related receivables amounted to 5,221 million euros, i.e. 50% of total assets. Investments in subsidiaries and affiliates are initially recognized at cost. At the end of the reporting period, the Company measures investments in subsidiaries and affiliates at their value in use. If value in use falls below the carrying amount, an impairment provision is recorded corresponding to the difference between these two amounts.

Value in use is determined based on a multi-criteria analysis adapted to the investments concerned. The criteria correspond to projected data from subsidiaries' medium-term business plans, as well as stockholders' equity, and the Group's strategic interests.

Loans and advances to subsidiaries and affiliates mainly comprise current account advances granted to Valeo's holding companies, direct and indirect Valeo subsidiaries, where the advances are repayable on demand but are unlikely to be repaid within one year.

These investments and related receivables are described in the Note 5 of the financial statements.

Because the net carrying value of investments and related receivables are particularly material and as its evaluation requires significant estimates and judgments of the management, we considered the evaluation of investments, related receivables and its corresponding provisions for contingencies to be a key audit matter.

Our response

To assess the valuation of the value in use of investments, we conducted the following procedures, based on the available documentation, that mainly consisted in verifying that the assessment of the values in use is based on a justified valuation approach and on the correct data. And within the investments, we perform the following procedures:

- for the valuations based on historical data we reconciled the net equity used in impairment tests with those booked in the financial statements of the entities;
- we conducted an analysis of the management's business plans for the investments having a significant impairment risk;
- through the expertise of our valuation specialists, we analyzed the main valuation hypotheses (discount rate and long-term growth rate and perpetuity growth rate), which we compared with the values provided by the main financial analysts;
- we verified the correct calculation of the values in use assessed by the entity;
- we assessed the recoverability of the loans and advances to subsidiaries and affiliates considering the analysis performed on the investments;
- we verified that a provision for risks is booked if the subsidiaries have negative equity for which Valeo must bear the losses.

V. Verification of the Management Report and of the other documents provided to Shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the management report and in the other documents provided to Shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to Shareholders with respect to the financial position and the financial statements.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by Articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L.225-37-3 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your company considered likely to have an impact in the event of a takeover or exchange offer, provided pursuant to Article L.225-37-5 of the French Commercial Code (*Code de commerce*), we have verified their compliance with the source documents communicated to us. Based on our work, we have no observation to make on this information.

Other information

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

VI. Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were initially appointed as Statutory Auditors of Valeo by the annual general meeting held on June 3, 2010.

As at December 31, 2017, we were in the 8th year of total uninterrupted engagement.

VII. Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

VIII. Statutory Auditors' responsibilities for the audit of the financial statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However,

future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;

- evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) no. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, March 22, 2018

The Statutory Auditors

MAZARS		**ERNST & YOUNG et Autres**	
Thierry Colin	Gaël Lamant	Jean-François Ginies	Philippe Berteaux

5.7. Statutory Auditors' special report on related party agreements and commitments

Year ended December 31, 2017

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 annual general meeting of Valeo,

In our capacity as Statutory Auditors of your Company, we hereby report to you on related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the key terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement, as well as the reasons for putting in place such agreements. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with Article R.225-31 of the French Commercial Code (*Code de commerce*), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R.225-31 of the French Commercial Code concerning the implementation, during the year, of the agreements and commitments already approved by the Shareholders' Meeting.

We performed those procedures which we considered necessary to comply with professional guidance issued by the French national auditing body (*Compagnie Nationale des Commissaires aux Comptes*) relating to this type of engagement. These procedures consisted in verifying that the information provided to us is consistent with the documentation from which it has been extracted.

Agreements and commitments submitted for approval by the Shareholders' Meeting

Agreements and commitments authorized during the year

We are required to inform you, on the basis of the information provided to us, that during the year, there are no authorized agreements entered into or commitments made which should be submitted for approval by the Shareholders' Meeting in accordance with Article L.225-38 of the French Commercial Code.

Agreements and commitments submitted for approval by the Shareholders' Meeting

Agreements and commitments approved in previous years which were not implemented during the year

We have been advised that the following agreements and commitments, which were approved by the Shareholders' Meeting in previous years, were not implemented during the year.

Agreements and commitments with regard to Jacques Aschenbroich, Chief Executive Officer

Non-competition payments

The commitment granting Jacques Aschenbroich a non-competition payment if he were to leave your Company continued in 2017. This commitment authorized by the Board of Directors on February 24, 2010 and presented in the Statutory Auditors' special report on related party agreements and commitments to the Shareholders' Meeting on June 3, 2010, was amended by the Board of Directors on February 24, 2015 and presented in the Statutory Auditors' special report on related party agreements and commitments to the Shareholders' Meeting on May 26, 2015.

The main features of this commitment are as follows:

- the amount of the non-competition payments is calculated on the basis of the average compensation (fixed and variable) paid during the three financial years preceding the year in which the termination occurs;
- a prior decision of the Board of Directors is required to decide on whether or not the non-competition agreement will be upheld at the time Jacques Aschenbroich leaves, in particular when he leaves your Company to claim or after having claimed his pension rights.

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If this clause is adopted, Jacques Aschenbroich will receive a non-competition payment equal to 12 months of compensation. Jacques Aschenbroich would thereby be prohibited from working in any way for an automotive supplier or, more generally, for any of Valeo's competitors. The clause would apply for 12 months after the end of his term of office as Chief Executive Officer of Valeo regardless of the reason for termination.

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

Life insurance

The commitment authorized by the Board of Directors on April 9, 2009 granting Jacques Aschenbroich life insurance covering death, disability or any consequences of any accidents during business travel continued in 2017. In 2017, your Company paid a premium of 2,300 euros including VAT covering the period from April 30, 2017 to April 29, 2018.

Pension plan

On October 20, 2009, the Board of Directors authorized the commitment to register Jacques Aschenbroich with the supplementary defined benefit pension plan for the Group's senior executives from January 1, 2010 by according him five years' seniority. The main features of this plan are as follows:

- the supplementary pension is capped because of the very nature of the plan at 1% of the reference salary per year of service, up to a limit of 20%;
- the supplementary pension is capped with regard to the base used to calculate the entitlements: the supplementary pension, all plans combined, is capped at 55% of the reference salary;
- the reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation received for working full time within the Group.

At its meeting of February 18, 2016, and further to its decision to appoint Jacques Aschenbroich as Chairman and Chief Executive Officer, thereby combining the positions of Chairman of the Board of Directors and Chief Executive Officer, the Board of Directors decided to maintain this supplementary defined benefit plan in favor of Jacques Aschenbroich.

On February 18, 2016, and on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors also decided, in accordance with Article L.225-42-1 of the French Commercial Code, that the vesting of conditional supplementary pension benefits under the supplementary defined benefit pension plan will be subject to performance conditions. This will be deemed to have been achieved if the variable portion of the compensation of the Chairman and Chief Executive Officer paid in year Y+1 for year Y corresponds to 100% of the fixed compensation payable for year Y. In the event that the variable portion amounted to less than 100% of the fixed portion, rights would accrue on a prorata basis.

Shareholders are reminded that the variable compensation that may be granted to Jacques Aschenbroich in respect of his position as Chairman and Chief Executive Officer for the year ending December 31, 2017 is calculated based on the following criteria:

- Quantitative criteria (excluding tax and regulatory impact):
  - operating margin,
  - free cash flow (assuming that the investment budget is respected),
  - net income (assuming a 20% tax rate for the Group),
  - return on capital employed (ROCE) ratio,
  - consolidated order intake (excluding Ichikoh).

The maximum amount of variable compensation as a percentage of the annual fixed compensation is 23% for each of the five quantitative criteria, i.e., a maximum of 115%. The expected level of achievement is determined precisely but is not publicly disclosed for reasons of confidentiality.

- Qualitative criteria:
  - financial communications,
  - strategic vision,
  - risk management.

The maximum amount of variable compensation as a percentage of the annual fixed compensation is 5% for financial communications, 25% for strategic vision and 25% for risk management (i.e., a maximum of 55%).

This commitment was presented in the Statutory Auditors' special report on related party agreements and commitments to the Shareholders' Meeting on May 23, 2017.

Courbevoie and Paris-La Défense, March 22, 2018

The Statutory Auditors

MAZARS		ERNST & YOUNG et Autres	
Thierry Colin	Gaël Lamant	Jean-François Ginies	Philippe Berteaux

5.8. Other financial and accounting information

5.8.1 Five-year financial summary

	2013	2014	2015	2016	2017
1 – SHARE CAPITAL AT DECEMBER 31					
Share capital *(in millions of euros)*	238	238	238	239	240
Number of ordinary shares outstanding	238,387,620	238,387,620	238,387,620	239,143,131	239,653,121
Maximum number of new shares to be issued:					
■ on exercise of equity warrants	-	-	-	-	-
■ on exercise of stock subscription options	-	-	-	-	-
■ on conversion of bonds into new shares	-	-	-	-	-
2 – RESULTS OF OPERATIONS FOR THE YEAR *(in millions of euros)*					
Sales	-	-	-	-	-
Income before tax, depreciation, amortization and impairment losses	145	247	233	85	232
Income tax	23	(23)	17	24	56
Employee profit-sharing	-	-	-	-	-
Net income for the year	180	174	244	262	318
Net dividend	132	172	236	297	297
3 – PER SHARE DATA *(in euros)*					
Net income after tax, but before depreciation, amortization and impairment losses	0.70	0.94	1.05	0.46	1.20
Net income	0.75	0.73	1.02	1.10	1.33
Net dividend	0.57	0.73	1.00	1.25	1.25
4 – HEADCOUNT					
Headcount at December 31	2	2	2	1	1
Wages and salaries *(in millions of euros)*	2	8	19	34	28(1)
Social security charges *(in millions of euros)*	1	1	1	1	1

(1) This amount includes an expense of 22 million euros relating to the delivery of free shares to non-French beneficiaries under the 2012 free share plan and to the delivery of free shares to French beneficiaries under the 2014 free share plan (see Note 3.2, page 390).

5.8.2 List of subsidiaries, affiliates and marketable securities

	Number of shares	Net carrying amount *(in millions of euros)*
Société de Participations Valeo	6,136,601	838
Valeo International Holding BV	2,845,120	436
Valeo Vision	620,572	377
Valeo Systèmes Thermiques	1,151,133	216
Valeo Systèmes de Contrôle Moteur	5,500,000	172
Valeo Matériaux de Friction	4,002,550	60
Valeo Embrayages	9,335,883	48
Valeo Service	860,000	32
Valeo Otomotiv Sanayi ve Ticaret AS	6,610,059	22
Valeo Pyeong Hwa Co. Ltd	1,642,698	15
Valeo Auto-Electric GmbH	1,305	10
Valeo Service Benelux BV	400	8
Amalgamations Valeo Clutch Private Ltd	43,752,500	7
Other investments with a net carrying amount below 2 million euros		6
Investments in subsidiaries and affiliates		**2,247**
Other securities		2
Other investment securities		**2**
SGAM Monétaire Plus	6,528	76
Amundi Treso Corporate	29,257	292
Natixis Deposit	2,926	293
BNP Paribas Deposit	3,272	327
Money market funds		**988**
Treasury stock	**1,729,121**	**76**
TOTAL		**3,313**

6 — SHARE CAPITAL AND OWNERSHIP STRUCTURE

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

6.1 Stock market data

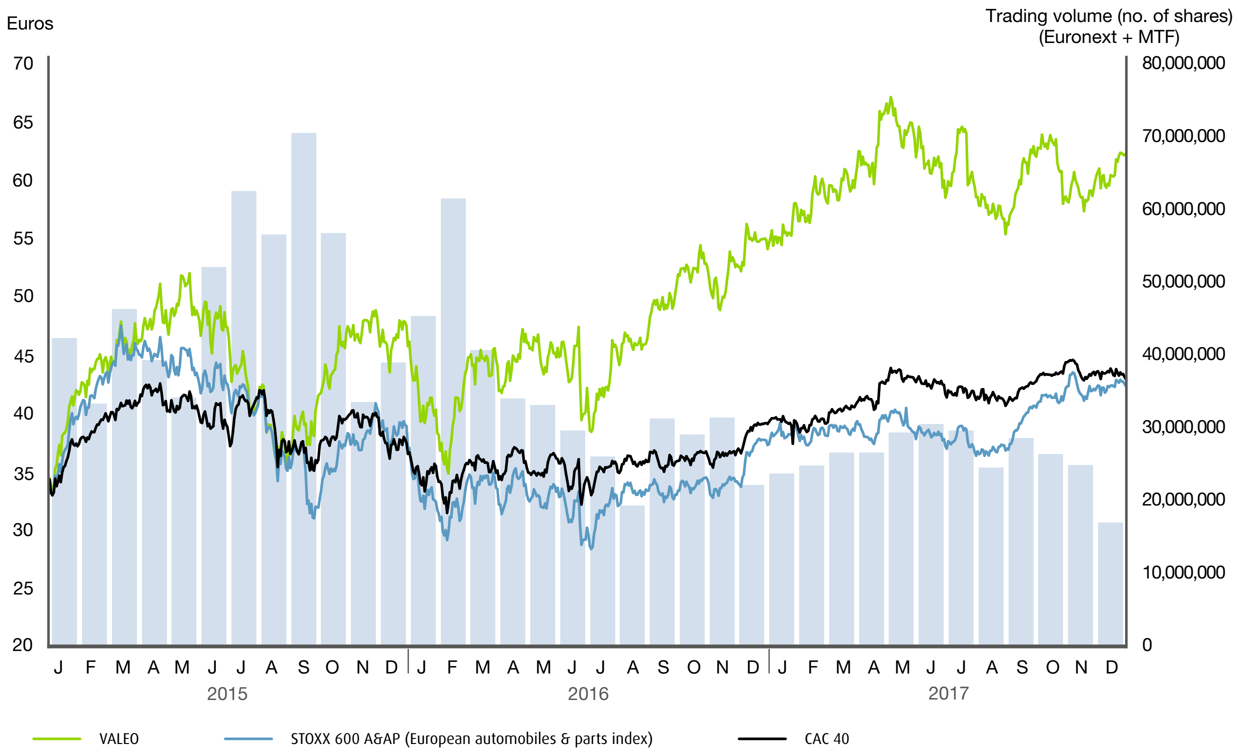
	2015	2016	2017
Market capitalization at year-end *(in billions of euros)*	11.33	13.06	14.92
Number of shares	238,387,620	239,143,131	239,653,121
Highest share price *(in euros)*	52.23	56.47	67.80
Lowest share price *(in euros)*	33.20	33.88	54.05
Average share price *(in euros)*	44.26	46.20	60.28
Share price at year-end *(in euros)*	47.52	54.61	62.27

6.1.1 Share performance

	Share price *(in euros)*			Trading volume (no. of shares)		
Date	High	Low	Closing (average)	Volume on Euronext	Volume on MTF[1]	Volume on Euronext[2] *(in millions of euros)*
December 2016	56.47	51.30	54.53	13,930,246	8,029,570	757.85
January 2017	58.35	54.05	55.76	13,941,211	9,608,108	777.70
February 2017	60.50	55.81	58.23	14,412,207	10,230,802	841.50
March 2017	62.70	57.80	59.90	16,670,213	9,811,201	997.90
April 2017	67.20	59.67	62.59	15,848,212	10,635,184	993.64
May 2017	67.80	61.52	64.75	17,451,999	11,781,739	1,125.52
June 2017	64.75	58.40	61.41	18,807,862	11,567,392	1,151.88
July 2017	64.95	58.54	61.56	17,150,636	12,352,256	1,050.01
August 2017	59.10	55.23	57.39	14,720,272	9,672,055	844.76
September 2017	63.13	56.40	60.47	16,743,282	11,733,009	1,009.86
October 2017	64.32	57.73	61.67	16,953,372	9,280,266	1,035.67
November 2017	61.56	57.04	59.28	15,628,589	9,099,695	927.64
December 2017	62.55	59.05	60.87	10,803,571	6,037,067	655.18

(1) MTF: includes the ChiX, Turquoise, Bats and Equiduct platforms.
(2) Source: Euronext monthly volumes.

6.1.2 Share price and monthly trading volumes



6.2 Investor relations

The Group's Investor Relations Department serves as an interface between the Group and the international financial community, including individual shareholders, institutional investors such as socially responsible investors (SRIs) and bond investors, and financial analysts. It aims to provide clear, thorough and transparent information in real time to all these market participants, in order to keep them informed of Valeo's strategy, products, activities, financial results, medium-term financial objectives and how it plans to achieve them.

Valeo's website, www.valeo.com, features a dedicated, regularly updated "Investors & shareholders" section for its shareholders and the financial community. It contains the Company's regulatory information, in particular:

- the Registration Document including the Annual Financial Report (itself including the Corporate Governance Report and the Integrated Report) and the Half-year Financial Report ("Financial presentations & releases" section);
- all financial publications, presentations and press releases ("Financial presentations & releases" section);
- information about Valeo's debt ("Bond investors" section);
- information about Valeo's capital structure ("Stock market" section);
- information for individual shareholders ("Individual shareholders" section) and about the Shareholders' Meeting ("Shareholders' Meeting" section).

6.2.1 Institutional investors

The Group's Investor Relations Department closely and consistently interacts with the financial community, particularly when financial results are reported or when special events are announced. The department places great importance on holding meetings throughout the year with all shareholders, investors and financial analysts, whether at the Group's headquarters or major global financial centers (Europe, North America and Asia) during roadshows organized for bond and equities investors and conferences organized by brokers. The events take various forms, including one-on-one meetings, group events, conference calls, investor days and subject-specific or general presentations. In all, approximately 1,600 institutional investors and analysts participated in these events during 2017, with a large number of participants meeting the Group's Management.

Valeo has also been developing dedicated communications for investors and analysts specialized in socially responsible investment (SRI). In 2017, the Group had the opportunity at several meetings and conferences to discuss its strategy in areas including corporate governance and social and environmental responsibility. Information on these subjects is available on the Group's website under "SRI" in the "Sustainability" section, which mainly features SRI publications, ratings, and the main indices in which Valeo is included.

6.2.2 Individual shareholders

Valeo consistently interacts with individual shareholders, who control approximately 5% of Valeo's share capital. As part of this interaction, an "Individual shareholders" section is available on the Group's website and features information related to the stock market and dividends, as well as a shareholders' guide. The Group's Investor Relations Department regularly sends information, such as "flash" e-newsletters, the webzine and shareholders' letters, to individual shareholders about the Group's latest news and financial results. In addition, in a bid to drive more frequent interaction and foster closer relations with its individual shareholders, in 2017 the Group created an online Shareholders' Club for its individual French shareholders and attended the Actionaria investor fair in Paris.

The share registrar service has been provided by Société Générale since the end of 2000 and offers a share information line (+33 (0)2 51 85 67 89) for questions concerning dividends, tax issues and order placing. For any other information about the Group, individual shareholders can call the number provided in section 6.2.4 of this chapter, "Contact", page 416.

6.2.3 Employee shareholders

Since 2010, Valeo has had a policy of allotting free shares to promote the development of employee share ownership over time.

In 2016, Valeo launched a share subscription offering reserved for employees. Following its success, the offering was renewed in 2017 in 20 countries, with 80,000 employees eligible to subscribe to shares. As in 2016, information sessions about the offering and the performance of the Valeo share were held at each Group site.

Employee shareholders have access to the same communication tools as individual shareholders, as well as an information line managed by the banks in charge of the share ownership plans. Employee shareholders can call this telephone platform all year round with any questions they may have. For further information, see 6.4.5 of this chapter, "Employee share ownership", page 424 and Chapter 4, section 4.4.2, paragraph "Employee share ownership", page 229.

6.2.4 Contact

Valeo
43, rue Bayen
75848 Paris Cedex 17 – France

Institutional investors and financial analysts
Thierry Lacorre, Investor Relations Director
To arrange a meeting, please contact:
Email: valeo.corporateaccess.mailbox@valeo.com
For any other question, please contact:
Email: valeo@relations-investisseurs.com

Individual shareholders
Tel.: +33 (0)1 40 55 20 39
Email: valeo@relations-actionnaires.com
For questions about registered shares, please contact:
Société Générale
Tel.: +33 (0)2 51 85 67 89

6.2.5 Provisional financial publications calendar

- First-quarter 2018 sales: April 25, 2018
- First-half 2018 results: July 25, 2018
- Third-quarter 2018 sales: October 25, 2018
- Full-year 2018 results: second half of February 2019

6.3 Dividends

Dividends per share over the past three years were as follows:

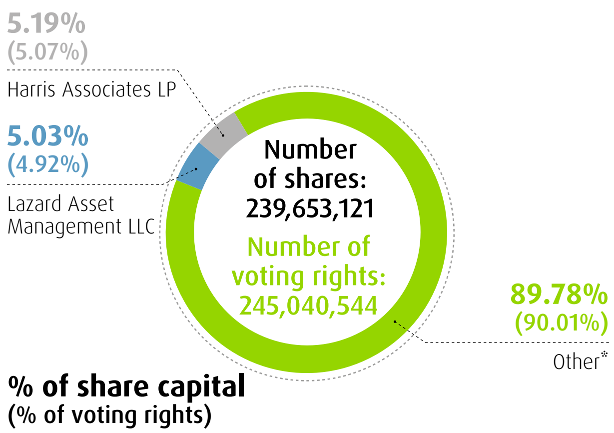
Year	Dividend per share *(in euros)*	Tax allowance	Total *(in millions of euros)*
2014	0.73	Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code (*Code général des impôts*)	**172**
2015	1.00	Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code	**236**
2016	1.25	Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code	**297**

At the Shareholders' Meeting to be held on May 23, 2018 to approve the financial statements for the year ended December 31, 2017, Valeo's Board of Directors will recommend the payment of a dividend of 1.25 euros per share eligible for dividends, representing a payout ratio of 34%.

6.4 Share ownership

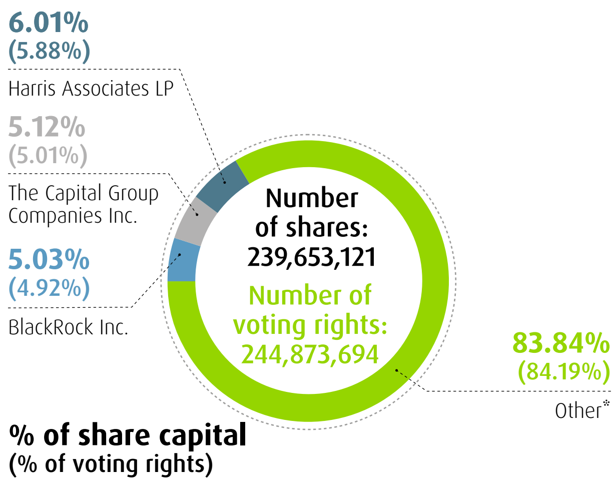
6.4.1 Ownership structure

▶ Ownership structure at December 31, 2017



* Including 1,729,121 treasury shares (0.72% of the share capital).

▶ Ownership structure at February 22, 2018



* Including 1,672,289 treasury shares (0.70% of the share capital).

6.4.2 Direct or indirect shareholdings in the Company brought to the Company's attention (Articles L.233-7 and L.233-12 of the French Commercial Code)

The following details on share capital and voting rights were prepared:

- based on data brought to the attention of the Company pursuant to Articles L.233-7 and L.233-12 of the French Commercial Code (*Code de commerce*) and, where applicable, on information voluntarily provided by Company shareholders concerning the number of shares and voting rights held by each shareholder;
- based on the Company's share capital and voting rights at December 31 of each of the three years under consideration (2015, 2016 and 2017), and at February 22, 2018.

At December 31, 2017, the Company's share capital comprised 239,653,121 shares, including 1,729,121 shares held as treasury shares, representing 245,040,544 voting rights.

	December 31, 2015				December 31, 2016			
	Number of shares	% of share capital	Number of theoretical voting rights(1)	% of theoretical voting rights(1)	Number of shares	% of share capital	Number of theoretical voting rights(1)	% of theoretical voting rights(1)
Caisse des dépôts et consignations, of which:	8,086,326	3.39	16,172,652	6.49	na(2)	na(2)	na(2)	na(2)
Bpifrance Participations SA	*3,966,423*	*1.66*	*7,932,846*	*3.18*	*na(2)*	*na(2)*	*na(2)*	*na(2)*
CDC Savings Funds	*4,119,903*	*1.73*	*8,239,806*	*3.31*	*na(2)*	*na(2)*	*na(2)*	*na(2)*
Lazard Asset Management LLC	12,063,564	5.06	12,063,564	4.84	12,063,564	5.04	12,063,564	4.92
BlackRock Inc.	11,929,155	5.00	11,929,155	4.79	12,488,899	5.22	12,488,899	5.10
Employee share ownership(3)(4)	810,558	0.34	1,068,108	0.43	3,597,296	1.51	3,969,662	1.62
Treasury shares(5)	3,025,065	1.27	-	-	1,240,865	0.52	-	-
Other(6)	202,472,952	84.94	207,842,337(6)	83.45	209,752,507	87.71	216,581,426(6)	88.36
TOTAL	**238,387,620**	**100**	**249,075,816**	**100**	**239,143,131**	**100**	**245,103,551**	**100**

	December 31, 2017				February 22, 2018			
	Number of shares	% of share capital	Number of theoretical voting rights(1)	% of theoretical voting rights(1)	Number of shares	% of share capital	Number of theoretical voting rights(1)	% of theoretical voting rights(1)
Harris Associates LP	12,429,136	5.19	12,429,136	5.07	14,402,451	6.01	14,402,451	5.88
The Capital Group Companies Inc.	na(2)	na(2)	na(2)	na(2)	12,263,278	5.12	12,263,278	5.01
BlackRock Inc.	na(2)	na(2)	na(2)	na(2)	12,056,127	5.03	12,056,127	4.92
Lazard Asset Management LLC	12,063,564	5.03	12,063,564	4.92	na(2)	na(2)	na(2)	na(2)
Employee share ownership(3)(4)	3,992,475	1.67	4,370,106	1.78	3,992,475	1.67	4,370,106	1.78
Treasury shares(5)	1,729,121	0.72	-	-	1,672,289	0.70	-	-
Other	209,438,825	87.39	216,177,738(6)	88.23	195,266,501	81.47	201,781,732(6)	82.41
TOTAL	**239,653,121**	**100**	**245,040,544**	**100**	**239,653,121**	**100**	**244,873,694**	**100**

(1) Registered shares held by the same shareholder for four or more years carry double voting rights (see Chapter 7, section 7.1.11 "Double voting rights", page 435). The total number of voting rights is calculated on the basis of all shares, including shares without voting rights (treasury shares) (Article 223-11 of the AMF's General Regulations).
(2) Shareholding representing less than 5% of the share capital or voting rights.
(3) For more information on employee share ownership, see section 6.4.5 of this chapter, "Employee share ownership", page 424.
(4) At December 31, 2016, employee share ownership includes bearer shares and registered shares held directly by employees (double voting rights are not taken into account) as well as shares held indirectly via the Valeorizon mutual fund.
(5) For more information on treasury shares see section 6.5.2 "Treasury shares", pages 425 to 426.
(6) The number of theoretical voting rights includes theoretical voting rights that were not recognized on treasury shares.

Shareholders representing more than 5% of the share capital or voting rights

To the best of the Company's knowledge, there were no shareholders with direct or indirect holdings of 5% or more of the Company's share capital or voting rights at December 31, 2017, other than:

- Harris Associates LP, which, acting on behalf of funds and clients it manages, held, directly or indirectly, 12,429,136 shares in the Company, i.e., 5.19% of the share capital and 5.07% of the voting rights;
- Lazard Asset Management LLC, which, acting on behalf of funds and clients it manages, held, directly or indirectly, 12,063,564 shares in the Company, i.e., 5.03% of the share capital and 4.92% of the voting rights.

To the best of the Company's knowledge, there were no shareholders with direct or indirect holdings of 5% or more of the Company's share capital or voting rights at February 22, 2018, other than:

- Harris Associates LP, which, acting on behalf of funds and clients it manages, held 14,402,451 shares in the Company, i.e., 6.01% of the share capital and 5.88% of the voting rights;
- The Capital Group Companies Inc., which held, directly or indirectly, 12,263,278 shares in the Company, i.e., 5.12% of the share capital and 5.01% of the voting rights;
- BlackRock Inc., which, acting on behalf of funds and clients it manages, held, directly or indirectly, 12,056,127 shares in the Company, i.e., 5.03% of the share capital and 4.92% of the voting rights.

Crossing of disclosure thresholds

Between January 1, 2017 and February 22, 2018, Valeo was notified of the following disclosure threshold crossings:

Shareholder	Date of notification[1]	Effective date[1]	Number of Valeo shares held[1]	Percentage of capital reported[1]	Number of voting rights held[1]
Norges Bank[2]	03/15/2017	03/13/2017	12,986,743	5.43%	12,986,743
Norges Bank[2]	03/24/2017	03/14/2017	12,111,088	5.06%	12,111,088
Norges Bank[2]	03/24/2017	03/21/2017	11,926,002	4.99%	11,926,002
Norges Bank[2]	03/30/2017	03/29/2017	12,152,546	5.08%	12,152,546
Norges Bank[2]	04/05/2017	03/30/2017	12,367,042	5.17%	12,367,042
Norges Bank[2]	04/05/2017	04/03/2017	11,996,150	5.02%	11,996,150
Norges Bank[2]	04/10/2017	04/07/2017	11,511,544	4.81%	11,511,544
BlackRock Inc.[2]	04/26/2017	04/25/2017	12,079,437	5.05%	12,079,437
BlackRock Inc.[2]	04/27/2017	04/26/2017	12,628,206	5.28%	12,628,206
BlackRock Inc.[2]	05/25/2017	05/24/2017	12,131,899	5.07%	12,131,899
BlackRock Inc.[2]	05/26/2017	05/25/2017	11,932,125	4.99%	11,932,125
BlackRock Inc.[2]	05/30/2017	05/26/2017	12,068,282	5.05%	12,068,282
BlackRock Inc.[2]	05/31/2017	05/29/2017	11,946,140	4.99%	11,946,140
BlackRock Inc.[2]	06/02/2017	06/01/2017	12,567,098	5.26%	12,567,098
BlackRock Inc.[2]	09/01/2017	08/31/2017	12,089,618	5.06%	12,089,618
BlackRock Inc.[2]	09/04/2017	09/01/2017	12,366,329	5.17%	12,366,329
BlackRock Inc.[2]	09/14/2017	09/13/2017	12,032,928	5.03%	12,032,928
BlackRock Inc.[2]	09/15/2017	09/14/2017	11,946,425	4.99%	11,946,425
BlackRock Inc.[2]	09/18/2017	09/15/2017	12,309,423	5.15%	12,309,423
BlackRock Inc.[2]	09/19/2017	09/18/2017	11,917,825	4.98%	11,917,825
BlackRock Inc.[2]	09/21/2017	09/20/2017	12,178,429	5.09%	12,178,429
BlackRock Inc.[2]	09/25/2017	09/22/2017	11,940,448	4.99%	11,940,448
BlackRock Inc.[2]	09/26/2017	09/25/2017	12,056,710	5.04%	12,056,710
BlackRock Inc.[2]	10/03/2017	10/02/2017	11,911,567	4.98%	11,911,567
BlackRock Inc.[2]	10/06/2017	10/05/2017	12,166,182	5.09%	12,166,182
BlackRock Inc.[2]	10/09/2017	10/06/2017	12,427,168	5.20%	12,427,168
BlackRock Inc.[2]	10/11/2017	10/10/2017	12,132,263	5.06%	12,132,263
BlackRock Inc.[2]	10/13/2017	10/12/2017	11,948,847	4.99%	11,948,847

(1) Information sourced from disclosure threshold crossing notifications published by the AMF.
(2) Acting on behalf of funds and clients it manages.

Percentage of theoretical voting rights reported[(1)]	Threshold crossed/ Increase or decrease[(1)]	Reason for threshold crossing[(1)]
5.30%	5% of share capital and voting rights/Increase	Increase in the number of shares held as collateral
4.94%	5% of voting rights/Decrease	Decrease in the number of shares held as collateral
4.87%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
4.96%	5% of share capital/Increase	Increase in the number of shares held as collateral
5.05%	5% of voting rights/Increase	Increase in the number of shares held as collateral
4.90%	5% of voting rights/Decrease	Decrease in the number of shares held as collateral
4.70%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
4.94%	5% of voting rights/Decrease	Sale of shares outside of and on the market and decrease in the number of shares held as collateral
5.16%	5% of voting rights/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
4.96%	5% of voting rights/Decrease	Sale of shares outside of the market and decrease in the number of shares held as collateral
4.88%	5% of share capital/Decrease	Sale of shares outside of and on the market and decrease in the number of shares held as collateral
4.94%	5% of share capital/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
4.89%	5% of share capital/Decrease	Sale of shares outside of the market and decrease in the number of shares held as collateral
5.14%	5% of share capital and voting rights/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
4.95%	5% of voting rights/Decrease	Sale of shares on the market and decrease in the number of shares held as collateral
5.06%	5% of voting rights/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
4.91%	5% of voting rights/Decrease	Sale of shares outside of the market and decrease in the number of shares held as collateral
4.88%	5% of share capital/Decrease	Sale of shares outside of and on the market and decrease in the number of shares held as collateral
5.02%	5% of share capital and voting rights/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
4.86%	5% of share capital and voting rights/Decrease	Sale of shares outside of the market and decrease in the number of shares held as collateral
4.97%	5% of share capital/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
4.87%	5% of share capital and voting rights/Decrease	Sale of shares outside of the market and decrease in the number of shares held as collateral
4.92%	5% of share capital/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
4.86%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
4.97%	5% of share capital/Increase	Increase in the number of shares held as collateral
5.07%	5% of voting rights/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
4.95%	5% of voting rights/Decrease	Sale of shares outside of the market and decrease in the number of shares held as collateral
4.88%	5% of share capital/Decrease	Sale of shares outside of and on the market and decrease in the number of shares held as collateral

Shareholder	Date of notification(1)	Effective date(1)	Number of Valeo shares held(1)	Percentage of capital reported(1)	Number of voting rights held(1)
BlackRock Inc.(2)	10/17/2017	10/16/2017	12,278,273	5.12%	12,278,273
BlackRock Inc.(2)	10/18/2017	10/17/2017	11,760,835	4.91%	11,760,835
BlackRock Inc.(2)	10/27/2017	10/26/2017	12,125,226	5.06%	12,125,226
BlackRock Inc.(2)	11/01/2017	10/31/2017	12,324,326	5.14%	12,324,326
Harris Associates LP(2)	11/02/2017	10/30/2017	12,429,136	5.19%	12,429,136
BlackRock Inc.(2)	11/06/2017	11/03/2017	12,246,520	5.11%	12,246,520
BlackRock Inc.(2)	11/08/2017	11/07/2017	12,495,528	5.21%	12,495,528
BlackRock Inc.(2)	11/27/2017	11/24/2017	12,157,578	5.07%	12,157,578
BlackRock Inc.(2)	11/30/2017	11/29/2017	12,373,308	5.16%	12,373,308
BlackRock Inc.(2)	12/01/2017	11/30/2017	12,010,118	5.01%	12,010,118
BlackRock Inc.(2)	12/04/2017	12/01/2017	11,946,300	4.98%	11,946,300
BlackRock Inc.(2)	12/05/2017	12/04/2017	12,015,857	5.01%	12,015,857
BlackRock Inc.(2)	12/07/2017	12/06/2017	11,964,594	4.99%	11,964,594
BlackRock Inc.(2)	12/27/2017	12/26/2017	12,006,142	5.01%	12,006,142
BlackRock Inc.(2)	12/28/2017	12/27/2017	11,635,398	4.86%	11,635,398
The Capital Group Companies Inc.	01/15/2018	01/11/2018	12,160,254	5.07%	12,160,254
BlackRock Inc.(2)	01/26/2018	01/25/2018	12,075,585	5.04%	12,075,585
BlackRock Inc.(2)	01/31/2018	01/30/2018	11,876,100	4.96%	11,876,100
BlackRock Inc.(2)	02/02/2018	02/01/2018	12,037,351	5.02%	12,037,351
BlackRock Inc.(2)	02/05/2018	02/02/2018	11,892,279	4.96%	11,892,279
BlackRock Inc.(2)	02/07/2018	02/06/2018	12,016,789	5.01%	12,016,789
Lazard Asset Management LLC	02/07/2018	10/22/2017	5,541,259	2.31%	5,541,259
The Capital Group Companies Inc.	02/08/2018	02/07/2018	12,263,278	5.12%	12,263,278
BlackRock Inc.(2)	02/12/2018	02/09/2018	11,940,953	4.98%	11,940,953
BlackRock Inc.(2)	02/19/2018	02/16/2018	12,056,127	5.03%	12,056,127

(1) Information sourced from disclosure threshold crossing notifications published by the AMF.
(2) Acting on behalf of funds and clients it manages.

Percentage of theoretical voting rights reported[(1)]	Threshold crossed/ Increase or decrease[(1)]	Reason for threshold crossing[(1)]
5.01%	5% of voting rights/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
4.80%	5% of share capital and voting rights/Decrease	Sale of shares outside of and on the market and decrease in the number of shares held as collateral
4.95%	5% of share capital/Increase	Purchase of shares outside of the market and increase in the number of shares held as collateral
5.03%	5% of voting rights/Increase	Purchase of shares outside of the market and increase in the number of shares held as collateral
5.07%	5% of share capital and voting rights/Increase	Purchase of shares on the market
4.99%	5% of voting rights/Decrease	Sale of shares outside of the market and decrease in the number of shares held as collateral
5.10%	5% of voting rights/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
4.96%	5% of voting rights/Decrease	Decrease in the number of shares held as collateral
5.05%	5% of voting rights/Increase	Increase in the number of shares held as collateral
4.90%	5% of voting rights/Decrease	Sale of shares on the market and decrease in the number of shares held as collateral
4.88%	5% of share capital and voting rights/Decrease	Sale of shares on the market and decrease in the number of shares held as collateral
4.90%	5% of share capital/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
4.88%	5% of share capital/Decrease	Sale of shares outside of the market and decrease in the number of shares held as collateral
4.90%	5% of share capital/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
4.75%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
4.96%	5% of share capital/Increase	Purchase of shares on the market
4.93%	5% of share capital/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
4.85%	5% of share capital/Decrease	Sale of shares on the market and decrease in the number of shares held as collateral
4.91%	5% of share capital/Increase	Purchase of shares outside of the market and increase in the number of shares held as collateral
4.85%	5% of share capital/Decrease	Sale of shares outside of the market and decrease in the number of shares held as collateral
4.91%	5% of share capital/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
2.26%	5% of share capital/Decrease	Sale of shares on the market
5.01%	5% of voting rights/Increase	Purchase of shares on the market
4.88%	5% of share capital/Decrease	Sale of shares outside of and on the market and decrease in the number of shares held as collateral
4.92%	5% of share capital/Increase	Purchase of shares on the market and increase in the number of shares held as collateral

6.4.3 Directors' interests in Valeo's share capital

At December 31, 2017, Jacques Aschenbroich and other members of the Board of Directors held less than 1% of Valeo's share capital and voting rights in a personal capacity. The number of shares held by each member of the Board of Directors is given in Chapter 3, section 3.2.1 "Presentation of directors in 2017", pages 104 to 120.

6.4.4 Transactions carried out by executive managers and corporate officers in the Company's shares

Bruno Bézard, a director, purchased 250 shares at a unit price of 58.59 euros on October 30, 2017, 250 shares at a unit price of 58.75 euros on November 14, 2017 and 250 shares at a unit price of 60.21 euros on December 4, 2017. He also purchased 230 shares at a unit price of 65.26 euros on January 9, 2018 and 520 shares at a unit price of 54.26 euros on February 28, 2018. As a result, he now complies with the provisions of the Board of Directors' Internal Procedures and the Company's articles of association which stipulate that directors must hold 1,500 registered shares.

No other executive managers or corporate officers reported having carried out transactions involving the Company's shares (i) in 2017 or (ii) between January 1, 2018 and the date of this Registration Document.

6.4.5 Employee share ownership

At December 31, 2017, Valeo employees held 3,992,475 shares under Group employee share ownership plans in France and abroad, directly or indirectly through the Valeorizon mutual fund, representing 1.67% of the Company's share capital. At December 31, 2016, they held 3,597,296 shares, or 1.51% of the share capital.

The Valeorizon mutual fund is an effective way of involving employees in the Group's performance.

As in 2016, a share subscription offering reserved for employees was launched in 2017 in 20 of the Group's main countries, giving 90% of employees the opportunity to become Valeo shareholders. The shares subscribed are subject to a five-year lock-up period. The offering is part of the development of Valeo's employee share ownership policy in France and abroad, which aims to involve employees in the Group's performance. At the close of the subscription period, which ran from June 6, 2017 to June 19, 2017, employees had subscribed to 509,990 new shares at a unit price of 51.62 euros, reflecting a 20% discount on the reference price. Since the offering in France was carried out under the Group Employee Savings Plan (*Plan d'Épargne de Groupe* – PEG), employees who subscribed to shares benefited from a top-up contribution from their employer. Outside France, employees were granted free shares subject to certain conditions.

6.5 Share buyback program AFR

6.5.1 Current share buyback program adopted by the Shareholders' Meeting of May 23, 2017

In accordance with Articles L.225-209 *et seq.* of the French Commercial Code, the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2017, in its eleventh resolution, granted the Board of Directors (with power to subdelegate) an authorization to carry out transactions in the shares issued by the Company, for the following purposes:

- the implementation of any stock option plan under the terms of Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment of free shares under the terms of Articles L.225-197-1 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment or sale of shares to employees as part of their involvement in the performance of the Company or pursuant to a company or Group employee savings plan (or similar plan) in accordance with applicable law or other similar plan, in particular Articles L.3332-1 *et seq.* of the French Labor Code (*Code du travail*); or
- in general, to comply with obligations in respect of stock option plans or other allotments of shares to employees or corporate officers of the issuer or of a related company; or
- the delivery of shares on the exercise of rights attached to securities giving access to the share capital (*valeurs mobilières donnant accès au capital*) by redemption, conversion, exchange, presentation of a warrant or any other means; or
- the retention and future delivery of shares (as exchange consideration, as payment or other) in connection with acquisitions, mergers, spin-offs or contributions; or
- the cancelation of all or part of the shares so acquired; or
- market-making in the secondary market or maintenance of the liquidity of the Valeo share through an investment services provider pursuant to a liquidity agreement compliant with the Code of Ethics recognized by the French financial markets authority (*Autorité des marchés financiers* – AMF);
- the implementation of any market practice permitted, or that may subsequently be permitted, by the AMF; or
- any other purpose authorized, or that may subsequently be authorized, by the applicable laws and regulations.

The number of shares that may be purchased by the Company during the buyback program is capped at 10% of the shares that constitute the Company's share capital at any time. This percentage applies to the share capital as adjusted for transactions carried out after the Shareholders' Meeting, it being specified that (i) when shares are acquired to increase liquidity, the number of shares used to determine the 10% limit corresponds to the number of shares purchased, after deduction of the number of shares sold during the authorized period; (ii) the number of shares purchased with a view to their retention for future delivery in connection with a merger, spin-off or contribution may not exceed 5% of the share capital; and (iii) the number of shares held by the Company at any time may not exceed 10% of the shares that constitute the Company's share capital.

The maximum purchase price is set at 100 euros per share and the maximum amount allotted to the share buyback program is set at 2,391,431,300 euros. Based on the per-share price of 100 euros, a maximum of 23,914,313 shares may therefore be purchased under the program.

This authorization was given for an 18-month period as of the Shareholders' Meeting of May 23, 2017 and canceled, as of the same date, the unused portion, as at the Shareholders' Meeting of May 23, 2017, of the authorization granted by the Shareholders' Meeting of May 26, 2016 in its eighteenth resolution.

A description of the 2017 renewal of the Company's share buyback program was drawn up in accordance with Articles 241-1 *et seq.* of the AMF's General Regulations.

In 2017, Valeo carried out a number of share sale and purchase transactions under the above-mentioned share buyback program, as well as the program authorized at the Shareholders' Meeting of May 26, 2016 (see section 6.5.2 of this chapter, "Treasury shares", pages 425 to 426).

6.5.2 Treasury shares

At December 31, 2017, the Company held, directly or indirectly, 1,729,121 treasury shares (i.e., 0.72% of the share capital) with a unit value based on the purchase price of 43.78 euros and a par value of 1 euro. At December 31, 2016, Valeo held 1,240,865 treasury shares, i.e., 0.52% of the share capital).

The shares purchased in 2017 were to be used in respect of:

- stock purchase options and free share plans;
- the implementation of a liquidity agreement.

The share purchases were carried out in accordance with authorizations granted by the Shareholders' Meetings of May 26, 2016 and May 23, 2017 to the Board of Directors to buy back Company shares, it being specified that the eleventh resolution of the Shareholders' Meeting of May 23, 2017 terminated and superseded the authorization granted by the Shareholders' Meeting of May 26, 2016.

The eighteenth resolution of the Shareholders' Meeting of May 26, 2016 authorized the Board of Directors (with the power to subdelegate) to purchase, or arrange for the purchase of, the Company's shares for the following purposes:

- the implementation of any stock option plan under the terms of Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment of free shares under the terms of Articles L.225-197-1 *et seq.* of the French Commercial Code; or

- the allotment or sale of shares to employees as part of their involvement in the performance of the Company or pursuant to a company or Group employee savings plan (or similar plan) in accordance with applicable law, in particular Articles L.3332-1 *et seq.* of the French Labor Code; or
- in general, to comply with obligations in respect of stock option plans or other allotments of shares to employees or corporate officers of the issuer or of a related company; or
- the delivery of shares on the exercise of rights attached to securities giving access to the share capital (*valeurs mobilières donnant accès au capital*) by redemption, conversion, exchange, presentation of a warrant or any other means; or
- the retention and future delivery of shares (as exchange consideration, as payment or other) in connection with acquisitions, mergers, spin-offs or contributions; or
- the cancelation of all or part of the shares so acquired; or
- market-making in the secondary market or maintenance of the liquidity of the Valeo share through an investment services provider pursuant to a liquidity agreement compliant with the Code of Ethics recognized by the AMF; or
- the implementation of any market practice permitted, or that may subsequently be permitted, by the AMF; or
- any other purpose authorized, or that may subsequently be authorized, by the applicable laws and regulations.

The eleventh resolution of the Shareholders' Meeting of May 23, 2017 authorized the Board of Directors (with the power to subdelegate) to purchase, or arrange for the purchase of, the Company's shares in accordance with the conditions specified in section 6.5.1 of this chapter, "Current share buyback program adopted by the Shareholders' Meeting of May 23, 2017", page 425.

Shares to be allotted to stock purchase option and free share plans

Shares were purchased in 2017. Under the share buyback program as authorized by the Shareholders' Meeting of May 26, 2016, Valeo acquired 1,228,009 shares at an average price of 61.0745 euros on May 17, 2017.

At December 31, 2017, the number of treasury shares to be allocated to stock purchase option and free share plans stood at 1,654,121 compared with 1,196,501 at December 31, 2016.

Shares for use under a liquidity agreement

In 2017, under the liquidity agreement signed with an investment services provider on April 22, 2004, Valeo acquired 1,280,669 shares at an average price of 59.61 euros and sold 1,250,033 shares at an average First-In-First-Out price of 59.45 euros. Trading and transaction fees incurred under the liquidity agreement entered into with an investment services provider that complies with the Code of Ethics of the French Association of Investment Firms (*Association française des entreprises d'investissement* – AFEI) totaled 140,000 euros. These shares were not reallotted to other purposes provided for under the share buyback program.

At December 31, 2017, 75,000 shares and 22,400,662.13 euros in cash had been allocated to the liquidity agreement, compared with 44,364 shares and 23,171,495.01 euros in cash at December 31, 2016. On the date the liquidity agreement was signed, 660,000 Valeo shares (following the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date) and 6,600,000 euros in cash were allotted for its implementation.

6.5.3 Share buyback program submitted to the Shareholders' Meeting of May 23, 2018

The Ordinary and Extraordinary Shareholders' Meeting to be held on May 23, 2018 will be asked to repeal the eleventh resolution approved by the Shareholders' Meeting of May 23, 2017 and to approve a new resolution, authorizing the implementation of a new share buyback program, in accordance with the provisions of Articles L.225-209 *et seq.* of the French Commercial Code and Regulation no. 596/2014 of the European Parliament and of the Council of April 16, 2014 as well as any provisions that may become applicable.

The features of the new share buyback program are described below.

Purposes of the new share buyback program

Under the new share buyback program, which will be submitted to the Ordinary and Extraordinary Shareholders' Meeting on May 23, 2018, Valeo plans to buy back, directly or indirectly, its own shares, for the following purposes:

- the implementation of any stock option plan under the terms of Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment of free shares under the terms of Articles L.225-197-1 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment or sale of shares to employees as part of their involvement in the performance of the Company or pursuant to a company or Group employee savings plan (or similar plan) in accordance with applicable law or other similar plan, in particular Articles L.3332-1 *et seq.* of the French Labor Code (*Code du travail*); or

- in general, to comply with obligations in respect of stock option plans or other allotments of shares to employees or corporate officers of the issuer or of a related company; or
- the delivery of shares on the exercise of rights attached to securities giving access to the share capital (*valeurs mobilières donnant accès au capital*) by redemption, conversion, exchange, presentation of a warrant or any other means; or
- the retention and future delivery of shares (as exchange consideration, as payment or other) in connection with acquisitions, mergers, spin-offs or contributions; or
- the cancelation of all or part of the shares so acquired; or
- market-making in the secondary market or maintenance of the liquidity of the Valeo share through an investment services provider pursuant to a liquidity agreement compliant with the Code of Ethics recognized by the AMF; or
- the implementation of any market practice permitted, or that may subsequently be permitted, by the AMF; or
- any other purpose authorized, or that may subsequently be authorized, by the applicable laws and regulations.

Number of shares and percentage of share capital held by the issuer

At January 31, 2018, Valeo directly or indirectly held 1,672,289 shares, representing 0.70% of the Company's share capital.

Breakdown of shares owned by Valeo by purpose

At January 31, 2018:

- 1,616,289 shares were allotted to stock purchase option plans;
- 56,000 shares were allotted under the liquidity agreement signed on April 22, 2004 with CA Cheuvreux and subsequently amended first by an additional clause on June 24, 2005, and again by an additional clause with Kepler Capital Markets on April 30, 2013. This agreement complies with the Code of Ethics of the AFEI, approved by the AMF on March 22, 2005 (which has since become the Code of Ethics of the French Association of Financial and Investment Firms (*Association française des marchés financiers* – AMAFI) approved by the AMF on October 1, 2008).

Maximum interest in the Company's share capital, maximum number and characteristics of shares that may be purchased under the new share buyback program

The maximum interest that can be purchased under the new share buyback program cannot exceed 10% of the shares making up the Company's share capital (e.g., 239,653,121 shares at January 31, 2018).

In accordance with the provisions of Article L.225-210 of the French Commercial Code, the number of shares that Valeo may hold at any time may not represent over 10% of the Company's share capital at the given date.

Given the number of shares the Company currently owns, i.e., 1,672,289 shares at January 31, 2018 (0.70% of the Company's share capital) and subject to adjustments affecting the number of shares held by the Company and the amount of share capital after the Ordinary and Extraordinary Shareholders' Meeting on May 23, 2018, a total of 22,293,023 shares (9.30% of the Company's share capital at January 31, 2018) could be available for purchase.

The securities covered by the buyback program are exclusively shares.

Maximum purchase price per share

The purchase price of shares under the new share buyback program may not exceed 100 euros per share. This price could be adjusted in the event of a change in the par value of the share, capital increase by capitalization of reserves, allotment of free shares, a stock split or reverse stock split, distribution of reserves, or any other assets, redemption of the share capital, or any other transaction affecting shareholders' equity, so as to take account of the impact of these transactions on the value of the share.

The maximum amount that can be spent under the new share buyback program will be fixed at 2,396,531 200 euros, fees and commissions included. Valeo reserves the right to use the full amount authorized under the program.

Term of the new share buyback program

In accordance with the resolution that will be submitted to the Ordinary and Extraordinary Shareholders' Meeting for approval on May 23, 2018, the new share buyback program would be authorized for an 18-month period as of the meeting, i.e., until November 23, 2019.

6.5.4 Cancelation of treasury shares

In the nineteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2017, the Company's shareholders gave the Board of Directors a 26-month authorization to reduce the Company's share capital by canceling treasury shares. Under this authorization, the number of shares canceled in any given 24-month period may not exceed 10% of the Company's share capital.

6.6 Additional disclosures concerning the share capital

6.6.1 Changes in share capital

Changes in the Company's capital during 2017 were as follows:

		Changes (in millions of euros)				
Year	**Type of operation**	**Nominal**	**Premium**	**Total**	**Number of shares issued**	**Total number of shares at Dec. 31, 2017**
2017	Capital increase reserved for employees	0.5	25.8	26.3	509,990	239,653,121

The share capital at December 31, 2017 therefore comprised 239,653,121 shares with a par value of 1 euro, fully paid-up and traded on the Euronext Paris regulated market.

At December 31, 2017, there were no plans in place pursuant to which shares could be issued on exercise of stock subscription options awarded to the Group's employees and corporate officers.

To the best of the Company's knowledge, none of these shares have been pledged.

6.6.2 Other securities giving access to the share capital – Stock purchase option and free share plans

Stock purchase option plans in force at December 31, 2017

	2010 plan	2011 plan	2012 plan
Date of Board meeting	**06/24/2010**	**06/08/2011**	**03/27/2012**
Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011
Total number of shares that can be purchased	**3,000,000**	**878,520**	**1,101,480**
■ Total number of options alloted to corporate officers[1]	300,000	90,900	105,900
■ Total number of options alloted to employees	2,700,000	787,620	995,580
■ Number of corporate officer grantees[1]	1	1	1
■ Number of employee grantees	727	275	282
Start of exercise period	06/24/2012	06/08/2014	03/27/2015
Expiration date	06/23/2018	06/07/2019	03/26/2020
Purchase price	€8.02	€14.13	€13.59
Performance criteria[2]			
■ Chairman and Chief Executive Officer, Operations Committee	Operating margin	Operating margin – ROCE – ROA	Operating margin – ROCE – ROA
■ Liaison Committee	Operating margin	Operating margin – ROCE	Operating margin – ROCE
■ Main direct reports of the Liaison Committee members	Operating margin	Operating margin – ROCE	Operating margin – ROCE
■ High-potential managers	Operating margin	-	-
■ All employees	-	-	-
Performance criteria - rate of achievement			
■ Chairman and Chief Executive Officer, Operations Committee	100%	60%	100%
■ Liaison Committee and main direct reports of the Liaison Committee members	100%	50%	100%
■ High-potential managers	100%	75%	100%
■ All employees	-	-	-
Number of options exercised at Dec. 31, 2017	2,276,569	414,445	756,095
Number of stock options canceled or forfeited at Dec. 31, 2017 (cumulative)	455,736	381,900	118,650
Number of options outstanding at Dec. 31, 2017	**267,695**	**82,175**	**226,735**
Number of grantees at Dec. 31, 2017	114	46	76

(1) Chairman and Chief Executive Officer.
(2) For definitions of operating margin, ROCE and ROA, see Financial Glossary, page 36.

Free share plans in force at December 31, 2017(1)

	2013 plan	2014 plan	2015 plan	2016 plan	2017 plan
Date of Shareholders' Meeting	**06/04/2012**	**06/04/2012**	**05/21/2014**	**05/26/2016**	**05/26/2016**
Date of Board meeting	03/27/2013	03/27/2014	03/26/2015	05/26/2016	03/22/2017
Total number of free shares allotted	**1,421,442**	**970,440**	**957,027**	**1,267,022**	**1,012,043**
■ Total number of shares allotted to corporate officers(2)	76,902	31,515	30,696	70,974	51,030
■ Total number of shares allotted to employees	1,344,540	938,925	926,331	622,158	538,731
■ Total number of options alloted under employee share ownership plans	-	-	-	573,890	422,282
■ Number of corporate officer grantees(2)	1	1	1	1	1
■ Number of employee grantees	56,966	174,308	188,550	28,030(1)	32,214(1)
Vesting date of shares					
■ Chairman and Chief Executive Officer, Operations Committee	France: 03/27/2016 Other countries: 03/27/2018	France: 03/27/2017 Other countries: 03/27/2019	France: 03/27/2018 Other countries: 03/27/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2020 Other countries: 03/22/2022
■ Liaison Committee and main direct reports of the Liaison Committee members	France: 03/27/2016 Other countries: 03/27/2018	France: 03/27/2017 Other countries: 03/27/2019	France: 03/27/2018 Other countries: 03/27/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2020 Other countries: 03/22/2022
■ High-potential managers	-	-	France: 03/27/2018 Other countries: 03/27/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2020 Other countries: 03/22/2022
■ All employees	France/ Spain/Italy: 03/27/2016 Other countries: 03/27/2018	France/ Spain/Italy: 03/27/2017 Other countries: 03/27/2019	France/ Spain/Italy: 03/27/2018 Other countries: 03/27/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2020 Other countries: 03/22/2022
■ Employee share ownership plans	-	-	-	Spain/Italy: 05/26/2019 Other countries: 05/26/2021	Spain/Italy: 03/27/2020 Other countries: 03/27/2022
Shares available as at					
■ Chairman and Chief Executive Officer, Operations Committee	03/27/2018	03/27/2019	03/27/2020	05/26/2021	03/22/2022
■ Liaison Committee and main direct reports of the Liaison Committee members	03/27/2018	03/27/2019	03/27/2020	05/26/2021	03/22/2022
■ High-potential managers	-	-	03/27/2020	05/26/2021	03/22/2022
■ All employees	France/Other countries: 03/27/2018 Spain/Italy: 03/27/2019	France/Other countries: 03/27/2019 Spain/Italy: 03/27/2020	France/Other countries: 03/27/2020 Spain/Italy: 03/27/2021	France/Other countries: 05/26/2021	France/Other countries: 03/27/2022
■ Employee share ownership plans	-	-	-	Spain/Italy: 05/26/2022 Other countries: 05/26/2021	Spain/Italy: 03/27/2023 Other countries: 03/27/2022

(1) Excluding shares alloted under employee share ownership plans.
(2) Chairman and Chief Executive Officer.

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Date of Shareholders' Meeting	2013 plan 06/04/2012	2014 plan 06/04/2012	2015 plan 05/21/2014	2016 plan 05/26/2016	2017 plan 05/26/2016
Performance criteria[(1)]					
■ Chairman and Chief Executive Officer, Operations Committee	Operating margin – ROCE – ROA	Operating margin – ROCE – ROA	Operating margin – ROCE – ROA	Operating margin – ROCE – ROA	Operating margin – ROCE – ROA
■ Liaison Committee and main direct reports of the Liaison Committee members	Operating margin – ROCE	Operating margin – ROCE	Operating margin – ROCE	Operating margin – ROCE	Operating margin – ROCE
■ High-potential managers	-	-	-	-	-
■ All employees	-	-	-	-	-
PERFORMANCE CRITERIA – RATE OF ACHIEVEMENT					
■ Chairman and Chief Executive Officer, Operations Committee	100%	100%			
■ Liaison Committee and main direct reports of the Liaison Committee members	100%	100%			
■ High-potential managers	-	-			
■ All employees	-	-			
Number of shares vested at Dec. 31, 2017 (cumulative)	770,118	419,076	63	642	76
Number of shares canceled or forfeited at Dec. 31, 2017 (cumulative)	202,608	193,335	148,974	42,433	17,690
Number of shares outstanding at Dec. 31, 2017	**448,716**	**358,029**	**807,990**	**873,326**	**754,806**
Number of grantees at Dec. 31, 2017	27,126	26,723	49,584	26,023	31,018

(1) For definitions of operating margin, ROCE and ROA, see Financial Glossary, page 36.

6.6.3 Securities not representing capital

Information about securities not representing capital (Euro Medium Term Note program and other bonds) is provided in Chapter 5, section 5.4.6, Note 8.1.2.1 "Long-term debt" to the consolidated financial statements, page 345.

6.6.4 Other information on the share capital

Change in control

At the date of this Registration Document and to the best of the Company's knowledge, there are no shareholder agreements or other agreements in force that could lead to a change in control of the Company in the future.

Capital under option of any member of the Group

At the date of this Registration Document, no capital of any member of the Group was under option or conditional or unconditional agreement to be put under option.

Disclosure thresholds

In accordance with Article L.233-7 of the French Commercial Code, any individual or legal entity, acting alone or in concert, that holds a number of shares representing over 5%, 10%, 15%, 20%, 25%, 30%, 33.33%, 50%, 66.66%, 90% or 95% of the Company's share capital or voting rights, is required to disclose to the Company and the AMF by letter that the related disclosure threshold has been exceeded. Said disclosure must be made no later than the close of the fourth trading day from the date the threshold is exceeded and must also state the total number of shares and voting rights held by the shareholders concerned. The disclosures are subsequently published by the AMF. This disclosure obligation also applies when an interest in the Company's share capital and/or voting rights is reduced to below the above-mentioned thresholds. If any shareholder fails to comply with these disclosure requirements, the shares in excess of the relevant threshold will be stripped of voting rights at all Shareholders' Meetings held within the two-year period from the date when the omission is remedied.

Since the Shareholders' Meeting of March 31, 2003, Article 9 of the Valeo articles of association states that, in addition to the applicable statutory disclosure thresholds, any individual or legal entity, acting alone or in concert, that raises or reduces its interest in the Company's share capital or voting rights, directly or indirectly, to above or below 2% respectively (or any multiple thereof), is required to disclose to the Company by registered letter with return receipt requested that the relevant disclosure threshold has been crossed. Said disclosure must be made within 15 days of the date when the threshold is crossed and the shareholder concerned must state their own identity as well as that of any parties acting in concert with the shareholder. In accordance with the seventh paragraph of Article L.228-1 of the French Commercial Code, this disclosure requirement also applies to shares held through an intermediary.

Non-compliance with the above obligations is subject to the penalties set out in Article L.233-14 of the French Commercial Code, at the request of one or several shareholders together holding at least 2% of the Company's share capital or voting rights, as recorded in the minutes of the Shareholders' Meeting.

Shareholder identification

Registered and bearer shares are recorded in shareholders' accounts in accordance with applicable laws and regulations.

However, a bank, broker or other intermediary may register on behalf of shareholders who are domiciled outside France in accordance with Article 102 of the French Civil Code (*Code civil*). This registration may be made in the form of a joint account or several individual accounts, each corresponding to one shareholder. Any such intermediary must inform the Company or the intermediary managing the Company's account that it is holding the shares on behalf of another party.

The Company is entitled to identify all holders of shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, in accordance with the procedure provided for in Article L.228-2 *et seq.* of the French Commercial Code.

In order to identify holders of bearer shares, in accordance with the applicable laws and regulations, the Company is entitled to request, at any time, from the central depository responsible for its security issues account, in exchange for a fee, the name – or, in the case of corporate shareholders, the company name – nationality, year of birth – or, in the case of corporate shareholders, the year of incorporation – and address of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, together with details of the number of shares held by each such shareholder and of any restrictions applicable to the securities concerned.

Based on the list provided by the above-mentioned organization, where the Company considers that shares may be held on behalf of third parties, it may request, in accordance with the same conditions, either through the organization or directly from the parties mentioned on the list, the same information concerning the holders of the shares. If one of the parties mentioned on the list is a bank, broker or other intermediary, it must disclose the identity of the shareholders for whom it is acting. The information is provided directly to the financial intermediary managing the Company's share account, which shall pass on said information either to the Company or the above-mentioned central depository, as applicable.

For registered shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares, any intermediary holding the securities on behalf of a third party must disclose the identity of the person or entity for whom it is acting as well as the number of shares held by each of them, upon simple request by the Company or its representative, which may be made at any time.

The Company may also request from any corporate shareholder holding over 2.5% of the Company's share capital or voting rights, information concerning the identity of persons or companies holding either directly or indirectly over one-third of its share capital or voting rights.

If an individual or corporate shareholder is asked to provide information in accordance with the above conditions and fails to provide it by the applicable deadline, or provides incomplete or incorrect information, the shares or other securities redeemable, exchangeable, convertible or otherwise exercisable for shares recorded in the shareholder's account shall be stripped of voting rights for all Shareholders' Meetings until the identification request has been fulfilled, and the payment of any corresponding dividends shall also be deferred until that date.

In addition, if an individual or company registered in the Company's shareholders' account deliberately ignores their obligations, the Company or one or more shareholders holding at least 5% of the Company's share capital may petition the court of the place in which the Company's registered office is located to obtain an order to totally or partially strip the shares concerned of their voting rights and the corresponding dividend, for a maximum period of five years.

7 —

ADDITIONAL INFORMATION

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

7.1 Principal provisions of the law and the articles of association

7.1.1 Company name and headquarters

The Company's corporate name is Valeo and its headquarters are located at 43, rue Bayen, 75017 Paris, France, tel.: +33 (0)1 40 55 20 20.

7.1.2 Legal structure and governing law

Valeo is a joint stock company (*société anonyme*) with a Board of Directors. It is governed by French law, notably the provisions of Book II of the French Commercial Code (*Code de commerce*) and various provisions of the regulatory section of the French Commercial Code.

7.1.3 Corporate governance

For the purposes of transparency and disclosure, the Company has set up a number of procedures to ensure that it complies with best corporate governance practices. For further information, see the Corporate Governance Report in Chapter 3 "Corporate Governance", page 93.

7.1.4 Date of incorporation and term

The Company was incorporated on February 10, 1923 and its term was extended for a further 99 years on February 10, 1972.

7.1.5 Corporate purpose

The Company's corporate purpose is as follows (Article 3 of the articles of association):

- the research, manufacturing, sale, trade and supply of all products, equipment and services for the industrial and retail sectors, that may be manufactured and developed by factories of the Company or of companies of its Group or that may be of interest to their customers; and
- more generally, engaging in any transactions whatsoever, including industrial, commercial, financial, real estate and other property transactions, sales, acquisitions, capital contributions, etc., directly or indirectly related to the corporate purpose or contributing to its extension or development.

7.1.6 Registration details

The Company is registered at the Paris Trade and Companies Registry under the number 552 030 967 RCS Paris.

7.1.7 Fiscal year

The Company's fiscal year covers a twelve-month period from January 1 to December 31.

7.1.8 Dividends

Each share entitles its holder to a proportion of income equal to the proportion of capital represented by the share.

Distributable income is composed of net income for the year less any prior year losses and amounts appropriated to the legal reserve, plus any income carried forward. Furthermore, shareholders in a Shareholders' Meeting may decide, subject to the conditions set out by law, to distribute amounts taken from available reserves and/or retained earnings. In this case, the related resolution approved by the Shareholders' Meeting must clearly specify the reserve account from which the distributed amounts are to be taken.

Shareholders may resolve to pay out a dividend only after approving the financial statements for the year and noting that amounts are available for distribution. The dividend payment terms are defined by the Annual Shareholders' Meeting or, by default, the Board of Directors.

The Board of Directors may decide to pay an interim dividend for the current year or the year ended before the financial statements are approved, subject to the conditions set out by law, and may set the amount and date of payment.

At the Shareholders' Meeting called to approve the annual financial statements, shareholders may decide to offer a stock dividend alternative to cash dividends representing all or part of the dividend, or interim dividend, as provided for by law.

Dividends unclaimed after a period of five years from the date they were made payable are paid over to the French State.

7.1.9 Liquidation surpluses

Liquidation surpluses are allocated between the shareholders in proportion to their interests in the Company's share capital.

7.1.10 Shareholders' Meetings

Ordinary and Extraordinary Shareholders' Meetings are called and conduct business in accordance with the conditions set out by law.

In accordance with Article R.225-85 of the French Commercial Code, shareholders may participate in Shareholders' Meetings subject to submitting evidence of ownership of their shares. Share ownership is evidenced by an entry in Valeo's share register in the name of the shareholder (or of the intermediary acting on their behalf) or in the register of bearer shares held by an accredited intermediary. Such entries must be recorded by 00:00 hours (12:00 am) (CET) on the second working day preceding the date of the meeting. In the case of bearer shares, the accredited intermediary shall provide a share ownership certificate for the shareholders concerned, which must be attached to the postal voting or proxy form or to the admission card made out in the name of the shareholder or in the name of the registered intermediary representing the shareholder.

Subject to the above mentioned conditions, all shareholders are entitled to attend Shareholders' Meetings provided they have settled all capital calls related to their shares.

Shareholders who are unable to attend a meeting in person may choose one of the following three options:

- give proxy to another shareholder, their spouse or partner with whom they have entered into a civil partnership agreement or any other individual or legal entity of their choice;
- cast a postal vote; or
- return the signed proxy form to the Company without naming a person to represent them, in accordance with the applicable laws and regulations.

In compliance with the conditions set out by the applicable laws and regulations, shareholders may send proxy and postal voting forms for any Shareholders' Meetings either in paper format or in electronic form.

Minutes of Shareholders' Meetings are drawn up, and copies and extracts thereof are certified and delivered, in accordance with the law.

7.1.11 Double voting rights

Each shareholder has a number of votes corresponding to the number of shares held or represented by proxy.

However, since the Shareholders' Meeting of June 16, 1992, Article 23 of the Company's articles of association provides that double voting rights are attached to all fully paid shares that have been registered in the name of the same holder for at least four years. In the case of a capital increase paid up by capitalizing reserves, profit or share premiums, the new registered free shares allotted to a shareholder in respect of existing shares with double voting rights will also carry double voting rights from the date of issue. Double voting rights are automatically stripped from any registered shares that are converted into bearer shares or transferred. However, registered shares are not stripped of voting rights and the above four-year qualifying period continues to run following the transfer of shares included in the estate of a deceased shareholder, or in connection with the settlement of the marital estate, or an inter vivos gift to a spouse or relative in the direct line of succession. Double voting rights may be removed by decision of the Extraordinary Shareholders' Meeting, subject to the approval of shareholders entitled to double voting rights, at a special meeting held for that purpose.

7.1.12 Changes in share capital and rights attached to shares

Any changes in the Company's share capital or voting rights attached to shares are subject to the applicable laws as the articles of association do not contain any specific provisions in relation to such operations.

7.2 Information on subsidiaries and affiliates

The Group's overall legal and operational structure is described in Chapter 1 "Presentation of Valeo", pages 38 to 70.

Following the creation of subsidiaries for its industrial activities in 2002, Valeo SA is now solely a holding and cash management company for the Group. The Company is the head of the tax consolidation group in France.

Excluding certain exceptions, Valeo SA centralizes the management of market risks to which its operating subsidiaries are exposed, including changes in interest rates and fluctuations in exchange rates and prices of quoted commodities.

Valeo SA also centralizes the financing requirements of these subsidiaries and is generally the sole counterparty of the financial institutions that provide the funding to cover these requirements. The related assets (cash and cash equivalents) and liabilities (external debt) are included in Valeo's balance sheet. The Group is also responsible for upholding the image of the Valeo brand. To this end, it has entered into agreements with some of its French subsidiaries, under which Valeo SA allows them to benefit from the Group's expertise, values, business model and processes.

Group-wide control and support functions, encompassing accounting, legal services, information technology, procurement, communication and business development, research and development strategy and management, and quality audits, etc., are performed by the intragroup partnership (*groupement d'intérêt économique*), Valeo Management Services. The purpose of this entity is to make common resources available and to implement the necessary means and take the required action to increase savings and optimize the costs of its members. Valeo Management Services is financed by contributions from its 13 members, which consist of companies belonging to the Group.

The Group's operating assets and liabilities are carried by its subsidiaries with plants, research and/or development centers and distribution platforms. These subsidiaries representing 80% of consolidated sales are listed in the table on the following page.

The entities with distribution platforms are active only on the independent aftermarket, in the countries where they operate. Sales to automakers are handled directly by the Business Groups, Product Groups and Product Lines involved in the production process. The commercial activities of the Business Groups, Product Groups and Product Lines with a given customer are coordinated by the networks of the Sales and Business Development Department, described in Chapter 1, section 1.6.2 "Sales & Business Development", page 64.

A list of consolidated companies is provided in Chapter 5, section 5.4.6, Note 13 "List of consolidated companies" to the 2017 consolidated financial statements, pages 369 to 371 (the list also shows the location of the companies). The position of Valeo's direct subsidiaries and interests is presented in the table included in the notes to the parent company financial statements, Chapter 5, section 5.6.4, Note 12 "Subsidiaries and affiliates", page 403.

▶ Main companies

(representing 80% of consolidated sales)
Direct and indirect interests by country (% interest at December 31, 2017)

Region	Country	Company	% interest	Plant	Research and Development center	Distribution platform
European Union	France	DAV	100%	▲	▲	
		Valeo Équipements Électriques Moteur	100%	▲	▲	
		Valeo Service	100%			△
		Valeo Systèmes de Contrôle Moteur	100%	▲	▲	
		Valeo Embrayages	100%	▲	▲	
		Valeo Systèmes Thermiques	100%	▲	▲	
		Valeo Vision	100%	▲	▲	
	Ireland, Germany	Connaught Electronics Limited	100%	▲	▲	
		peiker acustic GmbH	100%	▲	▲	
		Valeo Klimasysteme GmbH	100%	▲	▲	
		Valeo Schalter und Sensoren GmbH	100%	▲	▲	
		Valeo Wischersysteme GmbH	100%	▲	▲	
	Spain, Italy	Valeo Iluminación, S.A.U.	100%	▲	▲	
		Valeo, S.p.A	100%	▲	▲	
	Hungary, Poland, Czech Republic, Romania	Valeo Auto-Electric Hungary LLC	100%	▲	▲	
		Valeo Autoklimatizace k.s.	100%	▲	▲	
		Valeo Autosystemy Sp.ZO.O	100%	▲	▲	
		Valeo Compressor Europe S.r.o	100%	▲	▲	
		Valeo Electric and Electronic Systems Sp.ZO.O	100%	▲	▲	
		Valeo Lighting Injection S.A.	100%	▲		
Europe outside the EU	Turkey	Valeo Otomotiv Sanayi ve Ticaret A.S.	100%	▲	▲	△
North America	United States, Canada	Valeo North America, Inc.	100%	▲	▲	△
		Valeo Radar Systems, Inc.	100%	▲	▲	
		Valeo Canada, Inc.	100%	▲		
	Mexico	Delmex de Juarez S de RL de CV	100%	▲		
		Valeo Sistemas Automotrices de México, SA de CV	100%	▲		△
		Valeo Sistemas Electricos, SA de CV	100%	▲		△
		Valeo Sistemas Electronicos, S de RL de CV	100%	▲		
South America	Brazil, Argentina	Valeo Sistemas Automotivos Ltda	100%	▲	▲	△
Asia	China	Valeo Automotive Air Conditioning Hubei Co. Ltd	100%	▲	▲	
		Valeo Engine Cooling (Foshan) Co. Ltd	100%	▲	▲	
		Valeo Ichikoh (China) Auto Lighting Co. Ltd	93%	▲		
		Valeo Interior Controls (Shenzhen) Co. Ltd	100%	▲	▲	
		Valeo Kapec Torque Converters (Nanjing) Co. Ltd (formerly Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd)	50%	▲	▲	
	South Korea, Thailand, Japan	Valeo Electrical Systems Korea, Ltd	100%	▲	▲	
		Valeo Pyeong HWA Co. Ltd	50%	▲	▲	
		Valeo Automotive (Thailand) Co. Ltd	100%	▲		△
		Valeo Japan Co. Ltd	100%	▲	▲	△
		Ichikoh Industries Ltd	55%	▲	▲	

▲ Plant ▲ Research and Development center △ Distribution platform

7.3 Material contracts

With the exception of the contracts mentioned below, neither Valeo nor any of the Group's companies signed any major contracts in the last two years other than those related to the ordinary course of their business.

7.3.1 In 2017

As part of the takeover bid that ran from November 24, 2016 to January 12, 2017, Valeo announced on January 13, 2017 that, following the settlement-delivery on January 20, 2017, it would hold 55.08% of **Ichikoh's** capital. Valeo therefore took control of Japan's leading automotive lighting company, which continues to be listed on the Tokyo Stock Exchange. Ichikoh has been consolidated by Valeo with effect from February 1, 2017. The transaction was approved by the relevant antitrust authorities in December 2016.

On March 13, 2017, Valeo announced it had acquired the entire share capital of **gestigon**, a German start-up specialized in developing 3D image processing software for the vehicle cabin. This acquisition mainly provided a solution to the need to develop simple, intuitive and effective human-machine interfaces (HMIs) in a hyper-connected world. With the acquisition, Valeo will be able to develop its cabin comfort and driving assistance operations, particularly in high-growth technologies such as interior cameras and image processing.

On October 31, 2017, Valeo announced that it had acquired **FTE automotive**, a leading producer of actuators, after deciding to sell its passive hydraulic actuator business (see Chapter 5, section 5.4.6, Note 2.2 "Acquisition of FTE automotive" and "Sale of the Passive Hydraulic Actuator business" to the consolidated financial statements, pages 299 and 305) and receiving clearance from the European Commission and Turkish antitrust authorities. FTE automotive's product portfolio and customer base are highly complementary to those of Valeo. The acquisition enables Valeo to expand its offering of active hydraulic actuators, a strategic and fast-growing market driven by the rise of hybrid vehicles.

On February 6, 2017, Valeo and its longstanding South Korean partner PHC Group announced that they had signed an agreement to create **Valeo-Kapec Co. Ltd**, which aims to become the world leader in torque converters for automatic and continuously variable transmissions. The operation was finalized on November 30, 2017, after the necessary regulatory clearance had been obtained.

On June 15, 2017, Valeo announced that it had signed a cooperation agreement with **Cisco** to develop strategic innovations in smart mobility services. Thanks to the combination of the power of Valeo's automatic parking technologies, onboard telematics and secure key technology and Cisco's Parking Controller technologies, which equip car parks with Wi-Fi, video sensors and artificial intelligence-based technology, the Cyber Valet Services smart parking service has already been launched.

Lastly, on December 11, 2017, Valeo confirmed it had invested 375 million Chinese renminbi (around 50 million euros) in the **Cathay CarTech** fund – the first renminbi-denominated fund launched by Cathay Capital – with a view to investing in China's highly dynamic automotive and mobility ecosystem. Together with another cornerstone investor, Yangtze River Industry Fund, and other investors, Cathay CarTech will focus on China and expects to invest up to 1.5 billion Chinese renminbi (around 200 million euros) in innovative companies and start-ups.

Valeo also announced:

- on January 4, 2017, the placement of 500 million euros' worth of new bonds, with a coupon of 0.625% maturing on January 11, 2023. BNP Paribas, Citi, CM-CIC, Natixis and Mizuho were joint bookrunners on this transaction;
- on March 6, 2017, the signature of an agreement with an Investment Services Provider to buy back Valeo shares. The shares will be fully allocated to cover the implementation of stock option purchase plans and the allotment of shares to employees as part of their involvement in the performance of the Company or pursuant to a company savings plan. On May 12, 2017, in order to achieve certain goals under the Share Buyback Program authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016, Valeo acquired 1,228,009 shares at an average price of 61.0745 euros; and
- on September 5, 2017, the placement of 600 million euros' worth of new bonds with a coupon of 0.375% maturing on September 12, 2022. BNP Paribas, HSBC, JP Morgan, MUFG, Natixis and Société Générale were joint bookrunners on this transaction.

7.3.2 In 2016

On March 1, 2016, Valeo sold its Engine Control business, in which it was not among the world-leading players.

Following on from its February 20, 2015 technological cooperation agreement with **peiker**, a leading supplier of onboard telematics and connectivity solutions, Valeo acquired the German company. The acquisition, which was confirmed on March 8, 2016, enables Valeo to broaden its range of automotive geolocation and mobile connectivity solutions to improve its driving assistance systems.

The acquisition of **Spheros**, the worldwide leader in air conditioning systems for buses, whose client base includes leading bus manufacturers and major fleet operators, was finalized on March 31, 2016. This highly buoyant market is expected to grow, led by the development of public transportation across the world, against the backdrop of rapid urbanization.

On April 18, 2016, Valeo announced its plan to form a 50-50 joint venture with **Siemens** dedicated to high-voltage powertrains. The joint venture became fully operational on December 1, 2016 under the name "Valeo Siemens eAutomotive GmbH". Through this project, Valeo and Siemens are ultimately seeking to create a global leader in the fast-growing market of automotive electrification by offering solutions for high-voltage (above 60 V) systems designed for all types of electric vehicles (hybrids, plug-in hybrids and full electric vehicles).

On November 10, 2016, Valeo announced its acquisition of a 50% stake in the capital of **CloudMade**, a developer of smart and innovative big data-driven automotive solutions. CloudMade is a pioneering start-up in machine learning, artificial intelligence and predictive engines. This expertise, combined with Valeo's command of driving assistance applications (sensors, cameras and laser scanners), as well as connectivity, human-machine interface and thermal climate control solutions, will enable CloudMade to provide carmakers with solutions to continuously adapt driving assistance functions to the profile of each individual driver. This radically innovative product offering will enhance the user experience in terms of both intuitive driving and in-vehicle well-being.

7.4 Documents on display

The Company's press releases and annual Registration Documents filed with the French financial markets authority (*Autorité des marchés financiers* – AMF), including historical financial information relating to the Company and the Group, as well as any updates thereto can be accessed on the Company's website at: www.valeo.com.

In accordance with Article 221-3 of the AMF's General Regulations, the regulated information defined in Article 221-1 of these Regulations is posted on the Company's website (www.valeo.com) for five years, as well as on the website of the French Directorate of Legal and Administrative Information (www.info-financiere.fr), the French officially appointed mechanism for the storage of regulated information. It remains on the Company's website for at least five years after the related documents are issued, with the exception of Registration Documents, and annual and interim financial reports, which remain online for at least 10 years.

In accordance with the AMF's General Regulations, the Company's Internal Procedures and the articles of association are available on the Company's website. Together with the minutes of Shareholders' Meetings, Statutory Auditors' reports and all other corporate documents, these documents are also available at Valeo's headquarters in accordance with the conditions set out by law and the Company's articles of association.

Notifications of disclosure thresholds crossed are also published on the AMF's website (www.amf-france.org).

7.5 Information related to the Statutory Auditors

7.5.1 Principal Statutory Auditors and alternate Statutory Auditors

Principal Statutory Auditors

- **Ernst & Young et Autres**, represented by Jean-François Ginies and Philippe Berteaux – 1/2, place des Saisons, 92400 Courbevoie, Paris-La Défense, France:
  - Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles*);
  - Term of office began: Shareholders' Meeting of May 26, 2016 (second term);
  - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2021.
- **Mazars**, represented by Thierry Colin and Gaël Lamant – Exaltis 61, rue Henri Regnault, 92400 Courbevoie, France:
  - Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles*);
  - Term of office began: Shareholders' Meeting of May 26, 2016 (second term);
  - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2021.

Alternate Statutory Auditors

- **Auditex** – 1/2, place des Saisons, 92400 Courbevoie, Paris-La Défense, France:
  - Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles*);
  - Term of office began: Shareholders' Meeting of May 26, 2016 (second term);
  - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2021.
- **Mr Jean-Maurice El Nouchi** – 61, rue Henri Régnault, 92400 Courbevoie, France:
  - Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles*);
  - Term of office began: Shareholders' Meeting of May 26, 2016 (second term);
  - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2021.

7.5.2 Fees paid to the Statutory Auditors

	Ernst & Young				Mazars			
	Amount (excl. taxes)		%		Amount (excl. taxes)		%	
(in millions of euros)	2017	2016	2017	2016	2017	2016	2017	2016
AUDIT								
Statutory audit, certification and review of the individual and consolidated financial statements	4.9	3.9	94%	86%	3.1	3.0	94%	94%
Non-audit services	0.3	0.6	6%	14%	0.2	0.2	6%	6%
TOTAL FEES	**5.2**	**4.5**	**100%**	**100%**	**3.3**	**3.2**	**100%**	**100%**

7.6 Person responsible for the Registration Document

7.6.1 Name of the person responsible for the Registration Document containing the Annual Financial Report

Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo.

7.6.2 Declaration by the person responsible for the Registration Document containing the Annual Financial Report AFR

"I hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omissions likely to affect its import.

I further declare that, to the best of my knowledge, the accounts have been prepared in accordance with applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position, and results of the Company and of all the companies included in the consolidation scope, and that the information provided in the Management Report and listed in the cross-reference table in Chapter 8, section 8.1.3 fairly presents the activity, results and financial position of the Company and of all the companies in the consolidation scope, and the main risks and uncertainties to which they are exposed.

I obtained a statement from the Statutory Auditors at the end of their engagement in which they affirm that they have read the entire Registration Document, of which this document is a free translation from the original, and examined the information about the financial position and the accounts contained therein."

Paris, March 29, 2018

Jacques Aschenbroich,
Chairman and Chief Executive Officer

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APPENDIX

8.1 Cross-reference tables

8.1.1 Cross-reference table for the Registration Document

This cross-reference table lists the main headings provided for by European Regulation no. 809/2004 of April 29, 2004 (the "Regulation") and gives reference to the sections and, when appropriate, the chapters in this document where information can be found regarding each of these headings. It also refers to the Registration Document sections and chapters for the fiscal year ended December 31, 2016, registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 24, 2017, under number D.17-0226 ("2016 RD") and, where necessary, to the Registration Document sections and chapters for the fiscal year ended December 31, 2015, registered with the AMF on March 25, 2016 under number D.16-0211 ("2015 RD").

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
1.	**Persons responsible**		
1.1	Names and functions of persons responsible	7.6.1	441
1.2	Declaration by persons responsible	7.6.2	441
2.	**Statutory Auditors**		
2.1	Name and address of the Statutory Auditors	7.5.1	440
2.2	Information on the resignation of the Statutory Auditors	N/A	
3.	**Selected financial information**		
3.1	Historical financial information	Integrated Report – Key figures in 2017 and 5.8.1	6-9; 411
3.2	Interim financial information	N/A	
4.	**Risk factors**	**2.1**	**71-92**
5.	**Information about the issuer**		
5.1	History and development of the issuer		
5.1.1	Legal and commercial name of the issuer	7.1.1	434
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Safe Harbor Statement

Statements contained in this document, which are not historical fact, constitute "forward-looking statements". These statements include projections and estimates and their underlying assumptions, statements regarding projects, objectives, intentions and expectations with respect to future financial results, events, operations, services, product development and potential, and statements regarding future performance. Even though Valeo's Management feels that the forward-looking statements are reasonable as at the date of this document, investors are put on notice that the forward-looking statements are subject to numerous factors, risks and uncertainties that are difficult to predict and generally beyond Valeo's control, which could cause actual results and events to differ materially from those expressed or projected in the forward-looking statements. Such factors include, among others, the Company's ability to generate cost savings or manufacturing efficiencies to offset or exceed contractually or competitively required price reductions. The risks and uncertainties to which Valeo is exposed mainly comprise the risks resulting from the investigations currently being carried out by the antitrust authorities as identified in the Registration Document, risks which relate to being a supplier in the automotive industry and to the development of new products and risks due to certain global and regional economic conditions. Also included are environmental and industrial risks as well as risks and uncertainties described or identified in the public documents submitted by Valeo to the French financial markets authority (*Autorité des marchés financiers* – AMF), including those set out in the "Risk factors" section of this Registration Document.

The Company assumes no responsibility for any analyses issued by analysts and any other information prepared by third parties which may be used in this document. Valeo does not intend or assume any obligation to review or to confirm the estimates of analysts or to update any forward-looking statements to reflect events or circumstances which occur subsequent to the date of this document.

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