2019

Universal Registration Document

INTEGRATED REPORT

ANNUAL FINANCIAL REPORT

CORPORATE GOVERNANCE
AND SUSTAINABLE
DEVELOPMENT REPORT

SMART TECHNOLOGY FOR SMARTER MOBILITY

Valeo

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

UNIVERSAL REGISTRATION DOCUMENT

2019

INTEGRATED REPORT

ANNUAL FINANCIAL REPORT

CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT REPORT

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

The French language version of this Universal Registration Document was filed on April 28, 2020 with the French financial markets authority (*Autorité des marchés financiers* – AMF) in its capacity as competent authority within the meaning of EU Regulation 2017/1129, without prior approval, in accordance with Article 9 of said regulation. The Universal Registration Document may also be used for the offer to the public or the admission to trading of securities on a regulated market, provided it is accompanied by a securities note and, if applicable, a summary of all amendments applied to the Universal Registration Document. All of these items are approved by the AMF in accordance with the abovementioned regulation.

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.

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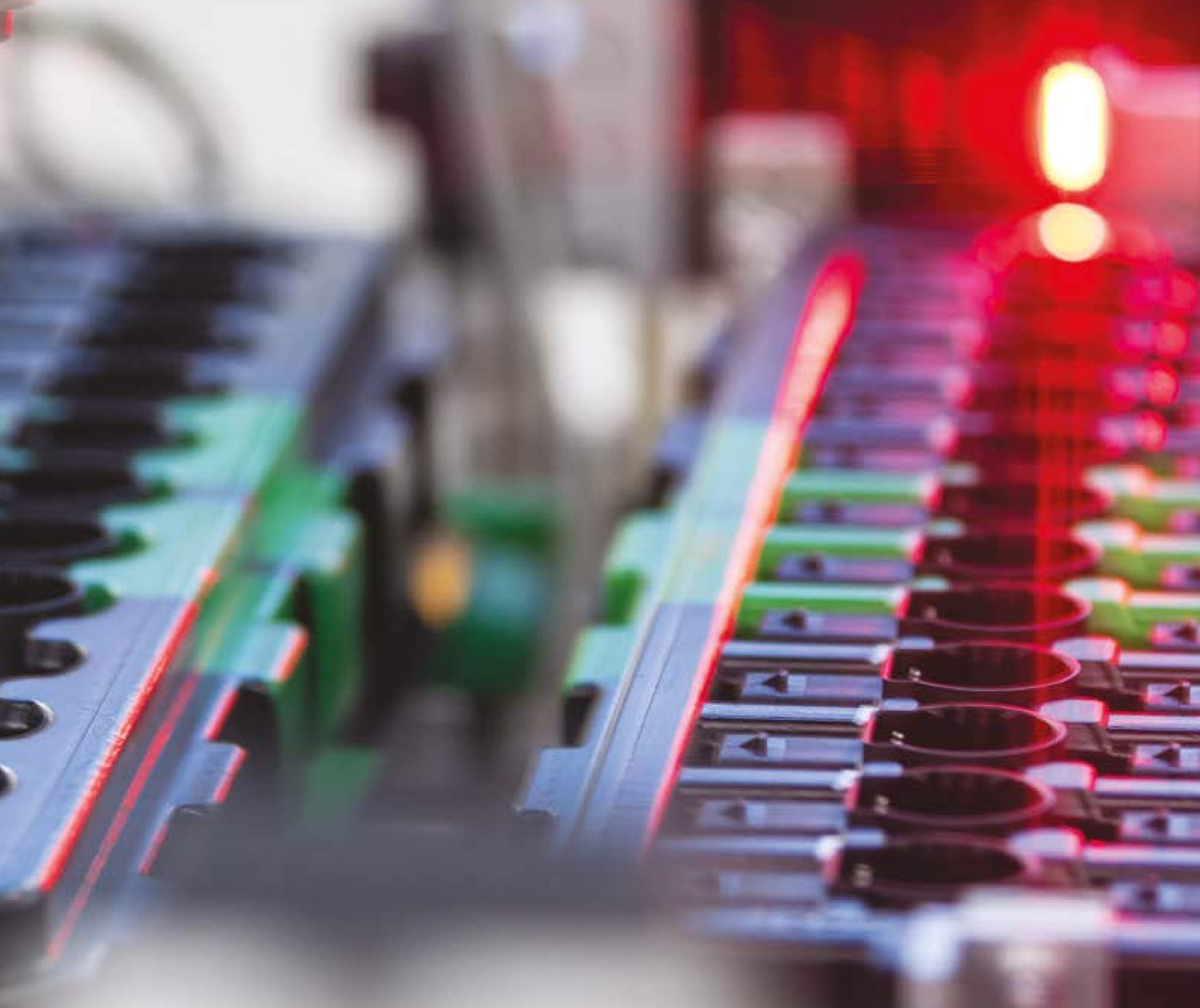
VALEO ▶ **INTEGRATED REPORT**

THE VALEO INTEGRATED REPORT

For the fifth year running, Valeo has elected to use integrated reporting to present its business model. From the vantage point of Group strategy, the report provides an overview of the mechanisms through which its financial and non-financial performance, governance and outlook within its ecosystem contribute to short-, medium- and long-term value creation. The report is based on the International Integrated Reporting Framework published by the IIRC (International Integrated Reporting Council). It addresses all of the Group's stakeholders, namely employees, customers, suppliers, the financial community, institutional and non-governmental organizations, and other local partners. The report covers the Group's financial, sales and non-financial performance over the 2019 financial year, as well as its medium-term projections.

The Integrated Report is included in the Universal Registration Document and the standalone version is also available on the Valeo website (www.valeo.com).



Our strategy [...] has paid off. The Group is now the leader in the areas of electrification and advanced driving assistance systems.

MESSAGE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Jacques Aschenbroich

2019, a pivotal year for Valeo

2019 was a pivotal year for Valeo, in which the 12 new technological platforms we created and presented at our Investor Day on December 10, 2019 got up and running. This means that the considerable investments – 1.1 billion euros[1] – that we have made to this end over the last few years are now behind us.

In 2019, we began to reap the rewards of these new technological platforms, as demonstrated by our significant outperformance versus the automotive market by 6 percentage points over the year and 8 percentage points in the second half, while reducing our Research and Development costs and our capital expenditure.

Thanks to the rollout and use of the platforms, we were able to significantly improve our free cash flow, generating 519 million euros over the year, and bring our EBITDA and operating margin, excluding the Top Column Module (TCM)[2] business and the impact of the General Motors strike, to 13.2% and 5.8% of sales, respectively.

These results clearly show that, in a tough automotive market, we are able to grow faster than the market, finance our expansion and support the development of our Valeo Siemens eAutomotive joint venture.

2020, a year marked by the Covid-19 pandemic

In light of the Covid-19 pandemic affecting all our operations worldwide, our priority is to ensure the health and safety of our employees and their families. With this in mind, we have put in place a safety protocol combining proven best practices in China, South Korea and Japan, where activity has resumed under optimal conditions. This mandatory protocol is now applicable consistently across all Valeo sites worldwide.

As part of its commitment in the fight against Covid-19, Valeo has provided resources to a consortium of French industrial companies led by Air Liquide, Schneider and Groupe PSA for the manufacture of 10,000 ventilators, and has donated 30,000 FFP2/FFP3 masks to a number of hospitals.

In the face of a crisis that is unprecedented both in its scope and impact, we are adapting our production capacity to address production stoppages at customer sites on our main markets. We have taken measures to variabilize our costs and drastically reduce investments at our plants, headquarters and R&D centers, including short-time working. Naturally, we will continue to maintain strict control over costs when operations resume.

In terms of cash, Valeo has negotiated credit lines for an additional 1 billion euros with its main banks, and therefore currently has 2.3 billion euros in undrawn credit lines, enabling it to withstand any prolongation of the current crisis. The Group has a solid financial position with significant headroom under its bank covenant[3].

In the current period of uncertainty, Valeo's Board of Directors has decided to ask shareholders to approve a dividend payout of 0.2 euros per share.

Strong growth outlook in the areas of powertrain electrification and ADAS

Our strategy of positioning Valeo in the most dynamic market segments has paid off. The Group is now the leader in the areas of powertrain electrification and advanced driving assistance systems (ADAS).

To succeed in our planned areas of development, the 12 new technological platforms we have created now give us a major competitive edge. The massive investments required put up high barriers to entry on our various markets; their innovative features make for ideal positioning on the most dynamic market segments and a considerable increase in our average content per vehicle; and the economies of scale and productivity gains they generate mean we can reduce our Research and Development costs and our capital expenditure.

We intend to take advantage of these technological platforms in a number of ways over the long term, particularly by outperforming global automotive production, and improving our profitability and our free cash flow generation.

I am convinced that Valeo has adopted the best strategy and remain confident in its ability to maintain its momentum in the long term by leveraging its technological platforms and industrial expertise.

I would like to wholeheartedly thank the Group's 114,700 employees for their unwavering commitment in this very challenging time. I would like to assure them that they have the Group's support during the current unprecedented health crisis.

April 27, 2020

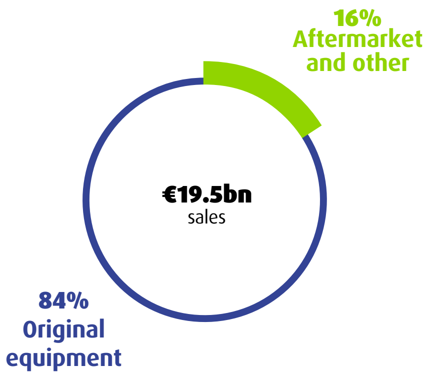
(1) Of which 600 million euros for Valeo Siemens eAutomotive.
(2) On October 24, 2019, Valeo announced it would withdraw from the Top Column Module (TCM) business.
(3) Net debt to EBITDA (calculated over a 12-month rolling period) of <3.5.

FINANCIAL PERFORMANCE

SALES

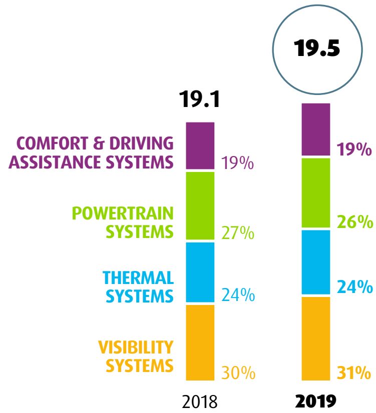
BY DISTRIBUTION NETWORK

In billions of euros and as % of total sales



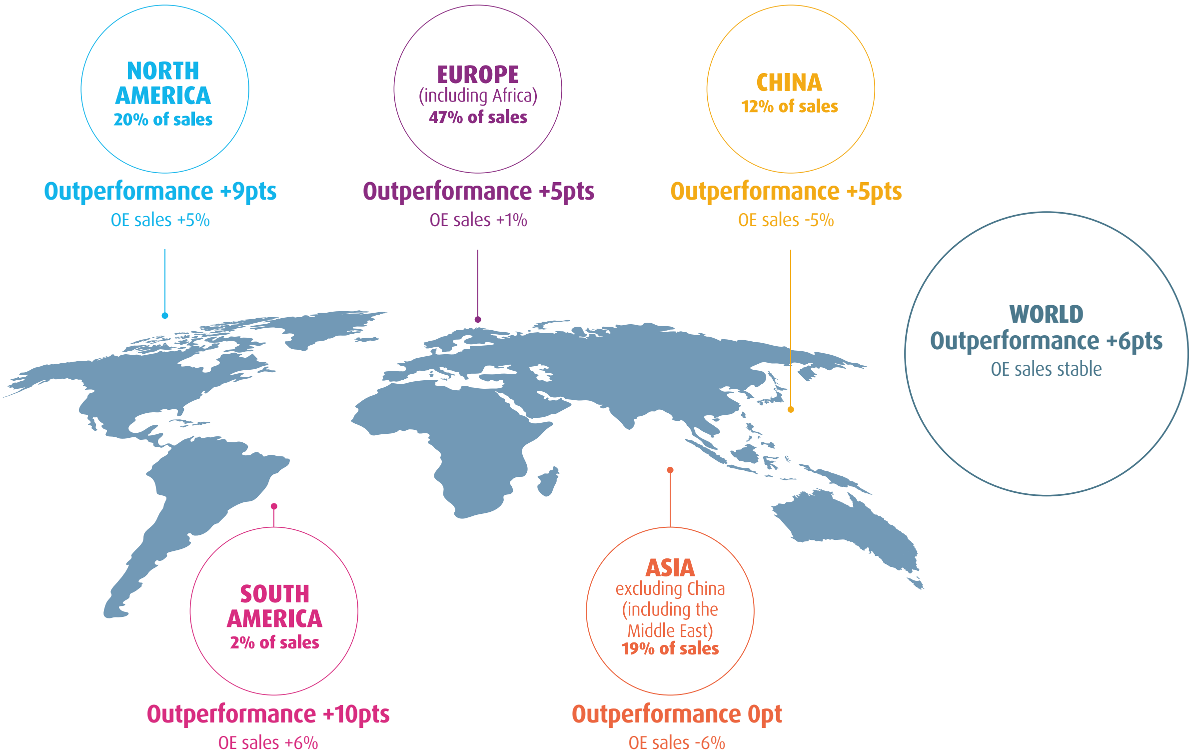
BY BUSINESS GROUP

In billions of euros and as % of total sales



ORIGINAL EQUIPMENT SALES: GROWTH, OUTPERFORMANCE* AND BREAKDOWN BY DESTINATION REGION

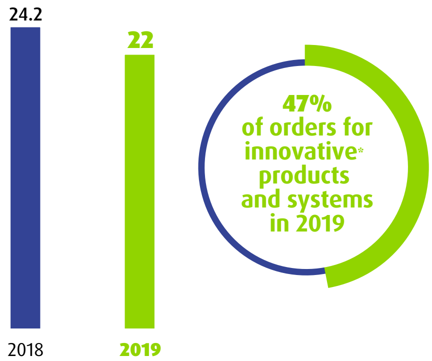
*Like for like (constant Group structure and exchange rates)***



* Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.
** See financial glossary, page 48.

ORDER INTAKE

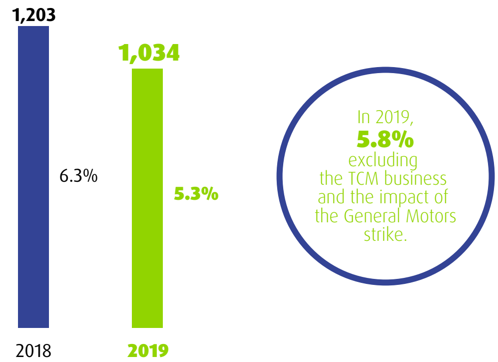
In billions of euros



* Products and technologies in series production for less than three years, including Valeo Siemens eAutomotive.

OPERATING MARGIN*

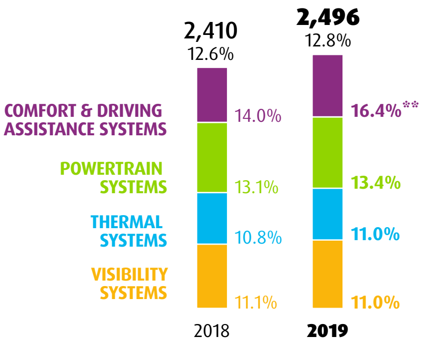
In millions of euros and as a % of sales



* Excluding share in net earnings of equity-accounted companies.

TOTAL EBITDA* AND EBITDA BY BUSINESS GROUP

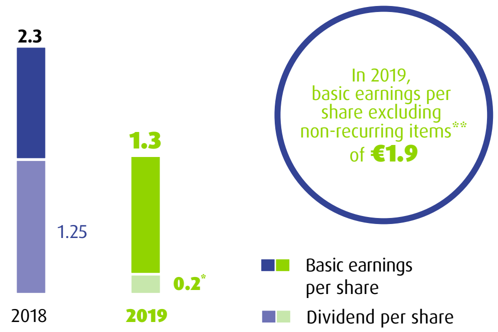
In millions of euros and as a % of each Business Group's sales



* See financial glossary, page 48.
** Excluding the TCM business.

BASIC EARNINGS PER SHARE AND DIVIDEND PER SHARE

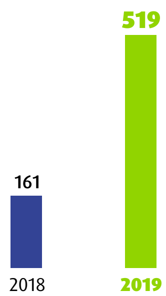
In euros



* In the current period of uncertainty caused by the Covid-19 pandemic, Valeo's Board of Directors has decided to ask shareholders to approve a dividend payout of 0.2 euros per share.
** Excluding the TCM business and the impact of the General Motors strike.

FREE CASH FLOW*

In millions of euros

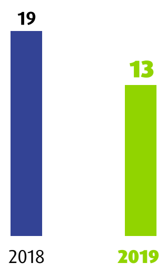


* See financial glossary, page 48.

ROCE*

(Return on capital employed)

As a %

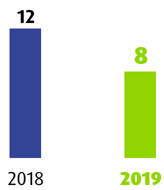


* See financial glossary, page 48.

ROA*

(Return on assets)

As a %



* See financial glossary, page 48.

FOR MORE INFORMATION

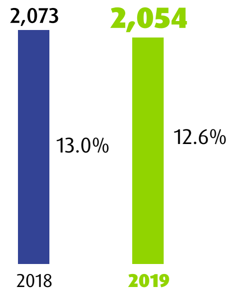
See Chapter 5 of the 2019 Universal Registration Document, "Financial and Accounting Information".

SUSTAINABLE DEVELOPMENT PERFORMANCE(1)

RESEARCH AND DEVELOPMENT EXPENDITURE DRIVING CLEANER, SAFER AND SMARTER MOBILITY

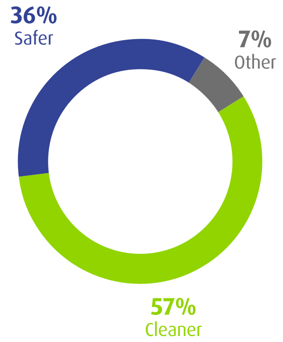
GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

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



ORIGINAL EQUIPMENT SALES DERIVED FROM PRODUCTS CONTRIBUTING TO CLEANER, SAFER MOBILITY

*As a % of original equipment sales**



19,900 Research and Development employees

of which **7,000** are software engineers

1,261 experts

+10% compared to 2018

1,698 patents filed in 2019

~5 patents filed per day

GOVERNANCE

95% average attendance rate at Board of Directors' meetings

92% of directors are independent**

42% of the Board of Directors' members are women***

SOCIAL FOOTPRINT

99.8% of people concerned by the fight against corruption were trained

79% of sites have partnerships with the world of higher education

* Including Valeo Siemens eAutomotive.

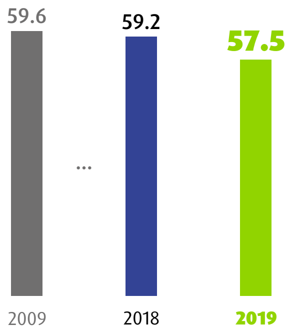
** In accordance with the AFEP-MEDEF Code, this figure does not include the director representing employees.

*** In accordance with Article L.225-27-1, II of the French Commercial Code (*Code de commerce*), this percentage does not include the director representing employees.

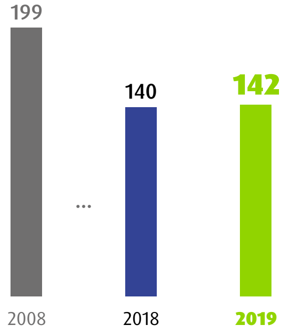
(1) The performance chart presented in section "Sustainable development goals in the Group's business" on page 39 of this report summarizes the Group's sustainable development performance.

ENVIRONMENTAL ECO-EFFICIENCY

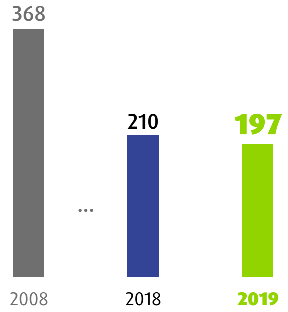
TOTAL DIRECT (SCOPE 1) AND INDIRECT (SCOPE 2) GHG* EMISSIONS AS A PROPORTION OF SALES (TCO_2/€M)



ENERGY CONSUMPTION (MWH/€M)



TOTAL WATER CONSUMPTION AS A PROPORTION OF SALES (CU.M/€M)



* See sustainable development glossary, page 48.

18% of sites certified ISO 50001

+10 pts compared to 2015

5.1 t/€m total consumption of packaging materials as a proportion of sales

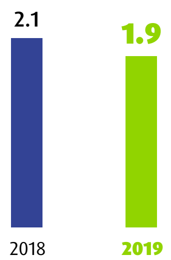
-10% compared to 2018

€6,469m invested in environmental protection (excluding cleanup costs)

+11% compared to 2018

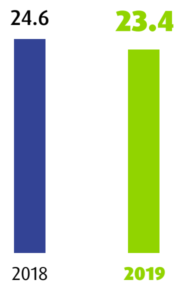
VALEO AND ITS EMPLOYEES

FREQUENCY RATE OF OCCUPATIONAL ACCIDENTS* (FR1)



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

AVERAGE HOURS OF TRAINING PER EMPLOYEE*



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

82/100(1) gender equality index Group average

50% of employees are Valeo shareholders

471 collective bargaining agreements in force in 2019

(1) This index is based on the evaluation of five criteria, taking into account managers and professionals only:
- criterion 1: difference in compensation between men and women;
- criterion 2: difference in individual pay rises between men and women;
- criterion 3: difference in the percentage of men and women promoted;
- criterion 4: percentage of women employees receiving a pay rise after returning from maternity leave;
- criterion 5: percentage of women among the top ten highest paid employees.

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, whose members are all considered independent, with the exception of the Chairman and Chief Executive Officer and the director representing employees;
- the Lead Director;
- the Board's Committees;
- the Chairman and Chief Executive Officer; and
- the Management Committees working alongside the Chairman and Chief Executive Officer, comprising the Executive Committee and the Operations Committee.

Valeo's governance structure allows the Group to define and implement its strategy in line with sustainable development commitments, while adhering to the strictest principles of compliance and ethics. This structure helps the Group manage risks and identify opportunities to drive sustainable growth.

THE BOARD OF DIRECTORS IN SUPPORT OF THE GROUP'S STRATEGY

Composition of the Board of Directors at December 31, 2019

	Personal information				Experience	Position on the Board of Directors				
	Age	*Gender*	*Nationality*	*Number of shares*	*Number of directorships held in listed companies*(1)	*Independence*	*First appointed*	*Expiration of term of office*	*Years' service on the Board*	*Membership of Board committees*(2)
Jacques Aschenbroich Chairman and Chief Executive Officer	65	M	FR	832,833	2	-	03/20/2009	2023 Shareholders' Meeting	11 years	-
Bruno Bézard	56	M	FR	1,500	0	✓	10/24/2017	2022 Shareholders' Meeting	3 years	ARC
Stéphanie Frachet Permanent representative of Bpifrance Participations	42	F	FR	12,368,826(3)	2	✓	06/21/2019	2023 Shareholders' Meeting	1 year	ARC/GACSRC/CC
Éric Chauvirey Director representing employees	45	M	FR	N/A(4)	0	N/A(5)	06/30/2017	06/30/2021	3 years	CC
C. Maury Devine	68	F	US	3,500	2	✓	04/23/2015	2021 Shareholders' Meeting	5 years	GACSRC/CC
Mari-Noëlle Jégo-Laveissière	51	F	FR	1,500	1	✓	05/26/2016	2021 Shareholders' Meeting	4 years	ARC
Gilles Michel Lead Director since October 24, 2019	63	M	FR	1,500	2	✓	05/23/2018	2022 Shareholders' Meeting	2 years	GACSRC (Chairman)/ CC (Chairman)
Thierry Moulonguet	68	M	FR	1,500	0	✓	06/08/2011	2020 Shareholders' Meeting	9 years	ARC (Chairman)/SC
Georges Pauget Lead Director until October 24, 2019	72	M	FR	1,500	2	✓	04/10/2007	2020 Shareholders' Meeting(6)	13 years	SC
Olivier Piou	61	M	FR	1,500	2	✓	05/23/2019	2023 Shareholders' Meeting	1 year	ARC/SC
Patrick Sayer	62	M	FR	1,500	3	✓	05/23/2019	2023 Shareholders' Meeting	1 year	GACSRC/CC/SC
Ulrike Steinhorst	68	F	DE	1,500	2	✓	02/24/2011	2020 Shareholders' Meeting	9 years	GACSRC/CC/SC (Chair)
Véronique Weill	60	F	FR	2,390	0	✓	05/26/2016	2021 Shareholders' Meeting	4 years	ARC/GACSRC/CC

Nationalities: FR: French – US: American – DE: German

FOR MORE INFORMATION

See Chapter 3 of the 2019 Universal Registration Document, "Corporate Governance".

N/A = Not applicable.
(1) Except for the directorship in the Company.
(2) ARC = Audit & Risks Committee; GACSRC = Governance, Appointments & Corporate Social Responsibility Committee; CC = Compensation Committee; SC = Strategy Committee.
(3) These shares are held by Bpifrance Participations.
(4) 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.
(5) The director representing employees does not count, in accordance with the recommendation in Article 9.3 of the AFEP-MEDEF Code.
(6) Georges Pauget does not intend to stand for reappointment at the Shareholders' Meeting on June 25, 2020.

The Valeo stand at the 2019 IAA International Motor Show in Frankfurt.

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.

At December 31, 2019, the Board of Directors' 13 members have different backgrounds and enable the Group to benefit from their experience and skills in a variety of fields relating to economics, manufacturing and finance. 42%(1) of the Board's members are women and 92% are under 70 and, except for the director representing employees, who is not included in the calculation, all of them except the Chairman and Chief Executive Officer are considered independent(2) according to the criteria set out in both the Internal Procedures and the AFEP-MEDEF Code to which Valeo refers.

Gilles Michel, an independent director, is Lead Director and Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee.

The assessment of the Board of Directors was performed by an outside firm the previous year. Accordingly, the Board decided to conduct the 2019 assessment internally.

The assessment was carried out between the end of 2019 and the beginning of 2020 by the Lead Director supported by the Secretary of the Board of Directors, using a questionnaire given to all directors to obtain their insight into the operating procedures of the Board and their suggestions for improvement. The topics covered included the operation, structure, governance, composition and duties, Board meeting procedures, directors' access to information, the choice of matters addressed, the quality of debate, and the participation in and general running of the Board Committees.

The outcome of the assessment was reviewed by the Governance, Appointments & Corporate Social Responsibility Committee at its meeting on March 24, 2020, and presented and discussed at the Board of Directors' meeting held on March 24, 2020.

The assessment revealed that its members are unanimously satisfied with the Board of Directors' operation. The main areas of satisfaction include:

- the maturity, dynamism and quality of the Company's governance;
- General Management, considered to be suited to the current situation of the Company, thanks to the role carried out by Jacques Aschenbroich and the Lead Director, who contributes to balanced governance;
- the composition of the Board of Directors, guaranteeing a complementary mix of profiles and solid expertise and experience;
- involvement of new directors;
- the management of succession and renewal plans for the Board of Directors, which has been astutely prepared, particularly due to the carefully selected new members;
- more generally, the quality, interactive nature and content of discussion, and the genuine openness of the Chairman and the members of Management ensure a continued high quality and degree of freedom in debates and discussions;
- the efficient operation of the Board Committees and the effective teamwork achieved by them;
- the strategy seminar in India, considered a key moment for the Board of Directors, as it provides genuine insight into Valeo's strategy and is an excellent opportunity for discussion with the management team and the Group's main executive managers;
- the usefulness of "executive sessions", which tackle a variety of key topics.

The Board of Directors continued to work on how best to evolve its composition. In this respect, it 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.

(1) In accordance with Article L.225-27-1, II of the French Commercial Code (*Code de commerce*), this percentage does not include the director representing employees.
(2) For more information, see section "Director independence review", of the 2019 Universal Registration Document, page 108.

ROLES OF THE BOARD OF DIRECTORS' FOUR COMMITTEES AT DECEMBER 31, 2019

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.

FOR MORE INFORMATION

See Chapter 3 of the 2019 Universal Registration Document, "Corporate Governance".

Audit & Risks Committee

- 6 independent members out of 6
- 5 meetings
- 96% attendance rate

- Ensure that the accounting policies adopted to prepare the consolidated and parent company financial statements are relevant, consistent and properly applied.
- Review the financial and accounting treatment of acquisitions or disposals in excess of 50 million euros.
- Monitor the implementation and efficiency of all mechanisms designed to improve the Group's control environment, in particular risk management, internal control, compliance and internal audit.
- Ensure that the rules, principles and recommendations aimed at guaranteeing the independence of the Statutory Auditors are adhered to.
- Supervise the procedure for selecting or renewing the Statutory Auditors.
- Seek regular updates on the Group's financial position and on the main thrusts of the Group's finance and tax policies.
- Remain informed of the Group's insurance, IT system governance, IT security and cybersecurity policies as well as the organization of the finance teams and the succession plans for their members.
- Review external financial communications prior to their publication.

Compensation Committee

- 6 independent members out of 6
- 5 meetings
- 94% attendance rate

- 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 directors' compensation and the individual amounts to be paid.
- Recommend to the Board of Directors an aggregate amount of directors' compensation to be proposed at the Shareholders' Meeting.
- Give its opinion to the Board of Directors 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 who are not corporate officers of the Company or of other Group companies.
- Review any questions submitted to the committee by the Chairman about the above matters, as well as proposed share issues reserved for employees.

Governance, Appointments & Corporate Social Responsibility Committee

- 6 independent members out of 6
- 5 meetings
- 94% attendance rate

- 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 reasoned recommendations regarding the appointment of executive corporate officers, directors and committee members.
- Draw up a succession plan for executive corporate officers and directors.
- Review the independence of each director.
- Select candidates for the position of director.
- Review CSR and safety policy, identify CSR objectives and challenges, and ensure that previously defined objectives are met.
- Gain an understanding of the risks related to corporate social responsibility issues and stay informed regarding the resources the Group can call on to pursue strategy in this area.
- As required, issue opinions and recommendations to help the Board make informed decisions.

Strategy Committee

- 5 independent members out of 5
- 4 meetings
- 85% attendance rate

- 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 in excess of 50 million euros per transaction.

TWO MANAGEMENT COMMITTEES TO IMPLEMENT THE GROUP'S STRATEGY

COMPOSITION OF THE EXECUTIVE COMMITTEE AND THE OPERATIONS COMMITTEE

(Executive Committee members are indicated by an asterisk)

AT DECEMBER 31, 2019

Jacques Aschenbroich*
Chairman and Chief Executive Officer

Geoffrey Bouquot
Vice-President, Corporate Strategy and External Relations[1]
since 2016

Fabienne de Brébisson*
Vice-President, Communications
since 2011

Robert Charvier*
Chief Financial Officer
since 2010

Catherine Delhaye*
Chief Ethics and Compliance Officer
since 2012

Éric Antoine Fredette*
General Counsel and General Secretary
since 2015

Bruno Guillemet*
Senior Vice-President, Human Resources
since 2015

Hans-Peter Kunze*
Senior Vice-President, Sales & Business Development
since 2018

Christophe Périllat*
Chief Operating Officer
since 2011

Jean-François Tarabbia
Senior Vice-President, Research & Development and Product Marketing
since 2013

Xavier Dupont
President, Powertrain Systems Business Group
since 2015

Maurizio Martinelli
President, Visibility Systems Business Group
since 2014

Francisco Moreno
President, Thermal Systems Business Group
since 2017

Éric Schuler
President, Valeo Service
since 2016

Marc Vrecko
President, Comfort & Driving Assistance Systems Business Group
since 2011

(1) Member of the Operations Committee and Secretary of the Executive Committee.

The Executive Committee coordinates and provides guidance on the various functions of the Group's General Management

The Executive Committee works alongside the Chairman and Chief Executive Officer and the Operations Committee. It has eight members (6 men and 2 women) and meets on a weekly basis. Its role is to drive, guide and coordinate the various functions of the Group's General Management through multi-functional discussion.

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 Group Operations Committee reflects the Group's organization into functional networks, and four operational Business Groups and Valeo Service.

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.

FOR MORE INFORMATION

See Chapter 3 of the 2019 Universal Registration Document, "Corporate Governance".

	Fixed portion	Variable portion	Performance shares	Supplementary pension	Fixed + variable
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(1) **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(1) **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(1)	**Board of Directors** on recommendation of the Compensation Committee, which sets the eligibility criteria(1)	**Board of Directors** based on the aggregate amount approved by the Shareholders' Meeting, aggregate amount and terms of payment subject to an *ex ante* vote
Performance metric	Not applicable	**Chairman and CEO(2):** • 5 financial criteria (operating margin rate, free cash flow, net income, ROCE rate, order intake(3)) • qualitative criteria (strategic vision, risk management, corporate social responsibility) **Members of the Operations Committee:** financial and non-financial criteria	**3 financial criteria(2)** (ROA rate, operating margin rate, TSR(3))	**Chairman and CEO(2):** supplementary retirement benefits allotted based on variable compensation **Members of the Operations Committee:** supplementary retirement benefits not subject to performance criteria	Attendance

(1) The compensation policy for the Chairman and Chief Executive Officer is subject to *ex ante* and *ex post* votes by the shareholders.
(2) Criteria applicable for 2019 compensation.
(3) See financial glossary, page 48.

Compensation of Jacques Aschenbroich, Chairman and Chief Executive Officer, in 2019(1)

Fixed portion
€1,060,753

Excluding benefits in kind and supplementary pension

Short-term
Variable portion €1,113,791

105% of fixed compensation versus max. 170%

5 quantitative criteria
(57.5% of fixed compensation versus max. 115%):

- Operating margin rate(2) (0% of fixed compensation versus max. 25%)
- Free cash flow(2) (25% of fixed compensation versus max. 25%)
- Net income(2) (0% of fixed compensation versus max. 20%)
- ROCE(2) rate (11% of fixed compensation versus max. 20%)
- Consolidated order intake(2) (21.5% of fixed compensation versus max. 25%)

3 qualitative criteria
(47.5% of fixed compensation versus max. 55%):

- Strategic vision (14.5% of fixed compensation versus max. 20%)
- Risk management (15% of fixed compensation versus max. 15%)
- Corporate social responsibility (18% of fixed compensation versus max. 20%)

Long-term
Performance shares: 87,122 shares

€2,093,542(3) i.e., 190% of fixed portion versus max. 270%

Performance criteria:

- 2 internal criteria: ROA(2) rate and operating margin(2) rate (maximum of 80% of the shares allotted, 40% for each);
- 1 external criterion, TSR(2) (maximum of 20% of the shares allotted).

Weighting/measurement of performance criteria:

- see Chapter 3 of the Universal Registration Document, section "Long-term compensation policy – Allotment of performance shares", page 156.

3-year vesting period followed by a 2-year holding 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.

FOR MORE INFORMATION

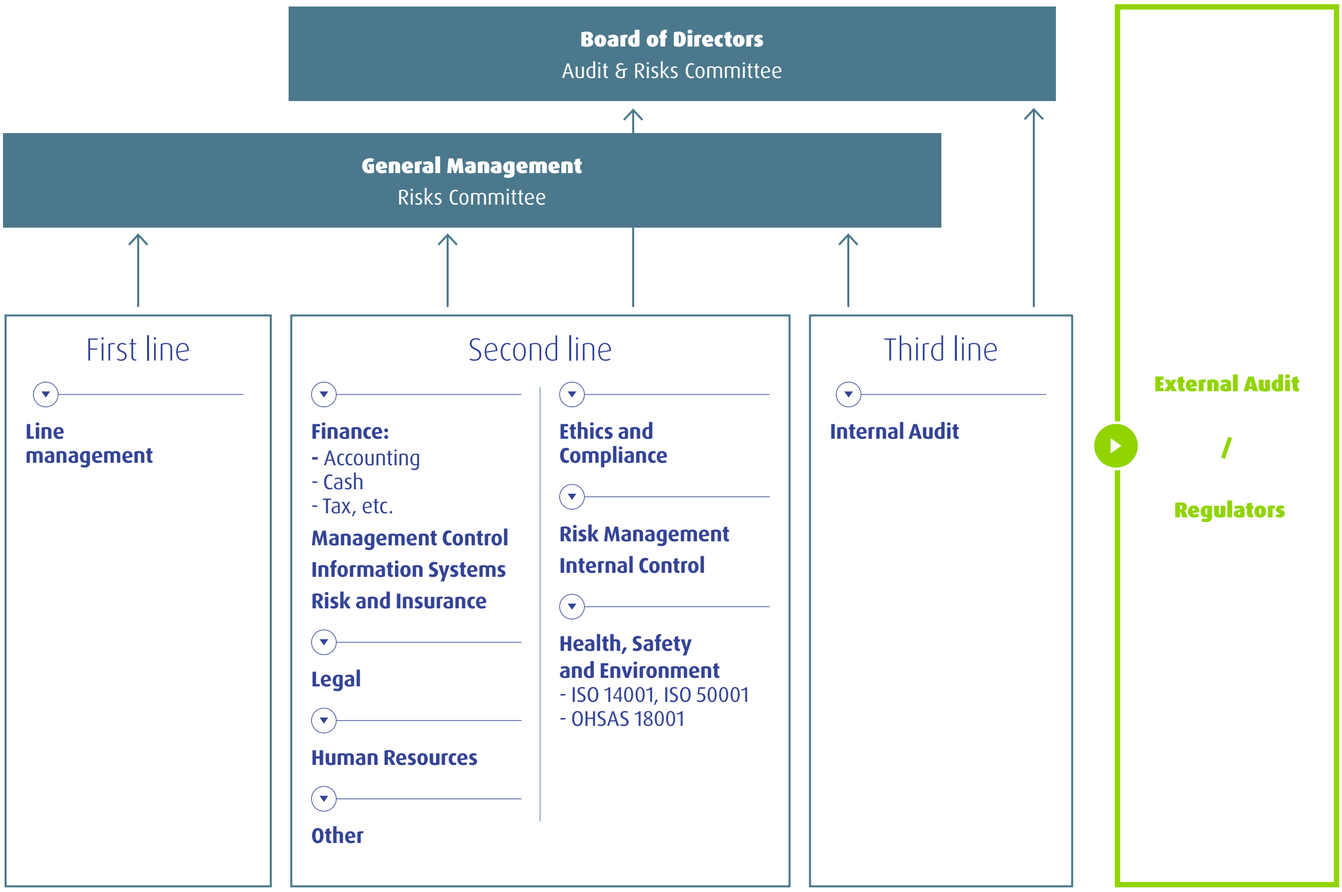
See Chapter 3 of the 2019 Universal Registration Document, "Corporate Governance".

(1) Subject to *ex post* vote at the Shareholders' Meeting to be held on June 25, 2020.
(2) See financial glossary, page 48.
(3) Performance shares measured in accordance with IFRS (unit value of 24.03 euros at the allotment date).

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.



Main risks identified

The main risks identified by Valeo are assessed based on their potential impact and likelihood of occurrence.

Operational and strategic risks Pages 81 to 89	**Legal risks** Pages 90 to 91	**Financial risks** Page 91
• Risks related to changes in the technological environment • Risks related to the development and launch of new products • Risks related to attracting and retaining talent • Risks related to the quality and safety of products and services sold • Cybersecurity and IT systems failure risk • Industrial risks related to growth • Risks related to the automotive equipment industry • Supplier failure risk • Environmental or technological risks	• Intellectual property risks (patents and trademarks)	• Commodity risk • Foreign currency risk

FOR MORE INFORMATION

See Chapter 2 of the 2019 Universal Registration Document "Risks and Risk Management".

STRICT ADHERENCE TO ETHICS AND COMPLIANCE PRINCIPLES

Fair trade practices, mutual respect and integrity among partners, customers, suppliers and other stakeholders are the foundation of Valeo's current and future success. The Group's commitments in this area are formalized in its Code of Ethics and extended to third parties through the Valeo Business Partner Code of Conduct.

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

Subject to continual improvement, the program now integrates the protection of personal data. 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.

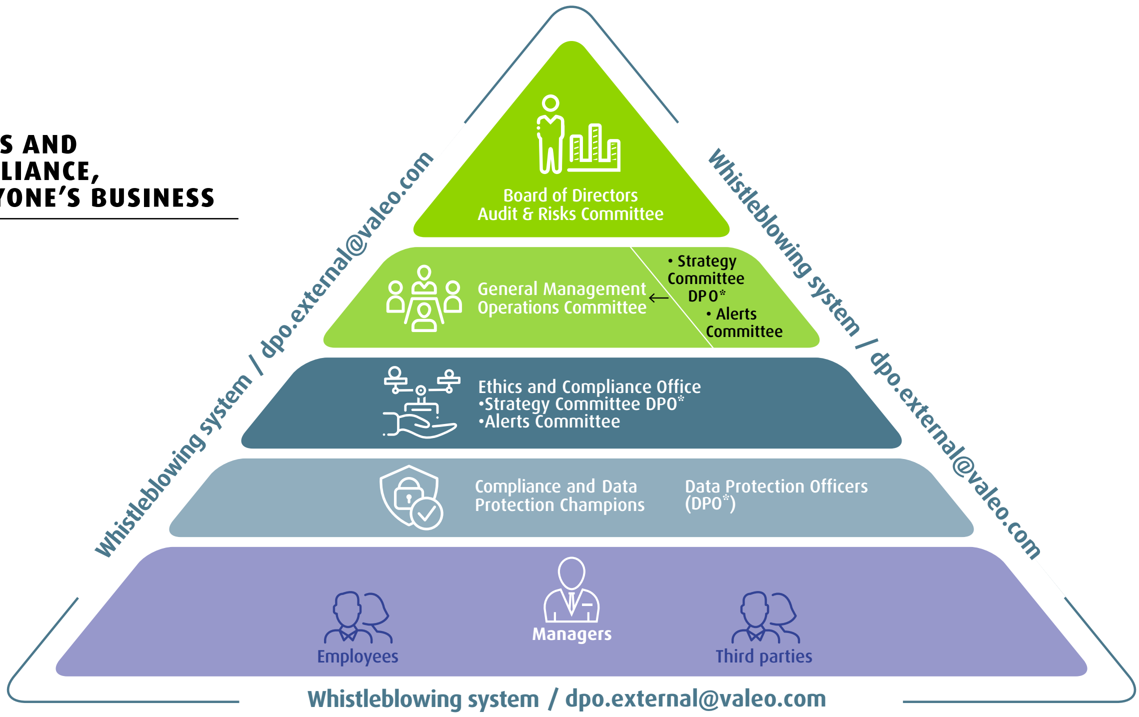
Ethics and compliance, everyone's business

- **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.
- Testimony to a strong commitment from the **Chairman and Chief Executive Officer,** the pursuit and deepening of initiatives to strengthen compliance policy is a criterion for evaluating the allocation of his variable compensation.
- 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.
- The **Executive Committee and Operations Committee** are 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 **Compliance Champions and Data Protection Champions** promote the Group's ethics and compliance policy and rules in cooperation with the management team in the Business Group, country and function to which they belong, as well as with the Ethics and Compliance Office.

CATHERINE DELHAYE,
CHIEF ETHICS AND COMPLIANCE OFFICER

"Compliance is now an integral part of Valeo's culture. It is reflected in the constant vigilance of all, managers and employees alike, and an ongoing awareness-raising approach, especially for newcomers."

ETHICS AND COMPLIANCE, EVERYONE'S BUSINESS



* Data Protection Officer.

A comprehensive framework

Valeo's commitments

- A Code of Ethics
- A Business Partner Code of Conduct
- Policies, procedures and practical guides

100%
of employees that joined the Group in 2019 received a copy of the Code of Ethics

A preventive approach

- In-depth and targeted mandatory training on a continuous basis
- Regular internal audit and internal control operations
- A free whistleblowing hotline open to all employees and run by a specialist independent third party

98%
of newcomers completed the compliance training module

e-learning
on personal data protection provided to the relevant 30,000 employees, representing almost 100% of managers and professionals

A whistleblowing and reporting mechanism

Since November 2013, Valeo has had an anonymous multilingual whistleblowing line, free of charge and open to all employees. At the end of 2017, Valeo improved and extended the whistleblowing system. Since then, the system has enabled whistleblowers inside or outside the Group to issue alerts relating to:

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

Continuous improvement approach

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

FOR MORE INFORMATION
Chapter 2 of the 2019 Universal Registration Document "Risks and Risk Management" and Chapter 4, section "Compliance policies and the fight against fraud".

AN ENVIRONMENT IN (R)EVOLUTION

Our environment is undergoing profound transformation, shaking up the way companies interact with their ecosystem. Cars today have to adapt to the contemporary way of life and the towns and cities of the 21st century, which are bigger, denser and come with new mobility needs. Aware of climate change issues and high levels of local pollution, local and national governments are ramping up environmental regulations. In turn, tighter regulations and the quickening pace of social and technological change have placed the automotive market at the epicenter of a triple revolution.

CHANGES ARE TRANSFORMING THE MOBILITY LANDSCAPE...

Climate change is central to concerns worldwide. The impact of global warming and the questions surrounding the corporate world's commitment to achieving carbon neutrality are pushing us to challenge the way we live and more particularly the way we move.

But does this really mean the end of individual car ownership? Rather than jumping to conclusions, it's important to analyze trends over time and to distinguish between the urban and rural situations in each geographic area.

With this in mind, let's not forget how **attached consumers are to their private cars**, which still play a key role in mobility in many regions. In rural France, for example, which represents 41% of the country's population, 76% of commuters use a private car to travel between home and work. Private vehicles are also the most frequently used mode of transportation in the world's main markets[1].

Nevertheless, **the use of cars by young people (aged 18 to 24) is evolving**. The percentage of this generation with a driver's license has declined in the United States and Europe (to 60% in 2017 compared with 65% in 2013 in France, and to 60% in 2018 compared with 77% in 2006 in Italy), but risen in China (to 83% in 2018 from 70% in 2013).

Cities are playing a key role in this transformation by taking steps to meet the major transportation-related challenges[2]. This notably means:

- reducing road accidents, the main cause of death among children and young adults;
- improving air quality, particularly given that air pollution in major cities is well above the thresholds recommended by the WHO;
- reducing noise pollution;
- reducing traffic congestion in urban areas.

Road traffic is increasing at an exponential rate as cities become more densely populated. In Beijing (China), an increase in population density of less than 1.5% has led to a 25% rise in traffic jams.
In Berlin (Germany), the economic losses caused by road traffic congestion were estimated at 1.7 billion euros in 2018.

These general trends are driving a change in consumer habits, particularly in urban areas, and generating **greater demand for shared, connected mobility solutions, designed as a service.**

New business models are therefore emerging to coexist alongside individual car ownership. Not all of these models seem to have achieved profitability. However, the emergence of micro-mobility solutions and shared mobility services is having an increasing impact on consumer behaviors.

GEOFFREY BOUQUOT
VICE-PRESIDENT, CORPORATE STRATEGY AND EXTERNAL RELATIONS

"New forms of mobility require the development of electric technologies and automation, creating numerous opportunities for Valeo and its strategy of deploying technological platforms."

...AND THE AUTOMOTIVE MARKET IN PARTICULAR, WHICH IS SHIFTING TO MOBILITY THAT IS

- **cleaner**
- **safer**
- **and smarter**

In an environment increasingly shaped by climate and safety concerns, national and regional automotive regulations are becoming increasingly stringent, resulting in a need to bring greener, safer vehicles to market. And these regulations are supported by consumer expectations.

(1) Source: McKinsey 2019 ACES Survey.
(2) Source: World Health Organization; India Central Pollution Control Board's Air Quality Index; United Nations Habitat (Climate Action 2019 Summit); World Economic Forum; TomTom Traffic Index; SWR documentary "Verkehrskollaps".

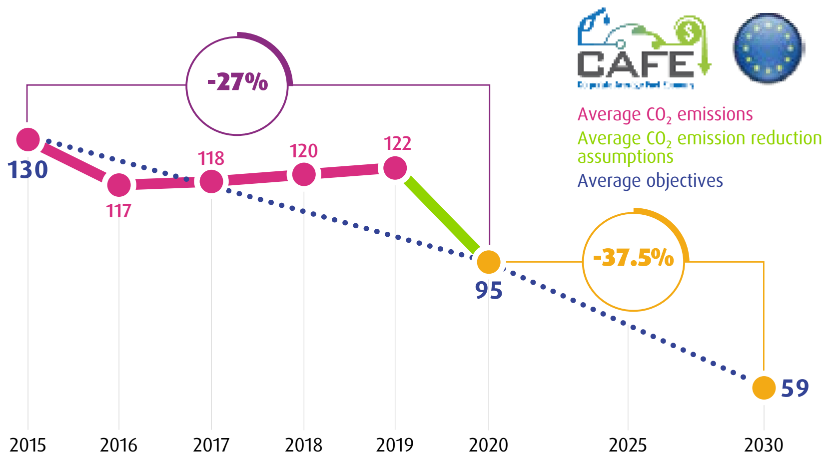
ON THE ROAD TO cleaner mobility

Following the environmental commitments made by countries and political unions, such as the European Union, automakers could be fined if they fail to meet CO_2 reduction targets. Starting in 2021, the European Union's Corporate Average Fuel Economy (CAFE) standards will apply to all automakers that sell vehicles in Europe. This follows the replacement of the NEDC test procedure with the Worldwide Harmonized Light Vehicle Test Procedure (WLTP), which is designed to provide more realistic fuel consumption and emission measurements.

The CAFE regulation will apply from January 1, 2021, based on 2020 sales figures for new passenger cars. It limits the average emissions generated by new vehicles sold from January 1, 2020 by all automakers to 95g of CO_2 per kilometer. The potential fines are significant. The penalty for each gram in excess of the average CO_2 emissions target is 95 euros per vehicle sold. In a market of 22 million vehicles, a deviation of one gram would therefore represent a penalty payment for automakers of more than 2 billion euros. According to our estimates, **Europe will need around one million electric cars in 2020 to avoid the payment of CO_2 emissions penalties**. In the same vein, **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 air (CO_2, nitrogen oxide [NOx] and fine particle emissions) pollution. Diesel engines are already being banned in cities today, and the same fate awaits all internal combustion engines in the not-so-distant future. There are currently **700 regulations restricting access to cities across the European Union**, while Beijing (China) has introduced an odd-even license plate policy, quotas on new car sales and total driving restrictions for highly polluting vehicles on days of heavy pollution. Cities like Paris (France), Madrid (Spain), Athens (Greece) and Mexico City (Mexico) have committed to a full ban on diesel vehicles by 2025. Auckland (New Zealand), Barcelona (Spain), Cape Town (South Africa), Copenhagen (Denmark), London (England), Los Angeles (United States), Mexico City (Mexico), Milan (Italy), Quito (Ecuador), Seattle (United States), Vancouver (Canada) and Paris (France) have all pledged to phase out vehicles with internal combustion engines by 2030. At the same time, **consumers are becoming increasingly open to electric vehicles**; **close to 42% would consider one for their next vehicle purchase**. Electric vehicles offer a new user experience and are appreciated for their fast and efficient acceleration, the absence of noise and vibrations, the driving comfort they provide and, last but not least, the fact that they generate zero emissions. Cities' policies and consumer buy-in have sent a strong signal to the entire automotive industry, pushing it to invest massively and to bring more environmentally friendly vehicles to market.

CO_2 EMISSIONS IN EUROPE

(IN G PER KM, PER NEW VEHICLE)
The new Worldwide Harmonized Light Vehicle Test Procedure (WLTP)



MARKET SHIFT TO ELECTRIC MOBILITY

Around
1 million
electric vehicles needed in the European Union in 2020 to avoid CO_2 penalties.

700
regulations limiting access to cities across the European Union.

More than
300
new xEV models by 2024.

42%
of consumers would consider an electric model for their next vehicle purchase.

GETTING THERE VIA electrification

To meet the requirements imposed by new regulations and changing consumer expectations, automakers are expanding their portfolio of electric vehicles in Europe and China. **The number of electric vehicle models on the market worldwide is expected to increase ten-fold, from 33 in 2019 to more than 300 in 2025[1].**

The number of electric vehicles on the road is also increasing. In Europe, electric vehicles accounted for 2.2% of total vehicle sales in 2019, versus 1.8% in 2018 and 0.8% in 2015[2]. In China, vehicle electrification is picking up pace. In a market that accounts for more than half of global vehicle sales, the electric vehicle penetration rate was 5.5% in 2019, versus 4.2% in 2018 and 0.8% in 2015[2]. Worldwide, electric vehicles accounted for 2.4% of total vehicle sales in 2019, versus 2.1% in 2018 and 0.1% in 2015[2].

Diesel vehicles, on the other hand, continue to decline, accounting for just 32% of the passenger car market in Europe in 2019[3], compared to more than 50% in 2015. As internal combustion engines lose favor, the market is seeing a sharp rise in hybrid and electric vehicles, which are expected to account for 45% of the market in 2025 (74% in 2030), versus 16% today[1].

- **Low- and medium-voltage (12V and 48V) solutions are an absolute necessity.** The 48V powertrain system is a hybridization solution for all types of vehicles and a full electrification solution for urban vehicles. The 48V system, which can be used in all-electric and hybrid applications, has the advantage of being **on average 50% more affordable** than high-voltage (over 60V) motors, owing to a less complex architecture requiring less safety equipment. These solutions are expected to account for 23% of the market in 2025 and 34% in 2030, representing a potential market value of 15 billion euros[1].

XAVIER DUPONT
PRESIDENT, POWERTRAIN SYSTEMS BUSINESS GROUP

"Electrification is not just an option, it is irreversible."

- **High-voltage (over 60V) all-electric powertrain solutions are designed for vehicles from the B segment upwards and allow for versatile vehicle usage,** in towns and cities and on the freeway. These solutions are expected to account for 22% of the market in 2025 and 40% in 2030, representing a potential market value of 72 billion euros[1].

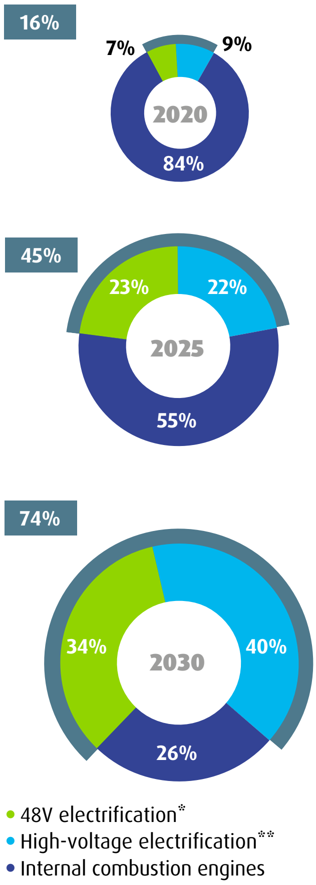
In addition, all-electric systems contribute to the development of smart mobility solutions. 48V all-electric motors are versatile, meaning they can be used to power not only cars, but also **new urban mobility objects**, autonomous shuttles, motorcycles and even the three-wheel rickshaw vehicles found on Asian markets. This market was worth 12 billion euros in 2018 and its value is expected to increase to 44 billion euros in 2030[1].

Together, these three markets (48V and high-voltage (over 60V) solutions for vehicles and electrification solutions for other mobility objects) are expected to represent a total addressable market for Valeo of more than 130 billion euros in 2030[1].

(1) Based on Valeo estimates.
(2) Source: SMMT.
(3) Source: CCFA; KBA; Faconauto; Anfia.

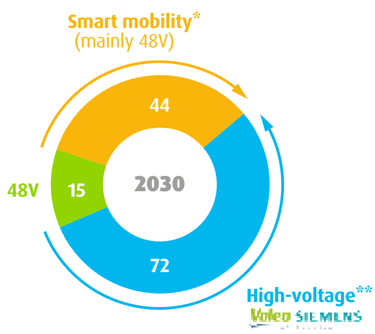
MARKET SHIFT TOWARDS ELECTRIC MOBILITY WITH BOTH 48V AND HIGH-VOLTAGE (OVER 60V) SOLUTIONS

As a % of vehicles produced



THE ELECTRIFICATION MARKET WILL REPRESENT €130BN IN 2030[1]

In billions of euros



* Of which 48V and 12V+12V.
** Of which HV BEV, PHEV, FCEV and FHEV.
Source: Valeo estimates; IHS; Mckinsey.
(1) Valeo's addressable market, excluding batteries.

ON THE ROAD TO safer mobility solutions

Every year, 1.35 million people die in road accidents. Initiated in Sweden in 1997, **Vision Zero** is now an international safety project that aims to eliminate fatalities and serious injuries.

In response to these high community expectations, **regulations** are encouraging the emergence of new products and systems that ensure a safer mobility experience:

- in the United States, via the National Highway Traffic Safety Administration (NHTSA);
- elsewhere, via the Global New Car Assessment Program (Global NCAP).

The required technologies are ready to be rolled out to the market and consumers are ready to buy them. For 50% of consumers, compliance with high safety standards is the top priority when purchasing a new vehicle.

MARC VRECKO

PRESIDENT, COMFORT & DRIVING ASSISTANCE SYSTEMS BUSINESS GROUP

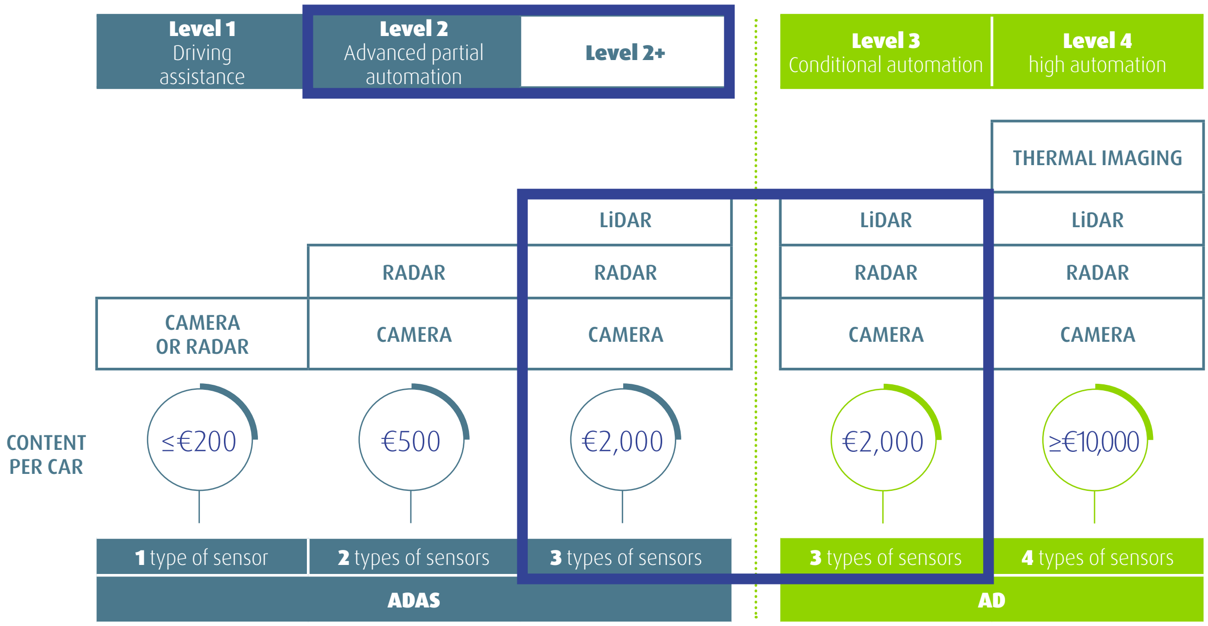
GETTING THERE VIA an increasingly automated driving experience

Safety is the growth engine behind the ADAS and autonomous driving (AD) markets. A higher level of autonomy means a larger number of onboard sensors and more advanced functions, which means a higher average content per vehicle in value terms for Valeo (see graph below).

Buoyed by safety-related regulations and consumer expectations, the advanced driver assistance systems market is growing strongly.

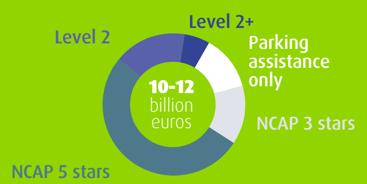
SAFETY, DRIVER OF GROWTH IN THE ADAS MARKET

Vehicle automation comes in successive stages, from level 0 (no automation) to level 5 (full automation) according to SAE International (Society of Automotive Engineers International).

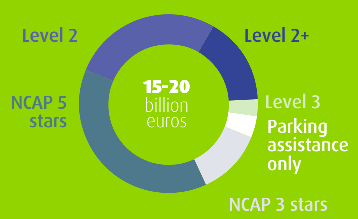


It represented between 10 and 12 billion euros in 2019 and is expected to increase to between 15 and 20 billion euros in 2022 and to between 35 and 40 billion euros in 2030[1]. The two high-growth market segments today are levels 1 and 2, with the emergence of level 2+, which corresponds to a more robust, higher performing vehicle that remains nonetheless under driver control.

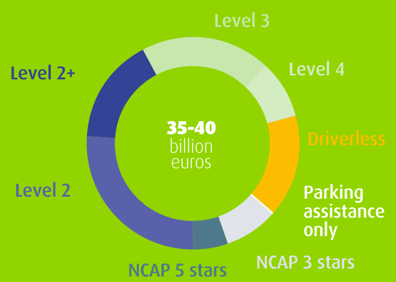
A HIGH-GROWTH MARKET[2]



2019



2022



2030

(1) Based on Valeo estimates.
(2) Source: McKinsey 2019 ACES Survey.

AT THE SAME TIME, THE MARKET IS SHIFTING TOWARD smarter mobility solutions

The expected 30% increase in mobility needs between 2010 and 2050[1], as measured in passenger-kilometers, **the large proportion of short trips** (46% of trips in the United States cover a distance of less than 5 km) **and the emergence of new modes of transportation, particularly in urban areas** (scooters, electric bicycles, robotaxis, autonomous shuttles, delivery droids, etc.) are all generating new opportunities in the mobility market. As a result, new business models are emerging.

Increase in mobility needs

30%

PKT expected to increase by 30% between 2010 and 2050

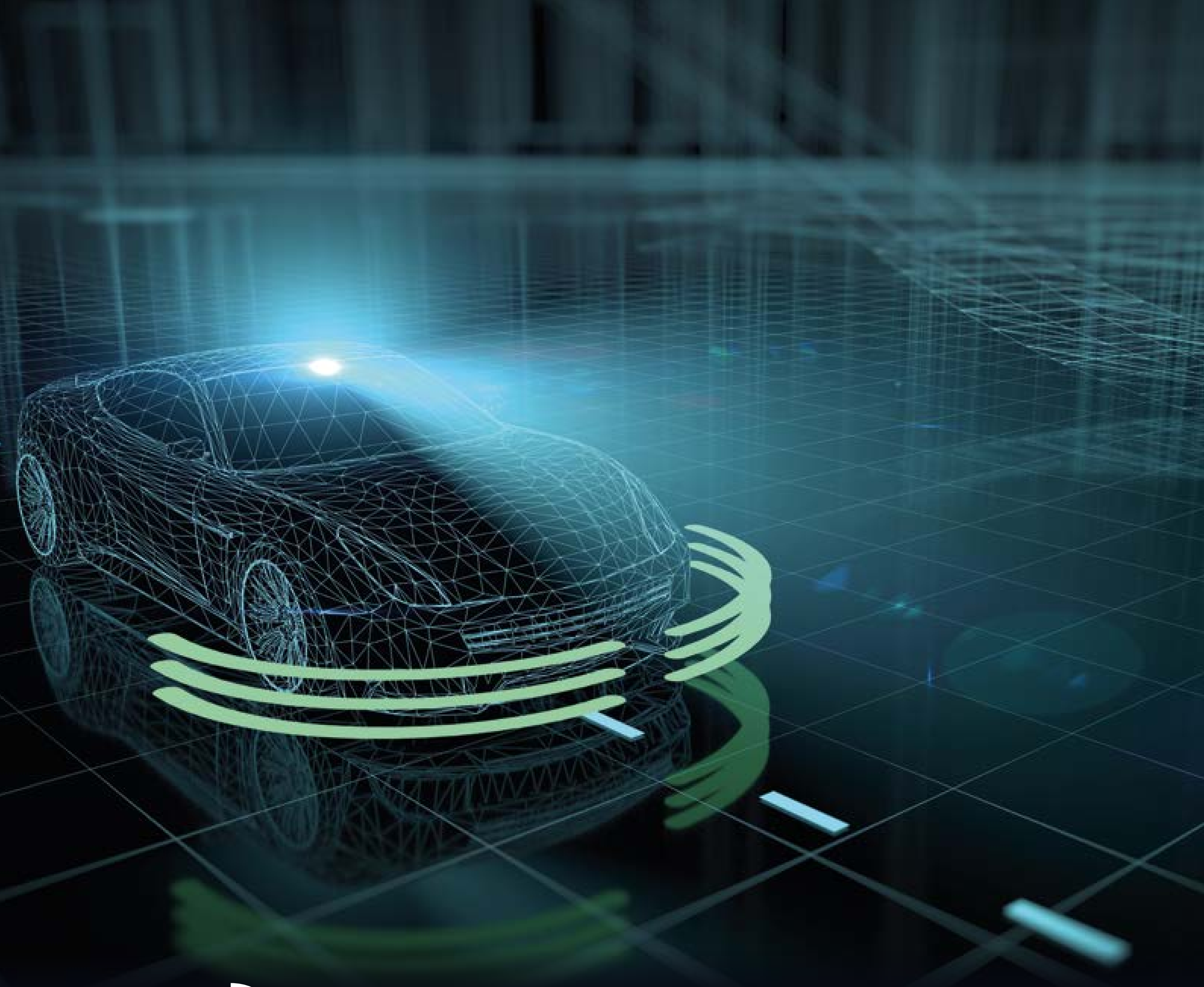
Emergence of new business models

46%

of trips in the United States cover a distance of >5km

GUILLAUME DEVAUCHELLE
VICE-PRESIDENT, INNOVATION AND SCIENTIFIC DEVELOPMENT

"Mobility will be unrecognizable in the future: closely matched to individual needs, precisely sized to actual use, shared in some cases and emitting less CO_2."



STRATEGY

Fully aware of the environmental issues at stake, Valeo develops innovations that are driving the future of mobility toward cleaner, safer, smarter solutions. Valeo has successfully adjusted its business model and seized the opportunities created by technological innovations to deliver new capabilities that are shaping the future of mobility. Valeo-designed products position the Group at the epicenter of the three revolutions disrupting today's automotive industry.

INNOVATION: FUELING GROWTH AT VALEO

An acclaimed innovation strategy

With nearly 20,000 engineers, including 7,000 software engineers, a network of more than 200 experts in artificial intelligence and a global open innovation ecosystem[1], Valeo has demonstrated its ability to adapt to a changing environment.

Through its investments in Research and Development, the Group is helping to make urban mobility safer and more sustainable by developing:

- environmentally responsible solutions that reduce vehicles' fuel consumption and greenhouse gas emissions;
- intuitive solutions that minimize the risk of accidents and improve the driving experience.

This innovation strategy is recognized across the industry.

Valeo protects its innovations through an active patent filing policy: 1,698 patents were filed worldwide in 2019, representing nearly five inventions protected each day. Valeo has therefore been one of the biggest patent filers in France and Europe for the past few years.

An open innovation strategy

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.

SPOTLIGHT ON PARTNERSHIPS SIGNED IN 2019

Valeo signed a strategic cooperation agreement in last-mile autonomous delivery services with Meituan, China's leading on-demand food delivery platform. The two parties will work together on autonomous delivery vehicles for last-mile delivery.

Valeo and Dana Incorporated announced a global collaboration to bring to market end-to-end 48V hybrid and electric vehicle systems. The first of these will be released in early 2020 with a major European carmaker.

VALEO eDeliver4U

VALEO Move Predict.ai

- 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. Drawing on a network of 200 engineers, Valeo.ai offers invaluable opportunities for Valeo in onboard artificial intelligence. Based in Paris, Valeo.ai aims to become a key player in the mobility industry by leveraging close ties with a vast community of scientists and academics, such as the French national research institute for the digital sciences (INRIA), Telecom ParisTech, Mines ParisTech and the French Alternative Energies and Atomic Energy Commission (CEA).
- Valeo is developing its own start-up and open innovation[1] 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.

A sample of Valeo's recent innovations

- **Valeo eDeliver4U** is an autonomous, electric delivery droid prototype developed in partnership with Meituan Dianping, China's leading e-commerce platform for services. **Powered by an all-electric 48V system and able to find its way all by itself thanks to its Valeo perception systems, it is well suited to zero-emissions urban areas.** Electrified mobility solutions also require batteries. Thanks to its innovative thermal systems, Valeo provides the best possible battery protection by keeping battery cells at optimum operating temperature.
- **Valeo Move Predict.ai** can detect and instantly alert the driver of risky behavior by road users, such as pedestrians, cyclists, skaters and scooter riders, located in the vehicle's immediate vicinity. The solution combines Valeo's expertise in 360° perception around the vehicle, thanks to its sensors (latest-generation fisheye and Valeo SCALA® LiDAR cameras), with Valeo algorithms based on artificial intelligence. It can instantly alert the driver of potential risky behavior by a road user, activating the emergency braking system if necessary. It therefore represents a significant step forward in the area of active safety.
- **Valeo Drive4U® Locate** allows vehicles to locate their position with extreme precision, thanks to localization algorithms and mapping systems drawing on Valeo's perception systems. Mapping is dynamic, constantly enriched by crowdsourcing, i.e., calling on input from all vehicles.
- Unveiled by Hyundai, Hexagon, Valeo and a major mobile network operator, **Valeo SpotLocate** enables a vehicle to pinpoint its position on the road with centimeter-level precision, which makes it ten times more precise than conventional GPS positioning.

(1) See sustainable development glossary, page 48.

SIGNIFICANT INVESTMENTS IN THE CREATION OF 12 NEW TECHNOLOGICAL PLATFORMS TO POSITION VALEO IN FAST-GROWING MARKET SEGMENTS

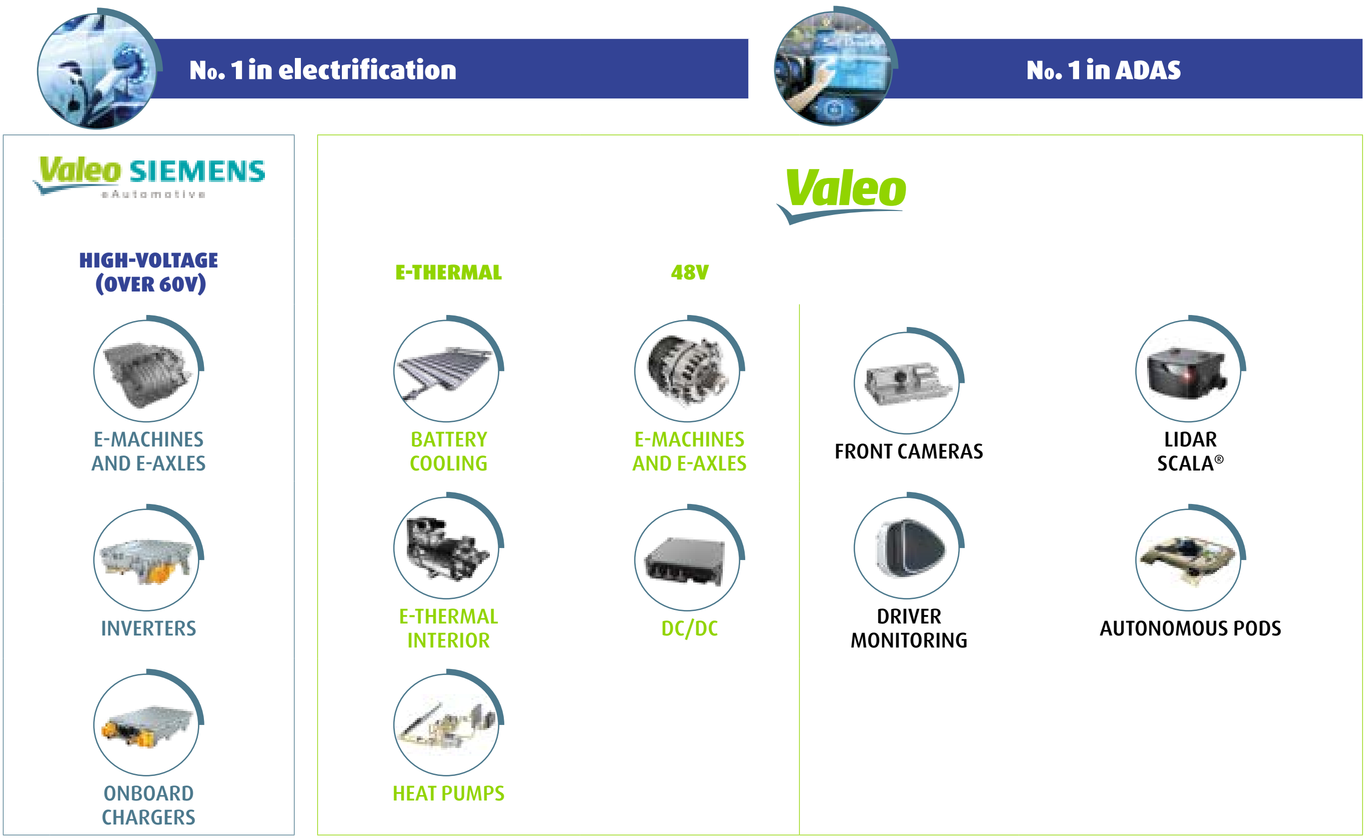
Present in fast-growing automotive market segments, Valeo is already positioned as the leader in electrification and autonomous driving.

- **Two out of three high-voltage (above 60V) electric vehicles**, launched by European automakers between 2019 and 2022, will be equipped with high-voltage (electric or thermal) solutions supplied by Valeo.
- **One out of four** vehicles produced worldwide in 2019 is equipped with ADAS solutions supplied by Valeo.

Valeo has been developing technological platforms in all four of its Business Groups for many years. **These platforms aim to standardize the development, products and manufacturing processes for every solution worldwide.** At Valeo, this standardization process is made possible by the existence of efficient product life cycle management tools. These tools enable standards to be deployed rapidly across all sites. Each platform is designed to serve numerous customers in several markets, thanks to solutions with a high level of standardization (more than 85% of Research and Development expenditure in the areas of hardware and software).
Over the past three years, Valeo has dedicated **significant resources** (more than 500 million euros) to the development of **12 new technological platforms**, designed to meet the automotive market's specific needs in the key areas of powertrain electrification, ADAS, autonomous vehicles and digital mobility. These technological platforms guarantee the Group's leading position in these segments while ensuring an increase in its average content per vehicle.

12 NEW KEY TECHNOLOGICAL PLATFORMS

Valeo has invested in 12 new key technological platforms to develop and round out its unique product portfolio in the areas of electrification and ADAS.



Now operational, the 12 new technological platforms have received a large number of orders and have already allowed Valeo, in 2019, to support its customers in launching many flagship models worldwide. The 48V electric systems and front camera platforms have already achieved a high level of performance and standardization.

48V E-MACHINE AND E-AXLE PLATFORM:

- the technical characteristics of this platform are as follows: specific, compact power electronics, torque assistance, Stop-Start function, cybersecurity and software containing more than 600,000 lines of code;
- new generations of 48V systems developed using the same technological platform (including versions positioned on the transmission or the rear axle, which are more effective in reducing CO_2 emissions) will be brought to market in the coming years and will drive substantial progress in CO_2 emissions reduction;
- at end-2019, this platform had an order intake of 7.5 billion euros;
- more than 300,000 electric machines had been delivered by end-2019 and 6.2 million additional units will be delivered during the 2020-2022 period for 15 different vehicle brands;
- according to estimates, Valeo will have a market share of more than 40% in 2022, with sales of more than 1.1 billion euros, versus 0.2 billion euros in 2019, representing an increase of around 60% per year.

FRONT CAMERA PLATFORM:

- the technical characteristics of this platform are as follows: a miniature camera equipped with a host computer system and a communication system, offering adaptive cruise control, lane centering and automatic emergency braking functions;
- this platform is the first to offer front camera technology that achieves the performance level required for level 2 autonomy without the support of another sensor;
- the platform received more than 4 billion euros in orders between 2017 and 2019;
- in 2019 and 2020, the platform will have accompanied the launch of 50 different models worldwide;
- a total of 17.5 million units had been ordered by 10 different vehicle brands at end-2019, for delivery during the 2020-2022 period.

IN AN EVOLVING MARKET ENVIRONMENT, THE 12 NEW TECHNOLOGICAL PLATFORMS WILL ENSURE VALEO'S GROWTH AND RESILIENCE

Valeo's business model is built on two cornerstones:

- **growth** in sales driven by the strategic choices made to position Valeo in the most promising market segments and increase its average content per vehicle. In particular:
  - in 48V electric systems, content per vehicle is **twice as high** as in a conventional car,
  - the market launch of thermal solutions designed for electric vehicles effectively **doubles content per vehicle**,
  - the high-voltage (over 60V) electrification solutions developed by Valeo Siemens eAutomotive enable the Group to **multiply its content per vehicle by nine**,
  - lastly, in the ADAS market, average content per vehicle is **multiplied by more than ten** between an entry-level vehicle (level 1 autonomy) and a premium vehicle with an autonomy level of 3 or 4;
- **resilience**, thanks to economies of scale and productivity gains driven by:
  - the deployment of platforms that enable Valeo to standardize its technologies, production resources and manufacturing processes,
  - the rollout of operations, particularly in the area of Research and Development, in cost-competitive countries such as China, India, Egypt and countries in Eastern Europe.

Growth

Valeo's order intake reflects the success of its innovations and the increase in average content per vehicle.

Valeo's order intake will ensure that the Group maintains its strong growth dynamic over the coming years

- The order intake (including the Valeo Siemens eAutomotive joint venture) attests to the Group's success and serves as an early indication of sales trends. It increased significantly between 2009 and 2019, from 8.8 billion euros ten years ago to 22.8 billion euros today. In addition, the proportion of innovative products in the order intake has reached 47%, twice as much as in 2009.

JACQUES ASCHENBROICH

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

"These technological platforms provide us with a competitive edge by creating high barriers to entry, allowing us to sharply increase our average content per vehicle and deepen our resilience in the face of an uncertain market environment, while at the same time reducing our Research and Development and capital expenditure as a percentage of sales."

Growth in the order intake was particularly strong between 2015 and 2017. The Group has taken a more selective approach to its order intake since 2018 in order to improve its operatng efficiency by reducing the costs associated with the launch of its various projects.

- Valeo has built its business model around an order intake whose value is key to optimizing the Group's development and investment costs.

Valeo innovations are recognized and adopted by automakers

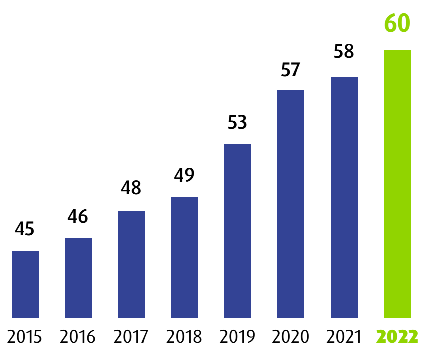
- For Valeo, innovating to design products that enable automakers to produce cleaner, safer vehicles is essential. The flagship products that have convinced Valeo's customers of its technological edge include its 48V electric motors, its new thermal solutions, its high-voltage electric motors and the sensors required for the development of autonomous driving.
- **In the 48V market, Valeo had an order intake of 7.5 billion euros** at end-2019, representing a market share of more than 40% by 2022. Acclaimed by customers since late 2017, these systems can reduce CO_2 emissions by between 6% and 15% depending on the generation used.
- **For its thermal solutions** designed to extend the range of electric vehicles, **Valeo has an order intake of 2 billion euros**. This means that one in three vehicles in Europe will be equipped with a Valeo thermal solution by 2022[1]. Thanks to its Valeo Siemens eAutomotive joint venture, Valeo offers electric motors and inverters that are highly prized by key customers looking to expand their range of electric vehicles. **At end-2019, Valeo Siemens eAutomotive had an order intake of 11 billion euros**. By 2022, one in two European electric cars on the market will be equipped with a high-voltage electrification system developed by Valeo Siemens eAutomotive.
- Lastly, **Valeo has an order intake of 11 billion euros for ADAS**. This should result in average annual growth in sales of 18% for the 2019-2022 period, thanks notably to the various sensors (cameras, radars, LiDARs, etc.) and software.

Resilience

The platform-based approach enables the Group to benefit from learning curves, significantly reducing its (hardware and software) development costs and its investments. At the same time, Valeo is expanding its Research and Development teams in cost-competitive countries:

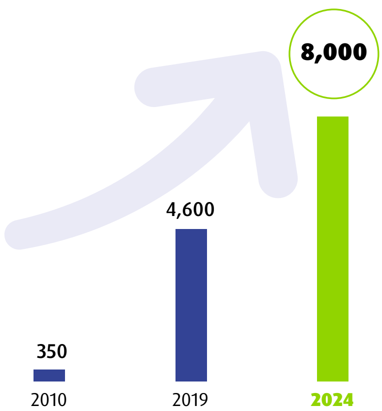
ENGINEERS IN COST COMPETITIVE COUNTRIES

As a % of all engineers



(1) Based on Valeo estimates.

NUMBER OF ENGINEERS IN CAIRO (EGYPT) AND CHENNAI (INDIA)

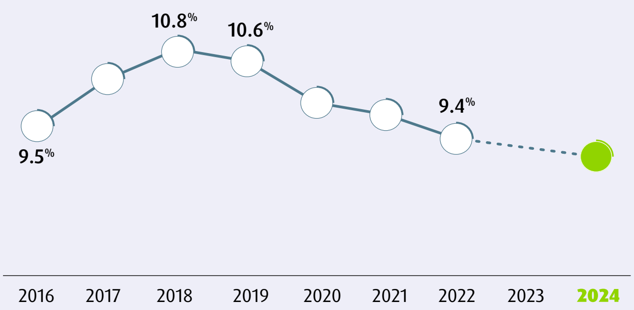


The Group plans to leverage both avenues to reduce its costs (as a percentage of sales) and its investments, which reached a high in 2017 and 2018, and more particularly:

GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

As a % of sales

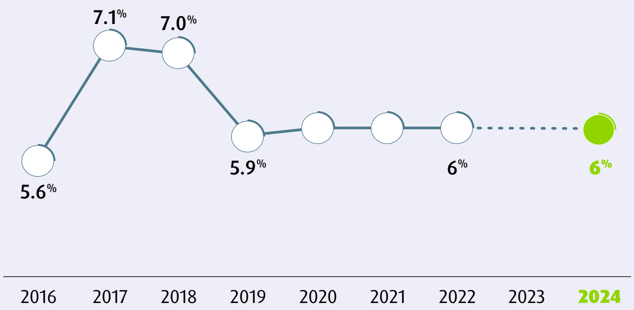
The platform-based approach enables the Group to capitalize on learning curves and reduce development costs.



INVESTMENTS

As a % of sales

Production-related capital expenditure (plants, production lines, etc.) is expected to stabilize thanks to the platform-based approach and the product mix, since mature activities are less investment-intensive than new activities.



MEDIUM-TERM STRATEGIC PLAN

Valeo's strategy initiated several years ago and presented in 2017 consists in positioning the Group as the leader in market segments that will undergo strong growth over the coming years. The goal is to help meet the challenges associated with the three major revolutions disrupting the automotive industry, namely:

- **powertrain electrification;**
- **ADAS and autonomous vehicles;**
- **digital mobility.**

These revolutions, which require massive investments, will secure strong growth for market players having made the right strategic choices and having the capacity to develop technologies and product ranges that are adapted to the market evolution.

That is why Valeo:

- has gradually withdrawn from the diesel segment, which now accounts for only around 1% of revenue;
- is positioned as the leader in powertrain electrification, both for 48V systems and high-voltage (over 60V) electric solutions through our joint venture with Siemens, Valeo Siemens eAutomotive;
- is reinforcing its leadership position on the ADAS market by expanding the product range.

To achieve this, the 12 new key technological platforms developed by Valeo allow the Group to support certain customers in launching flagship models, while sharply increasing its average content per vehicle. These technological platforms are also the means by which Valeo intends to boost its cash generation, by increasing profitability while reducing Research and Development costs and capital expenditure.

In a more challenging environment than anticipated, especially in 2019, Valeo intends to combine growth and resilience to:

- **Accelerate its outperformance.**

Over the 2020-2022 period, thanks to its new technological platforms, numerous project launches and a significant increase in content per vehicle, the Group is targeting organic revenue growth around 5 percentage points higher than global automotive production.

- **Increase its profitability.**

The Group intends to leverage the use of its technological platforms to optimize its Research and Development costs and capital expenditure. As a result, Valeo expects to increase its profitability, lifting its operating margin to around 7% of sales and its EBITDA margin to more than 15% of sales in 2022, versus 5.5% and 12.8% in 2019, respectively.

- **Double its free cash flow generation.**

Thanks to the expected increase in EBITDA combined with a tight rein over investments, Valeo is targeting an increase in free cash flow generation of between 1.3 billion euros and 1.5 billion euros over 2020-2022, equal to twice the level recorded in the 2017-2019 period. This cumulative three-year free cash flow objective, which was set prior to the Covid-19 crisis, includes a 2020 objective that is no longer valid (see section 5.2 "Subsequent events", pages 292 to 294).

	2019	2022
Sales (in billions of euros)	19.2*	**>21.5**
EBITDA	12.8%	**>15%**
Operating margin (excluding share in net earnings of equity-accounted companies)	5.8%**	**~7%**
Cash conversion rate (% EBITDA)	21%	**>15%**
Free cash flow	€519m	**€1.3-€1.5bn*** through 2020-2022

* Excluding the TCM business.
** Excluding the TCM business and the impact of the General Motors strike.
*** The cumulative amount of free cash flow for the 2020-2022 period includes a 2020 objective that is no longer valid (see section 5.2 "Subsequent events", pages 292 to 294).

These objectives were prepared based on IHS automotive production estimates released on November 16, 2019.

At the Investor Day on December 10, 2019, members of Valeo's management team also presented its outlook for Valeo Siemens eAutomotive, the joint venture created with Siemens in 2016, which is emerging as a major player in the high-voltage electrification segment. During this presentation, they notably described:

- Valeo Siemens eAutomotive's growth opportunities resulting from the launch of many key projects and the sharp increase in average content per vehicle;
- the organization and operating efficiency of the new company, which has notably achieved a strong reduction in Research and Development expenditure; and
- the main financial targets for 2022 and 2024.

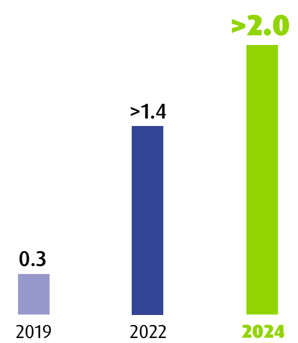
Valeo SIEMENS eAutomotive

Valeo has also set new financial objectives for the Valeo Siemens eAutomotive (VSeA) joint venture, which is positioned as a major player in the high-voltage (over 60V) powertrain electrification segment:

- sales of 1.4 billion euros in 2022, and of more than 2 billion euros in 2024;
- EBITDA at 8% of revenue in 2022, and at more than 12% in 2024; and
- breakeven free cash flow in 2022.

SALES

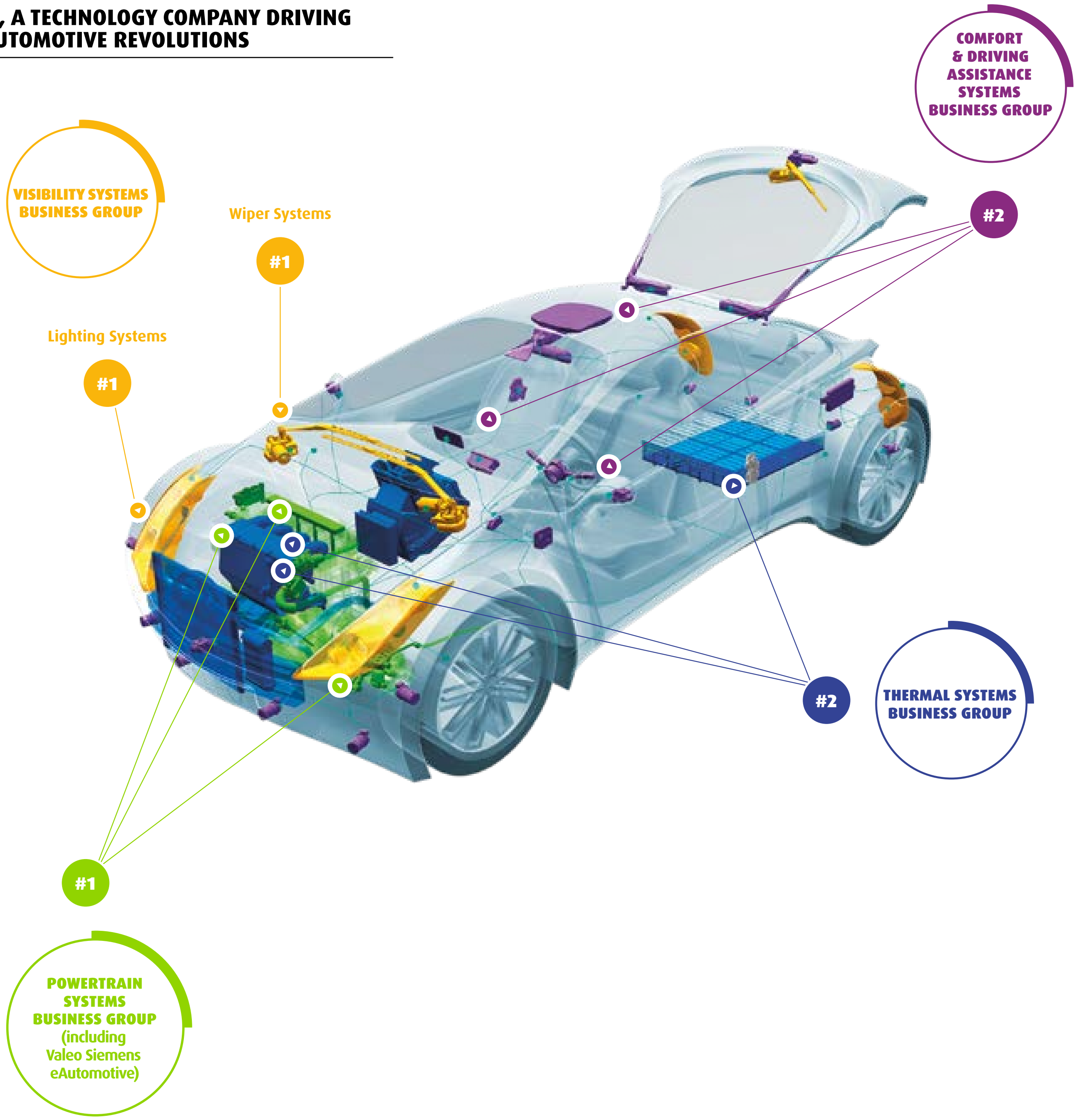
In billions of euros



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

In a fast-changing environment, Valeo is strongly positioned to address the challenges of market shifts towards cleaner, safer and smarter mobility. The four Business Groups are constantly innovating, to offer technology that is widely affordable and closely matched to individual needs.

VALEO, A TECHNOLOGY COMPANY DRIVING THE AUTOMOTIVE REVOLUTIONS



4 COHERENT, WELL-BALANCED BUSINESS GROUPS

COMFORT & DRIVING ASSISTANCE SYSTEMS BUSINESS GROUP

Enabling ever more intuitive driving

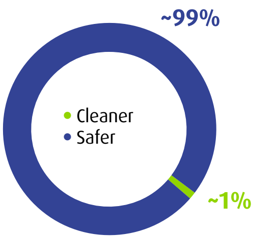
The car of tomorrow will be automated and connected. Innovative, intuitive interfaces will be needed to support this functional enhancement. The Comfort & Driving Assistance Systems Business Group focuses on the driver experience, developing solutions to make mobility safer, more autonomous and more connected.

€3.6bn[1]

19% of sales[2]

22,100
employees

Original equipment sales derived from products contributing to cleaner and safer mobility
As a % of original equipment sales



DID YOU KNOW?

1 billion: that's the number of ultrasonic sensors, cameras, radars and LiDAR systems Valeo will produce over the next five years. It's also the number that Valeo produced between 1991 and 2017.

POWERTRAIN SYSTEMS BUSINESS GROUP

Targeting low-carbon mobility

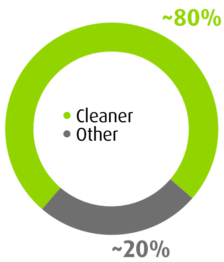
The Powertrain Systems Business Group develops smart electrification, automated transmission system, and clean engine solutions for vehicles, positioning itself at the forefront of the mobility transformation process and anticipating future market trends in the automotive industry.

€5.1bn

26% of sales[2]

23,500
employees

Original equipment sales derived from products contributing to cleaner and safer mobility
As a % of original equipment sales



DID YOU KNOW?

By 2023, four to five million vehicles in China will be fitted with Valeo 48V systems.

THERMAL SYSTEMS BUSINESS GROUP

Ensuring passenger well-being

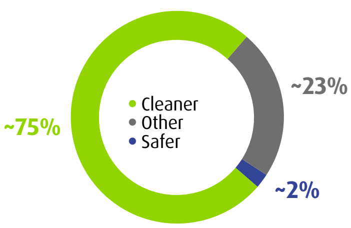
The role of the Thermal Systems Business Group is to optimize the management of thermal energy to provide mobility solutions that are cleaner and safer, while also promoting passenger well-being. The Group's innovations help shape the future of transportation, by reducing pollutant emissions, extending the driving range of electric vehicles, purifying cabin air and enhancing vehicle comfort.

€4.6bn

24% of sales(2)

25,100
employees

Original equipment sales derived from products contributing to cleaner and safer mobility
As a % of original equipment sales



DID YOU KNOW?

For its thermal solutions designed to extend the range of electric vehicles, Valeo has an order intake of 2 billion euros. This means that one in three vehicles in Europe will be equipped with a Valeo thermal solution by 2022.

(1) Excluding the TCM business, from which Valeo withdrew in 2019.
(2) Total consolidated sales, excluding the TCM business, from which Valeo withdrew in 2019.

VISIBILITY SYSTEMS BUSINESS GROUP

Offering optimal visibility for future mobility

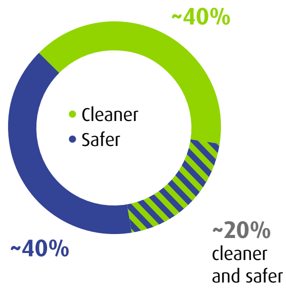
The Visibility Systems Business Group designs and produces innovative and efficient exterior and interior lighting, wiper and sensor cleaning systems to help motorists drive more comfortably and safely in all road and weather conditions, and to improve the journey experience for all vehicle occupants.

€6.0bn

31% of sales(2)

38,900
employees

Original equipment sales derived from products contributing to cleaner and safer mobility
As a % of original equipment sales



DID YOU KNOW?

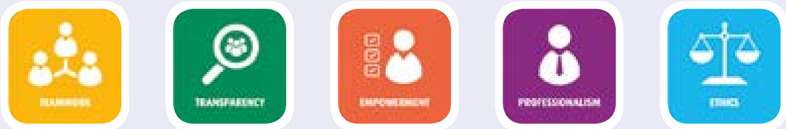
By 2024, one in four autonomous vehicles will be equipped with a Valeo cleaning system, developed thanks to Valeo's experience in automotive wipers.

FOR MORE INFORMATION

See Chapter 1 of the 2019 Universal Registration Document, "Presentation of Valeo".

A CORPORATE CULTURE IN SUPPORT OF STRATEGY

Valeo's culture is underpinned by **five core values:**



and the "5 Axes" of operational excellence:

A key pillar of the Valeo culture, operational excellence is a day-to-day reality in each of the Group's Research and Development centers and plants worldwide and across all functions. It is driven by a simple goal: satisfy customers by meeting their requirements in terms of quality, cost and time. This is achieved through the strict application by all employees of a methodology known as "the 5 Axes".

Based on the principle of continuous improvement and a "right first time" approach, this system is meticulously implemented at all Valeo sites. Involvement of personnel, a flexible production system, constant innovation, supplier integration and total quality are the central pillars of a culture that facilitates the integration of teams acquired by the Group and represents a key driver of Valeo's organic growth.

Valeo is proud to have the world's leading automakers as its customers. The Group's sales strategy consists of going beyond the basic supplier-customer relationship to drive advances in its customers' markets around the world.

CHRISTOPHE PÉRILLAT

CHIEF OPERATING OFFICER

"The 5 Axes methodology is the cornerstone of the Group's operating culture."

THE 5 AXES, A CULTURE OF EXCELLENCE AND CONTINUOUS IMPROVEMENT

In 2019, Valeo received **66** quality awards from its customers

SUSTAINABLE DEVELOPMENT, EMBEDDED IN VALEO'S DNA

A commitment to sustainable development is embedded in Valeo's DNA. As a technology company, the Group offers innovative products and systems that make vehicles cleaner, safer and more efficient, and are affordable yet adapted to individual needs. **At Valeo, sustainable development is built on four key pillars:** innovation, environmental eco-efficiency, employees and commitment to corporate citizenship. It pervades all the areas where Valeo interacts with stakeholders, both internally and outside the Group.

Recognition of Valeo's commitment to sustainable development

Valeo reaffirms its growth and value creation ambition in line with the ongoing transformations in mobility and its commitment to sustainable development. The Group's efforts in this area are recognized by the key ESG rating agencies (MSCI, RobecoSAM and CDP) as a one of the best automotive suppliers in terms of non-financial performance.

In 2020, Valeo was once again the leading automotive company in the new edition of the Corporate Knights ranking of the 100 largest global public companies in terms of sustainable development published at the Davos Summit in Switzerland in January each year, replicating the performance achieved in 2019.

JACQUES ASCHENBROICH
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

"For 2020 [...], I have set three priorities [...]: health and safety at work, gender diversity and reduction of our carbon footprint."

MAIN RATINGS

Organization	Rating
CDP (CARBON DISCLOSURE PROJECT)	**B** Management(1)
ISS-OEKOM(3)	**B-, prime** **Industry leader** (ranked no. 1 among automotive suppliers, excluding tire manufacturers)(1)
MSCI ESG RATING	**AAA** **Ranked no. 1** among automotive suppliers(1)
ROBECOSAM (DJSI)	**77/100** **Ranked no. 1** among automotive suppliers (excluding tire manufacturers)(1)
SUSTAINALYTICS	**86/100** **Leader** (ranked no. 2 among automotive suppliers)(2)

(1) Status conferred by the rating agency in 2019.
(2) Status conferred by the rating agency in 2018.
(3) Oekom became ISS-oekom in 2018.

Sustainable development challenges

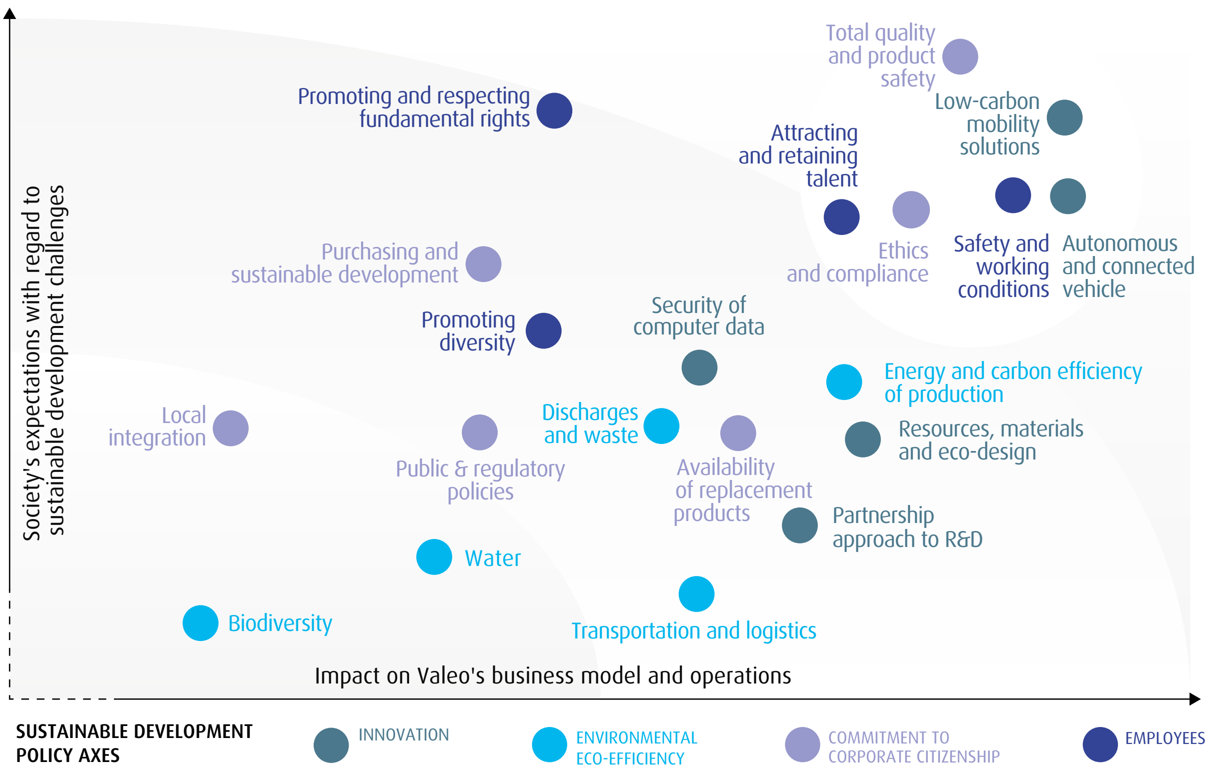
To identify its key sustainable development challenges, Valeo has carried out a materiality analysis to:

- enable stakeholders to better comprehend their interactions with Valeo;
- give its Research and Development, 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 Group closely monitors each challenge on a permanent basis using action plans and performance indicators.

MATERIALITY MATRIX PLOTTING VALEO'S SUSTAINABLE DEVELOPMENT CHALLENGES



Non-financial risks

Valeo has carried out an analysis of its non-financial risks, in compliance with the French legal framework, to improve the transparency of its non-financial reporting. The analysis of non-financial risks begun by Valeo in 2018 resulted from the joint work of the Risk Management and Sustainable Development and External Affairs departments.

For 2019, Valeo has identified the following seven main risks (classified in accordance with Valeo's four sustainable development axes).

The risk analysis and associated mapping were presented to the Risks Committee, which validated the assessments of the non-financial risks identified for 2019. These serve as the basis for the management of sustainable development policies, allowing initiatives to be prioritized.

Sustainable development axes	Risks	Pages
INNOVATION	**Risk of non-compliance with environmental product regulations**	pages 210 to 215
ENVIRONMENTAL ECO-EFFICIENCY	**Risk associated with accidental pollution of water and/or soil**	pages 216 to 218
EMPLOYEES	**Health and safety risk**	pages 219 to 221
	Risk related to attracting talent	pages 221 to 223
	Risk related to developing and retaining talent	pages 223 to 226
COMMITMENT TO CORPORATE CITIZENSHIP	**Risk of individual corruption**	pages 227 to 228
	Risk of non-compliance with sustainable development requirements by Valeo's suppliers	pages 228 to 232

Sustainable development goals in the Group's business

The Group's sustainable development initiatives are designed to support the United Nations' Sustainable Development Goals (SDGs). The Group's initiatives contribute to the seven following objectives:

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

Axes	Challenges	Key indicators	2015 results	2018 results	2019 results	Targets (2020)	Reference sections
INNOVATION	Low-carbon mobility solutions/ Autonomous and connected vehicle	• Share of innovative products in order intake (% of order intake)	37%	53%	47%(1)	>40%(1)	5.1.1 Page 268
		• Share of products contributing to the reduction of CO_2 emissions (as a % of sales)	N/A	50%	57%	N/A	4.2.2 Page 185
ENVIRONMENTAL ECO-EFFICIENCY	Energy and carbon efficiency of production	• Energy consumption as a proportion of sales (MWh/€m)	143	140 (-1%(2))	142 (+1%)	132 (-8%(2))	4.3.3 Page 213
		• Direct (scope 1) and indirect (scope 2) emissions as a proportion of sales (tCO_2/€m)	56.3	59.2 (+5%(2))	57.55 (-3%)	51.8 (-8%(2))	4.3.3 Page 214
		• ISO 50001 energy management certification (% of sites)	8%	17%	18%	20%	4.3.1 Page 205
	Discharges and waste	• Production of hazardous and non-hazardous waste as a proportion of sales (t/€m)	16.4	16.2 (-1%(2))	16.4 (+1%)	15.6 (-5%(2))	4.3.2 Page 208
	Water	• Water consumption as a proportion of sales (cu.m/€m)	198	210 (+6%(2))	197 (-6%)	186 (-6%(2))	4.3.3 Page 210
EMPLOYEES	Safety and working conditions	• FR1: frequency rate of occupational accidents with lost time (accidents with lost time/million hours worked)	2.4	2.1	1.9	<2	4.4.2 Page 222
	Attracting and retaining talent	• Voluntary turnover of Managers and Professionals (% of M&P workforce)	6.7%	8.5%	8.0%	≤7%	4.4.2 Page 229
	Promoting and respecting fundamental rights	• Share of employees that joined the Group during the year, and signed a declaration acknowledging receipt of a copy of the Code of Ethics and training in its content (% of the registered workforce)	N/A	99.0%	99.8%	100%	4.4.3 Page 242
	Promoting diversity	• Share of women in new hires during the year (% of hires during the year)(3)	32.4%	33.0%	34.9%	>35%	4.4.3 Page 231
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 total purchases)	60%	77%	80%	80%	4.5.2 Page 244
	Local integration	• Organization of initiatives and events by the Valeo sites with educational and vocational training institutions (% of sites)	N/A	61%	68%	80%	4.5.2 Page 247

(1) Products and technologies in series production for less than three years, including Valeo Siemens eAutomotive in 2019.
(2) Change compared with 2015.
(3) In 2018, Valeo achieved its 2020 objective, set in 2017, of >=33%. The Group has accordingly decided to raise its "Promoting Diversity" target with a more ambitious goal for 2020.

Corporate governance committed to sustainable development

BOARD OF DIRECTORS

Governance, Appointments & Corporate Social Responsibility Committee

Audit & Risks Committee

Monitoring of non-financial risk mapping

Sustainable Development and External Affairs Department (pilot and coordinator)

Human Resources Department	Health, Safety and Environment (HSE) Department	Ethics and Compliance Office	External stakeholders
Research and Development Department	Operational Departments (Purchasing, Quality and Industrial)	Risk and Insurance Department	

In 2010, the Group set up a sustainable development department tasked with defining the Group's sustainable development policy and coordinating its implementation. Outside the Group, its role is to ensure the consistency of the messages shared with external stakeholders. The department is jointly overseen by the Strategy Department and the Chairman and Chief Executive Officer.

In addition, other Group functions, including Research and Development, Risk and Insurance, Health, Safety and Environment, Human Resources, Ethics and Compliance and Purchasing, also contribute to sustainable development at their level, and have developed their own tools for taking action and assessing performance.

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

- 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 are met;
- overseeing the gradual and increasing implementation of the 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.

Innovation

Research and Development are central to Valeo's growth strategy and its identity as a technology company. The Group strives to develop new automotive technology and identify innovative solutions that both anticipate and meet market demands. It promotes **intuitive and safer driving**, and provides solutions for **reducing emissions of greenhouse gases**, such as CO_2, and pollutants. The Group's innovation policy serves to make its strategic choices a reality. It draws primarily on an open innovation ecosystem (see opposite).

Valeo is also committed to rolling out a product **eco-design strategy** to reduce their carbon impact well beyond the simple use phase. This approach aims to:

- reduce CO_2 emissions;
- increase the recyclability of materials and systems;
- ensure that materials are safe.

This approach is based on internal standards, which guide the project teams in their life cycle analyses in the upstream research phase, and is backed up by a requirement for product quality and reliability right from their design phase.

On the operations side, with the dual aim of delivering solutions that reduce product weight and generating additional development potential, Valeo is gradually replacing metal with lighter materials, such as plastics, resins and carbon fiber. The Group has also enhanced the recyclability of its products by working on both their design and the materials used.

FOR MORE INFORMATION

see Chapter 4 of the 2019 Registration Document, section 4.3.3 "Risk of non-compliance with environmental product regulations".

AN OPEN INNOVATION ECOSYSTEM

COMMITMENT ON RECYCLED PLASTICS

Valeo actively participated in the PFA (*Plateforme Française de l'Automobile*) working group on recycled materials in 2019, thereby playing its part in the transition to a circular economy.

Alongside its automaker customers and the public authorities, Valeo is working to gradually increase the share of recycled materials in the global supply of polymers, as part of an action plan that was drawn up jointly by the government and automakers in 2019[(2)].

Due to its widespread use, polypropylene has been prioritized. Among the actions identified by the government and the automotive industry, Valeo will contribute to:

- establishing generic specifications for recycled materials in collaboration with its customers;
- working with communities to develop standards. To that end, Valeo will participate in voluntary work for the development of grades of recycled materials. Its aim will be to test them on its own automotive component applications.

Lastly, via CLEPA, Valeo is a member of the Circular Plastic Alliance launched by the European Commission in 2018, which brings together public and private players in the plastics value chains. Its aim is to promote voluntary initiatives and commitments for more recycled materials.

Experts	Gross Research and Development expenditure	Patents filed	% innovative products[(1)] in the order intake
1,261	€2,054m	1,698	47%
+10% versus 2018	-€19m versus 2018	making Valeo one of the leading patent filers with the French Industrial Property Institute	

(1) Products and technologies in series production for less than three years, including Valeo Siemens eAutomotive.
(2) 100% recycled plastics coalition: commitments to a sustainable plastics supply chain.

Environmental eco-efficiency

For nearly 30 years, Valeo has demonstrated its commitment to limiting the impact of its activities on the environment. Its commitments have been made official in its 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[1];
- **improve the environmental performance** of its processes;
- **optimize the transportation** of people and goods in order to reduce greenhouse gas emissions;
- **limit the use** of natural resources and promote the use of renewable resources and energy;
- **eliminate the use** of substances that are hazardous to the environment or health.

To prevent the risk of pollution across all sites, the Group has adopted **several operational environmental directives** setting rules for all sites. Moreover, each plant must ensure, through regulatory monitoring, the **constant compliance of the procedures and substances** used with local environmental regulations.

The Group aims to limit and control its water consumption to ensure a sufficient supply and quality. In order to control and reduce its consumption as much as possible, 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.

In view of the importance of reducing energy consumption and emissions related to the production of GHGs[1], Valeo has also set itself the goal for 2020 of **reducing its direct and indirect GHG emissions** (scopes 1 and 2) as a proportion of sales by 8% compared with 2015. The Group monitors energy consumption at its sites on a quarterly basis via the Valeo Environmental Indicators internal tool.

FOR MORE INFORMATION

See Chapter 4 of the 2019 Universal Registration Document, "Sustainable Development".

GHG EMISSIONS (SCOPE 1, SCOPE 2 AND SCOPE 3)

Since 2009, Valeo has made progress in the analysis of its carbon footprint by evaluating the direct and indirect greenhouse gas (GHG) emissions resulting from its activities.

Total direct and indirect GHG emissions as a % of sales ($tCO_2eq./€m$)

	2009	2015	2018	**2019**
Scope 1 DIRECT EMISSIONS	14.5	10.1	9.9	**9.9**
Scope 2 INDIRECT EMISSIONS	45.1	46.2	49.3	**47.6**
Scope 3 OTHER INDIRECT EMISSIONS	—	426	528	**517**

In 2019, despite the integration of new sites and its growth in high-emissions countries, particularly China and Poland, the Group managed to reduce its direct and indirect greenhouse gas emissions to 57.55 $tCO_2eq./€m$ of greenhouse gases as a proportion of sales, i.e., a 3.5% reduction compared with 2009.

Amount of investments in environmental protection (excluding cleanup costs)

€6.5m

+11% versus 2018

Water consumption

197 cu.m/€m

-46% versus 2008

Industrial carbon footprint

10.83m tCO_2

of which 85% related to the production of inputs

Total consumption of packaging materials as a proportion of sales

€5.1m

-32% versus 2008

(1) See sustainable development glossary, page 48.

BRUNO GUILLEMET
SENIOR VICE-PRESIDENT,
HUMAN RESOURCES

"Gender equality remains one of the Group's top priorities. Following the extension of the French gender equality index(1) to all of our host countries, we have rolled out local action plans based on national performance. We expect to see the first signs of improvement in 2020 as our analysis continues."

Employees

Valeo owes its success to the men and women who work for it. The Group therefore places great importance on their well-being, by:

- **Guaranteeing a work environment free of risk of accidents.** This is the first way to improve the quality of working life of employees and to ensure their involvement in the Group's activities. Valeo's goal is to reduce the frequency rate of lost-time accidents (FR1)(2) to less than two by 2020. To achieve this objective, Valeo, through its risk management manual, rolls out policies and directives on a range of topics (building and facility safety, employee health and safety, data security and the environment).
- **Attracting the best talent.** This is a key challenge for Valeo in a competitive environment that is undergoing profound transformation. Valeo's recruitment policy is based on a strong employer brand, which enhances the Group's visibility and its appeal for the talents of tomorrow. Managing relationships with schools and forging strong and special partnerships are a priority for the Group. Similarly, to maintain relationships with its customers worldwide, Valeo pledges to recognize and value its talent through an ambitious compensation, professional development, training and internal mobility policy.
- **promoting gender equality in all the countries where it operates.** In March 2019, Valeo was the first CAC 40 company to extend the mandatory gender equality index in France to all of its host countries. It did so on the basis of a slightly different methodology, since it only takes Managers and Professionals into account: for instance, the index calculates the weighted differences in the proportion of women and men given pay rises or promotions, and the percentage of women among the 10 highest earners. Following analyses carried out by each country, national action plans have been launched with a view to improving the index and in turn gender equality.

QUALITY OF LIFE AT WORK

The Group works to continuously improve quality of life at work, an integral part of its Human Resources strategy aimed at attracting, developing and retaining talent by guaranteeing:

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

(1) This index is based on the evaluation of five criteria:
- criterion 1: difference in compensation between men and women;
- criterion 2: difference in individual pay rises between men and women;
- criterion 3: difference in the percentage of men and women promoted;
- criterion 4: percentage of women employees receiving a pay rise after returning from maternity leave;
- criterion 5: percentage of women among the top ten highest paid employees (among Managers and Professionals only).

(2) Number of lost-time accidents x 1,000,000/number of hours worked during the year.
This indicator takes into account category 1 and 3 accidents.

Frequency rate (FR1(2)) of occupational accidents
1.9
in line with 2020 goal with a rate of <2

Percentage of employee shareholders at Valeo
50%
+5 percentage points

Employees that attended training/awareness modules on quality of life at work
6,080
+37% versus 2018

Gender equality indicator
82/100
Group average gender equality index(1)

Commitment to corporate citizenship

Valeo's social policy is structured around three main challenges:

- **Anti-fraud policies and anti-competitive practices**
  - Due to the Group's global footprint and its growing number of employees, the Ethics and Compliance Office devoted 2019 to extending and deepening its various programs to fight corruption and anti-competitive practices, and to promote compliance with economic sanctions and export controls, and the protection of personal data (the Compliance Programs).
  - Built to the highest international standards, including France's Sapin II law, the Foreign Corrupt Practices Act (FCPA) and the General Data Protection Regulation (GDPR), the programs break down into different policies, instructions, recommendations, tools and training modules.
  - Run by General Management and the Ethics and Compliance Office, endorsed by all management teams and relayed worldwide by Compliance Champions and Data Protection Champions, the Group's Compliance Programs are designed to prevent a number of risks associated with inappropriate behavior.
- **Sustainable development requirements with regard to suppliers**
  - As a tier-one automotive supplier, Valeo is at the heart of the automotive industry supply chain. Broad change in supplier chains, the emergence of new forms of indirect subcontracting and the desire to control risks of disruption in the supply chain by taking into account a wider range of risk factors have prompted Valeo to formalize over recent years a demanding policy in terms

of sustainable development with regard to its suppliers. Valeo has begun implementing a policy to monitor its suppliers in the following key areas: governance, human rights, the environment, health and safety and supplier relations.
  - Sustainable development is an integral part of Valeo's decision to enter into business relationships with suppliers:
    - suppliers must meet Valeo's ethics, integrity and sustainable development requirements included in the Valeo Business Partner Code of Conduct;
    - suppliers are selected based on economic, financial risk, logistics, corporate governance, environmental and social factors (respect for fundamental rights, environmental protection, employee health and safety, and quality). Questions on non-financial criteria represent over 90% of all the mandatory items in the supplier qualification questionnaire, sustainable development criteria are given a weighting of almost 20% in the supplier's final score, and any failure to meet these criteria automatically disqualifies them from Valeo's supplier panel. Valeo continued its program of in-depth sustainable development supplier assessments, based on its annual self-assessment questionnaire of sustainable development choices, with a representative sample of suppliers covering 80% of the Group's production purchases in 2019. This annual self-assessment is rounded out by a campaign of audits of suppliers' sustainable development practices.
- **A commitment to ecosystems and local populations**

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, local economic agents, 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. To achieve this, the Group has set the following two guidelines:

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

Each site organizes local plant initiatives that reflect locally identified needs and are consistent with their capacities. With the assistance of its Human Resources and Research and Development managers, the site managers decide on actions that can be carried out to help the local population and employees. **For the fourth year running, all sites organized at least one corporate citizenship initiative.**

Fight against fraud and anti-competitive practices

99.8%

of exposed employees trained

Share of production purchases for which Valeo assesses suppliers' sustainable development practices

80%

Sites that organized at least one corporate citizenship initiative

100%

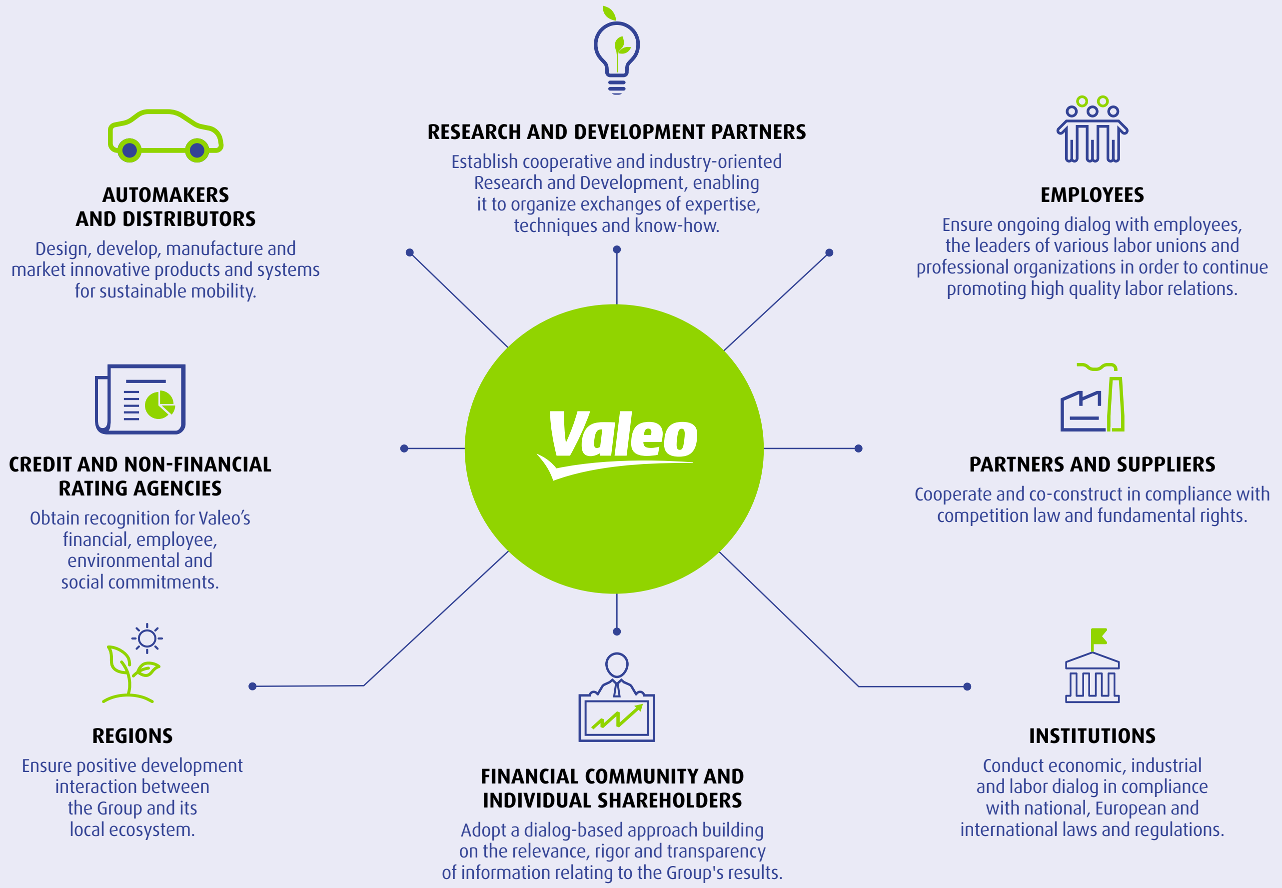
for the fourth year running

FOR MORE INFORMATION

See Chapter 4 of the 2019 Universal Registration Document, "Sustainable Development".

VALEO AND ITS STAKEHOLDERS

Valeo has relationships with the different stakeholder groups throughout the process, from design, to production and product sales.



RESEARCH AND DEVELOPMENT PARTNERS

Over the past few years, Valeo has established cooperative and industry-oriented Research and Development to organize exchanges of competences, techniques and know-how. The Group pursues a proactive strategy with regard to start-ups, through various channels, from simple cooperation to investments and acquisitions. This strategy is backed by Valeo's presence in the leading global innovation ecosystems and interests in venture capital funds.

EMPLOYEES

Valeo is careful about maintaining ongoing dialog with its employees and with representatives from the various trade unions and other professional associations. In 2019, 65.6% of Valeo plants had employee representative bodies and unions, and 78.3% of the registered headcount operated under a collective agreement.

PARTNERS AND SUPPLIERS

Together with its suppliers, the Group cooperates and co-constructs solutions in compliance with competition law and respect for fundamental rights.

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

INSTITUTIONS

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

FINANCIAL COMMUNITY AND INDIVIDUAL SHAREHOLDERS

The Group's Investor Relations Department closely and consistently interacts with the financial community. 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 at major global financial centers (Europe, North America and Asia) during roadshows or conferences. In all, the Investor Relations team met more than 1,000 institutional investors and analysts at these events during 2019, with the Group's Management present at a large number of these meetings.

REGIONS

Valeo's sites contribute to the economic and social fabric of the regions where the Group operates. Its sites have multiple impacts: they are consumers, employers, spending centers, local economic agents and actors in the development of human capital, and contribute to creating and enhancing the appeal of businesses through transfers of expertise.

CREDIT AND NON-FINANCIAL RATING AGENCIES

Valeo is rated "Investment Grade" by rating agencies Moody's and Standard & Poor's(1) reflecting its transparent, rigorous and relevant communication. In 2018 and 2019, it also saw its non-financial performance acknowledged by various rating agencies.

AUTOMAKER CUSTOMERS AND DISTRIBUTORS

Valeo undertakes to its customers to design, develop, manufacture and market innovative products and systems for sustainable mobility. Customers worldwide continued to recognize the high standard of the Group's performance, awarding it 66 quality distinctions in 2019.

(1) On March 26 and April 3, 2020, respectively, rating agencies Moody's and Standard & Poor's placed Valeo's long- and short-term issuer ratings under review for downgrade (see Chapter 5 of the 2019 Universal Registration Document, section 5.6.4, Note 6.2.4 "Debt rating", page 403).

VALUE CREATION SHARED

Sales − Purchasing and other costs = Value generated by Valeo[1]

Employees[2]
As a % of value generated
66%

Investments in the Group's future growth[3]
As a % of value generated
29%

Promoting innovation

33,340 patents,
of which 1,698 filed in 2019

47% of order intake
for innovative products[6]

Attracting and retaining talent

Workforce doubled in ten years

23.4h of training per employee
on average

Taking quality to the highest level

Order intake at
1.34x original equipment sales

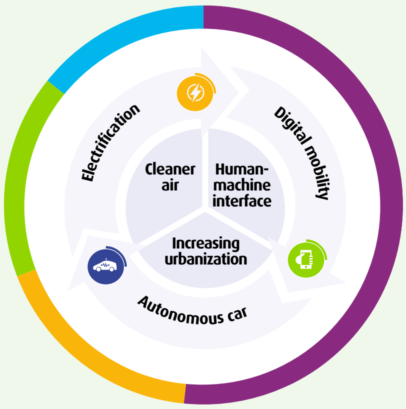
Customer return rate of 3 parts
per million products delivered

A GROWTH STRATEGY FOR

Valeo's solutions to mobility challenges

THERMAL SYSTEMS
Shape transportation for tomorrow's world by creating cleaner and safer mobility solutions offering greater well-being

POWERTRAIN SYSTEMS
Develop innovative solutions that reduce CO_2 emissions and optimize energy performance



COMFORT & DRIVING ASSISTANCE SYSTEMS
Provide vehicles with eyes and ears for more intuitive and connected mobility

VISIBILITY SYSTEMS
Assist drivers and their passengers in all weather and in all their activities to enhance the "experience of traveling"

TALENTED AND INNOVATIVE RESOURCES

Innovation culture

19,900
R&D employees
working at 59 centers worldwide

€2bn in gross R&D expenditure

People, the key to excellence

114,700 employees,
140 nationalities

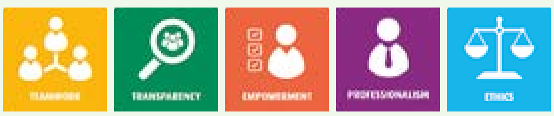
Employee representative bodies[8]
for nearly 2/3 of sites

High-performance plants

191 plants
in 33 countries

A CULTURE OF EXCELLENCE

Valeo's culture is underpinned by five core values:



BY ALL STAKEHOLDERS

States(4)
As a % of value generated

Investors(5)
As a % of value generated

Contributing to a cleaner world

€6m in environmental investments

18% of sites certified ISO 50001

89.2% of produced waste recovered

Supporting local communities

Purchases close to consumption location

Higher education partnerships: 79% of sites

Rewarding investors

Dividend of €0.2 per share(7)

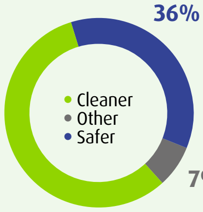
Ranked no. 1 among automotive suppliers by ISS-oekom, MSCI, RobecoSAM, Corporate Knights

CLEANER, SAFER AND SMARTER MOBILITY

Original equipment sales derived from products contributing to cleaner and safer mobility

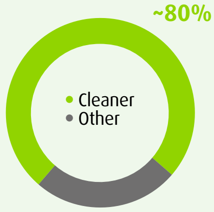
*As a % of original equipment sales**

Group

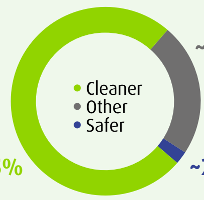


Comfort & Driving Assistance Systems Business Group

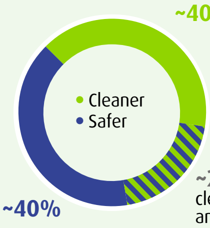
Powertrain Systems Business Group



Thermal Systems Business Group



Visibility Systems Business Group



* Including Valeo Siemens eAutomotive.

SUPPORTED BY SOLID FUNDAMENTALS

Environmental stewardship

87% of plants certified ISO 14001 and 84.5% certified OHSAS 18001

€23m in operating expenses related to the environment

Social footprint

1,202 suppliers account for 95% of production purchases

Business Partner Code of Conduct

Financial performance

€19.5bn in sales

Operating margin at 5.3% of sales

€519m in free cash flow

AND CONTINUOUS IMPROVEMENT

As automakers' preferred partner,

Valeo must continue to offer innovative technology and ensure total customer satisfaction in terms of quality, cost and time, by applying the 5 Axes methodology.

NB: Figures relate to the year ended December 31, 2019. The main indicators are defined in the financial glossary, page 48, and in the sustainable development glossary, page 48.

(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 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) 2019 retained earnings plus depreciation of property, plant and equipment and amortization of intangible assets.
(4) Income taxes and levies included in operating items.
(5) Shareholders and bondholders: dividend proposed to the Shareholders' Meeting in respect of 2019 and cost of net debt.
(6) Products and technologies in series production for less than three years, including Valeo Siemens eAutomotive.
(7) In the current period of uncertainty caused by the Covid-19 pandemic, Valeo's Board of Directors has decided to ask shareholders to approve a dividend payout of 0.2 euros per share.
(8) Employee representative bodies.

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	Corresponds to net cash from operating activities (excluding changes in non-recurring sales of receivables and net payments for the principal portion of lease liabilities) 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	Corresponds to 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.
Operating margin including share in net earnings of equity-accounted companies	Corresponds to operating income before other income and expenses.
Purchase price allocation	As part of the accounting for business combinations and on first-time consolidation, purchase price allocation consists in measuring at fair value the assets acquired and liabilities assumed from the acquired subsidiary, joint venture or investment and recognizing them in the statement of financial position for these amounts. The allocation may result in the recognition of certain assets and liabilities that were not previously recognized. The acquirer may also recognize identifiable intangible assets acquired such as trademarks, patents or customer relationships. Accordingly, the newly consolidated company's net equity is remeasured. The difference between the price paid by the parent company for the shares in the acquiree and the parent company's share in the acquiree's remeasured net equity is called "goodwill". Goodwill is recognized within intangible assets in the statement of financial position.
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.
TSR	Total shareholder return measures share profitability, taking into account, over a given period, the dividends received by the shareholder and the unrealized gains and losses on fluctuations in the share price.
Valeo order intake	Corresponds to business awarded by automakers during the period to Valeo, and to joint ventures and associates based on Valeo's share in net equity, (except Valeo Siemens eAutomotive, for which 100% of orders are taken into account), less any cancellations, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. Unaudited indicator.

SUSTAINABLE DEVELOPMENT GLOSSARY

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
GHG	Greenhouse gas: gases which absorb infrared rays emitted by the Earth's surface, contributing to the greenhouse effect.
ISO 14001	International standard on environmental management systems.
ISO 50001	International standard on energy management systems.
OHSAS 18001	International standard on occupational health and safety management systems.
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.).
SAE International	Society of Automotive Engineers International: a US-based association. 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".

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, diversification into thermal systems and electrical equipment, and international development in Europe (Spain, Italy, Germany, United Kingdom, Turkey), South America (Brazil), North America (United States and 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 and Japan) and Eastern Europe (Czech Republic, Poland, Hungary, Romania and 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 increasingly innovative, high-growth tech company

In 2009, a new strategy was implemented around two main drivers: innovation, with technologies focused on CO_2 emissions reduction and autonomous 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 position as a leading technology company has gone from strength to strength, with accelerating sales growth and innovation-driven order intake.

Valeo's innovation strategy is underpinned by:

ACQUISITIONS AND JOINT VENTURES:

- **Niles** (2011) – interior controls;
- **PT Valeo AC Indonesia** (2012) – air conditioning systems – acquisition of the minority shareholder's stake (51%);
- **Detroit Thermal Systems** (2012) – Thermal Systems joint venture between Valeo and V. Johnson Enterprises;
- **The VTES (Variable Torque Enhancement System) activity of CPT** (2012) – electric superchargers;
- **Tianjin Valeo Xinjue** (2013) – cooling systems joint venture;
- **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 (over 60V) powertrain systems (joint venture);
- **Smexx Gmbh** (2016) – cloud-based vehicle access management software and equipment;
- **Ichikoh** (2017) – lighting systems: takeover;
- **gestigon** (2017) – cabin 3D image processing software;
- **FTE automotive** (2017) – hydraulic actuators;
- **Valeo-Kapec** (2017) – torque converters;
- **Precico** (2017) – plastic components, printed circuit board assemblies;
- **Kuantic** (2017) – development of onboard telematics;
- **Transfrig** (2018) – mobile cooling systems;
- **Asaphus** (2019) – driving assistance software (including facial recognition) acquisition of a 50% stake.

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 Israel;
- **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;
- **Ellcie Healthy** (2018) – development of smart eyeglasses;
- **NTT Docomo** (2018) – development of new mobility services for connected cars;
- **Baidu** (2018) – strategic partnership with Apollo, the open autonomous driving platform;
- **WABCO** (2018) – agreement to bring the latest active safety technologies to the commercial vehicle market.

1.2 Overview

1.2.1 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 more autonomous driving.

In 2019, the Group generated sales of 19.5 billion euros and invested close to 12.6% of its original equipment sales in Research and Development. At December 31, 2019, Valeo had 191 plants, 20 research centers, 39 development centers and 15 distribution platforms, and employed 114,700 people in 33 countries worldwide. Valeo is listed on the Paris Stock Exchange.

1.2.2 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 R&D projects;
- Valeo Bayen, which holds shares in non-French companies;
- VIHBV, registered in the Netherlands, which previously performed the function of investing in non-French companies, and which retains certain investments.

At an intermediate level, in some countries (Germany, Spain, the Czech Republic and the United Kingdom), 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.

1.2.3 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.

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

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.

1.3 Operational organization

The Group's operational structure is based on four Business Groups, Valeo Service and 12 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's General Management. 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 automaker networks and replacement parts to 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 1.5.1 of this chapter, "Sales and Business Development Department", page 72).

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

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.

1.3.1 Comfort & Driving Assistance Systems

KEY FIGURES IN 2019

€3.6bn(1)
SALES
19%
of Group sales(1)

8 pt
OUTPERFORMANCE(2) FOR ORIGINAL EQUIPMENT SALES
on a like-for-like basis(3)

€599m(1)
EBITDA
16.4%
of the Business Group's sales

22,100
EMPLOYEES

31 plants

7 research centers
&
9 development centers

(1) Excluding the Top Column Module business, from which Valeo has withdrawn.
(2) Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.
(3) See financial glossary, page 48.

2019 HIGHLIGHTS

SUBSTANTIAL ORDER INTAKE, particularly for front cameras.

MARKET RELEASE for Valeo XtraVue Trailer in the United States.

PRESENTATION OF VALEO VOYAGEXR, the world's first virtual "teleportation" system.

Description of the Business Group

The car of tomorrow 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 the driver experience, developing solutions to make mobility safer, more autonomous and more connected.

Comfort & Driving Assistance Systems has three Product Groups:

- Driving Assistance
- Connected Cars
- Intuitive Controls

Driving Assistance

The development of automated and autonomous driving involves a series of successive steps, and the widespread take-up of automation features is already well under way. The starting point for this revolution is perception of the environment, which enables vehicles to detect and comprehend their surroundings.

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 (Valeo 360Vue™ and Valeo Park4U™ ranges);
- autonomous driving solutions for individual drivers (levels 2 to 4 in the SAE(1) classification) and for fleet management services (levels 4 and 5).

Valeo offers the automotive industry's widest range of series-produced perception technology, including ultrasonic sensors, cameras, radars, and LiDAR (Light Detection and Ranging) systems. They act as the vehicle's eyes and ears. The data from the sensors is processed in real-time by artificial intelligence systems (calculation algorithms and software), enabling the vehicle to operate safely in its environment.

Valeo's SCALA™ laser scanner is the only automotive-grade 3D LiDAR device under mass production today. To date, deliveries of the Valeo SCALA™ have topped 100,000 units.

In 2019, some 170 million ultrasonic sensors went to market. Since 1990, Valeo has made more than 1.1 billion units, aided by its network of more than 200 experts in artificial intelligence.

Valeo designs, develops, approves and produces full, upgradeable systems for active safety, driving assistance and vehicle automation. It has developed key strengths for validating its systems, through deterministic track testing, test campaigns in different locations, data processing, and tests in simulated environments. Valeo has standardized and automated its validation systems.

(1) Vehicle automation comes in successive stages, from level 1 (no automation) to level 5 (full automation). Source: SAE International (Society of Automotive Engineers International).

Thanks to the successful performance of its technological platforms, Valeo is diversifying its customer portfolio with the addition of new mobility players, with applications that go beyond passenger transportation.

Connected Cars

Cars are being transformed into smart devices as part of a wide-reaching mobility revolution. The Connected Cars Product Group offers comprehensive car connectivity solutions addressing emerging mobility challenges such as access control, communications, software update, cybersecurity and geo-location. Examples include:

- telematics technologies, which are taking off worldwide: in-vehicle connectivity modules will facilitate the development of new services and improve vehicle management;
- vehicle-to-vehicle (V2V), vehicle-to-infrastructure (V2I), and vehicle-to-pedestrian communication will increase safety and enable certain situations to be anticipated;
- full acoustic solutions, such as personal voice assistance, which will enable motorists to control internal vehicle functions and interact with the outside environment;
- new smartphone usages: hands-free access and car-start systems, car-sharing and remote parking.

Valeo is a member of the 5G Automotive Alliance (5GAA) and the Automotive Edge Computing Consortium (AECC), contributing to the development of V2X (vehicle-to-vehicle and vehicle-to-infrastructure) and 5G technology in connected vehicles. Valeo has also partnered with NTT Docomo (a major Japanese mobile operator) to jointly develop comprehensive, innovative solutions using 4G/5G connectivity. In December 2018, Valeo joined Auto-ISAC, a community working on cybersecurity.

Intuitive Controls

This Product Group is one of the world's leading players in human-machine interfaces. It harnesses in-depth understanding of vehicle architectures and excellence in interactive technologies to develop innovative, high quality interfaces focused on end-user experience. Valeo has filed more than 500 human-machine interface patents in the last five years.

Immersive interfaces featuring technologies such as intelligent surfaces and gesture recognition open the way to a new experience inside the vehicle.

Valeo is fully aware of the importance of taking care of both drivers and passengers, which is the primary aim of the Valeo Interior Cocoon. Driver and passenger health and safety are monitored by a driver monitoring system (DMS), detecting drowsiness, distraction and facial expressions, and an interior monitoring system (IMS) that includes presence detection. These systems use Valeo technology, including cameras and sensors with infrared illuminators, radars and artificial intelligence.

Solutions offered by the Intuitive Controls Product Group include:

- head-up display systems that show drivers all the information they need without requiring them to take their eyes off the road;
- interior cameras and proprietary algorithms, which are expected to develop extremely rapidly as increased driver and passenger monitoring becomes necessary to improve safety and comfort, and as users come to expect more in terms of customization;
- driver and passenger (human-machine) interfaces, ranging from switches to touch screens, for intuitive, ergonomic operation. These interfaces can control doors and windows, air conditioning systems and multimedia applications;
- intelligent steering-wheel controls, for intuitive interaction especially adapted to manual and automated driving phases, and transitions between them;
- top column modules, which represent the electronic communication hub between the safety features and the central electronics system of the cabin;
- steering sensors (angle and torque sensors).

2019 highlights

Distinctions

- Valeo Voyage^{XR}, unveiled at the 2019 Consumer Electronics Show (CES), is the world's first virtual teleportation system, enabling vehicle users to bring others virtually onboard. Valeo Voyage^{XR} won Ubergizmo's Best of CES 2019 prize, a Car HMI (human-machine interface) prize and a Coyote Automobile Technological Innovation award.
- The Valeo XtraVue Trailer enables drivers to see what's going on on the road behind their trailer, by making it appear see-through. It won the Coyote Automobile "Safety" Award and the Edmunds Tech Driven Award at CES 2019.

Partnerships

- At CES 2019, Valeo signed a partnership agreement with Mobileye to develop and promote a new autonomous vehicle safety standard based on Responsibility-Sensitive Safety (RSS). The partnership targets widespread industry take-up of this mathematical safety model developed by Mobileye. Specifically, Valeo and Mobileye are working together on policies and technologies to encourage the adoption of a technological standard based on the RSS model in Europe, the United States and China.

- Valeo has acquired a 50% stake in Asaphus, a German university spin-off specializing in the development of innovative facial recognition and driver monitoring software. Asaphus solutions are integrated in Valeo's Driver Monitoring System, for example.
- Mov'InBlue™, a smart mobility system, created by Valeo and Capgemini, specializing in digital mobility services for corporate fleets and car rental companies, and Getaround (formerly Drivy), Europe's leading car-sharing platform, launched a connected and interoperable shared mobility solution. This will enable fleet managers to make their vehicles available for self-service car-sharing through the Getaround platform.
- In March 2019, Mov'InBlue™ signed a memorandum of understanding with T-Systems, a subsidiary of Deutsche Telekom, to roll out a digital key service (developed by Mov'InBlue™) for direct delivery to tradespeople's trucks in Germany.

Commercial successes

- Increase in sales and market share in China (despite the substantial downturn in the Chinese market) and in Valeo's other regional markets.
- Stronger market positions for Valeo in driving assistance systems, with order intake on the US market from Japanese and German automakers.
- €3.6 billion in order intake for front cameras since 2017, with more than 20 launches in 2019 for major German, French and Japanese customers.
- Launch of the new Honda Fit, offering, in addition to Euro NCAP functions, a Valeo cruise control and automatic emergency braking system making front radar unnecessary.
- Market release for Valeo XtraVue Trailer in the United States.
- Initial success for the Life Presence Detection system with a major Asian automaker.
- Take-up of a breakthrough human-machine interface by a German premium automaker.
- Growing order intake for Valeo's telematic control units.
- Production release for gesture recognition system with BMW.
- Wey VV7 fitted with Valeo's driver monitoring system.

Shows

The Business Group's latest innovations and digital mobility solutions featured at major motor and technology shows across the world: Consumer Electronics Show (CES) in Las Vegas (United States), Frankfurt Motor Show (Germany), Auto Shanghai (China), NAIAS in Detroit (United States), VivaTech (Paris), CVPR (Computer Vision and Pattern Recognition) (United States), Tokyo Motor Show (Japan), JSAE (Japan Society of Automotive Engineers).

Valeo exhibits included Valeo Voyage^{XR}, a system enabling the driver to bring someone else virtually onboard, Valeo XtraVue Trailer, which makes parking with a trailer easier by enabling the driver to "see through" it, and Valeo Drive4U Remote, a remote control solution for autonomous vehicles.

1

Market trends and outlook

Autonomous driving, powertrain electrification and new mobility services are changing the way people use their cars. Product digitalization and big data stimulate the development of disruptive offerings focused on the end user.

With the growing number of sensors and ECUs (electronic control units), automation is increasingly complex. And vehicle life cycles are increasingly similar to those of consumer electronic devices, with continuous updates and adaptation to individual end-user profiles.

This brings about a change in vehicle electrical and electronic architectures, along with investment in platforms to reduce costs and increase the proportion of software in the value chain.

Different industries (software, data, consumables and service providers) are forming ecosystems to develop systems and components for mobility solutions involving passenger vehicles or shared mobility objects such as robotaxis, autonomous shuttles and droids.

New business models include new partners from varied horizons, operating with great agility and rapidly rolling out offerings on all markets, with specific needs for targeted usage.

Growth in the Business Group is driven by three trends:

Safer and more automated driving

- As active safety devices become standard on many markets, the proportion of vehicles fitted with them is expected to rise by up to two times in the next five years[1]. The main active safety devices cover emergency braking (including in city driving), lane departure warning, blind-spot detection and driver monitoring (for alerts on drowsiness or distraction at the wheel systems).
- At the same time, automation functions such as lane keeping assist and adaptive cruise control are becoming increasingly commonplace, bringing level 2[2] automation to the mainstream segment.
- The first conditional, highly automated driving systems (SAE[2] levels 3 and 4) require triple redundancy when it comes to perception (sensors), and this is expected to generate a four-fold increase in average content per car compared with level 2 (based on 2019 technology prices)[1].

(1) Based on Valeo estimates.

(2) Vehicle automation comes in successive stages, from level 1 (no automation) to level 5 (full automation). Source: SAE International (Society of Automotive Engineers International).

- Mobility services using fully automated vehicles (levels 4 and 5[1]) are already at the test 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[2].
- More and more vehicles are being fitted with front cameras, in part because of the active safety requirements of the Euro NCAP tests. In Europe, most vehicles from B-segment up (i.e., 80% of new vehicles) will be fitted with front cameras from 2025, and this brings additional opportunities for Valeo.

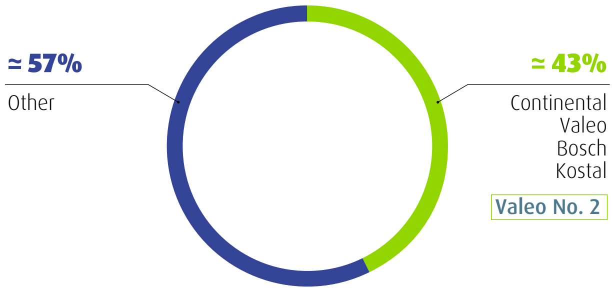
More intelligent driving (user experience)

- Customization of and improvement in human-machine interfaces, a field in which the Business Group holds a leading position[1], 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 entire cabin.

Data, connectivity and digital services

- Vehicles increasingly interact with the digital world and with (incoming and outgoing) cloud data in particular, opening prospects for new features and services with new economic models (navigation assistance, mileage-linked insurance premiums, etc.).
- This will call for standards on V2V and V2I communication, and the emergence of digital platforms (with vehicle location and high definition maps, for example) offering high-added-value services for drivers, fleet managers, automakers and automotive suppliers.

Main competitors on the comfort & driving assistance systems market[3]



(1) Vehicle automation comes in successive stages, from level 1 (no automation) to level 5 (full automation). Source: SAE International (Society of Automotive Engineers International).

(2) Based on Valeo estimates.

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

1.3.2 Powertrain Systems

KEY FIGURES IN 2019

€5.1bn(1)
SALES
26%
of Group sales(1)

6 pt
OUTPERFORMANCE(2) FOR ORIGINAL EQUIPMENT SALES
on a like-for-like basis(3)

€685m
EBITDA
13.4%
of the Business Group's sales

23,500
EMPLOYEES

57 plants

7 research centers
&
18 development centers

(1) Excluding the Top Column Module business, from which Valeo has withdrawn.
(2) Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.
(3) See financial glossary, page 48.

2019 HIGHLIGHTS

FIRST ORDERS
for a 48V system for a three-wheel light vehicle.

PARTNERSHIP WITH DANA
to bring to market end-to-end 48V systems for hybrid and electric vehicles.

COYOTE AWARD
in the "Green Innovation" category, for the Valeo reversible charger.

Description of the Business Group

The Valeo Powertrain Systems Business Group is at the heart of the vehicle electrification revolution. It has three Product Groups:

- Powertrain Electrification Systems
- Transmission Systems
- Powertrain Actuators and Sensors

Combining the expertise of the Business Group's three Product Groups, Valeo manufactures comprehensive, integrated electric powertrain solutions as well as a range of products for cleaner combustion engines.

48V low-voltage powertrain systems

Valeo's 48V powertrain system is a hybridization solution for all types of vehicles and a full electrification solution for urban vehicles.

The system, which can be used in all-electric and hybrid applications, has the advantages of being versatile, safer than high-voltage (over 60V) motors thanks to a less complex architecture that requires less safety equipment, and easy to maintain, as it can be serviced at any workshop. And some of its components derive from parts that are already mass-produced, which reduces development costs. Valeo's 48V all-electric motors are versatile, meaning they can be used to power not only cars, but also new urban mobility objects, autonomous shuttles, motorcycles and even the three-wheel rickshaw vehicles found on Asian markets.

In 2019, Valeo continued to develop demonstration vehicles to illustrate the workability of its electrification solutions for small vehicles:

- an electric kart fitted with a 48V starter-alternator and belt-driven transmission system (7 kW continuous and 13 kW peak);
- a light urban vehicle fitted with the same starter-alternator and belt-driven transmission system (7 kW continuous and 13 kW peak) plus a 6 kWh battery, for a top speed of 45 km/h and a travel range of 100 km);
- a Kei-truck (Japanese delivery vehicle), developed jointly with Gunma University (Japan). This vehicle has two 48V powertrains, with electric motor rated at 15 kW peak, inverter and transmission, providing the four-wheel-drive capability sought by 60% of Kei-truck owners in Japan.

High-voltage (over 60V) all-electric powertrain systems

The Valeo Siemens eAutomotive joint venture, formed in late 2016, makes all-electric motors for two types of application: all-electric and plug-in hybrid vehicles. Intended for vehicles in all segments, high-voltage electric powertrain systems offer versatile vehicle usage in both urban and freeway driving situations. In addition to the electric motor itself, Valeo Siemens eAutomotive also makes the components for integrating the powertrain system: onboard battery charger, DC/DC converter, and inverter for controlling the motor.

Valeo's all-electric offering addresses growing demand from automakers for electric powertrain systems, across the range and not only on small city cars. Valeo Siemens eAutomotive's powertrain systems run at voltages of 60V upwards (up to a power rating of 347 kW, or the equivalent of over 470 hp) and give better performance, lower fuel consumption and greater comfort.

In addition, plug-in hybrid vehicles powered by Valeo Siemens eAutomotive motors have an electric-power driving range of up to 50 km (depending on battery capacity) and bring significant reductions in CO_2 emissions, plus versatile vehicle capabilities.

Full electric powertrain systems for all vehicle architectures

Valeo builds on nearly a century of extensive experience to take a comprehensive approach to powertrain system design from the outset, covering transmission and integration. Valeo addresses growth in the hybrid and electric vehicle market with solutions adapted to all types of transmission: automatic, semi-automatic, dual-clutch and hybrid.

- Its hybrid and all-electric powertrain systems are designed for integration in all types of vehicle architecture: on the engine shaft, before/after/in the transmission and/or on the rear axle, with an appropriate transmission system if needed.
- Hybrid and plug-in hybrid powertrain systems are optimized as a whole. Electric motor power output is adapted to usage, and the combustion engine is optimized using Valeo solutions on fuel-consumption and CO_2 emissions reduction. Combustion engines are made cleaner through high-precision sensors, mechatronic actuators and electric superchargers.
- For all-electric powertrains (high-voltage (over 60V) and 48V low-voltage), Valeo systems include all the necessary components – not just the motor – with electric oil pumps and anti-theft systems recently added to the Valeo portfolio following the acquisition of FTE automotive. The battery is charged via a Valeo onboard charger that manages electric current flow. The full powertrain system that Valeo offers its automaker customers also includes a DC/DC converter to power electrical devices and an inverter controlling the electric motor.

2019 highlights

The Business Group's product roadmaps continued to earn positive automaker feedback in 2019, expressed at various events organized by the Group.

Low-voltage powertrain systems and clean engine performance

- More than 5 million vehicles now fitted with Valeo i-StARS 12V starter-alternator systems worldwide.
- Ramp-up of series production for 48V electric architectures: Valeo remains a leader in belt-driven electric machines and 48V DC/DC converters.
- Start of European series production for 48V starter-alternators for major automakers.
- First order intake for second-generation 48V starter-alternator, with air-cooled machine and water-cooled electronics, for higher power capability.
- Start of development project for first 48V electric motor integrated in dual-clutch hybridized transmission for three major automakers in Europe and Asia.
- Valeo 48V DC/DC converter selected by four automakers in Europe and the United States.
- Production of electric kart and light urban vehicle fitted with 48V starter-alternator and belt-driven transmission system, using 48V technologies developed for series hybrid applications.
- Special production for the Japanese market of a four-wheel-drive electric Kei-truck with two 48V powertrains (15 kW peak electric motor, inverter and transmission).
- First order intake for a 48V system in a three-wheel light urban mobility vehicle in India.
- Development under way on a new actuator for the next-generation hybridized transmission.
- Strengthened market share for torque converters in Asia.

High-voltage (over 60V) all-electric powertrain systems

- More than 10 production releases for electric and plug-in hybrid vehicles fitted with products developed by the Valeo Siemens eAutomotive joint venture, including:
  - inverter for C-segment electric vehicle with substantial volume ambitions;
  - electric powertrain fitting the rear axle of C- and D-segment plug-in hybrid vehicles.
- Substantial order intake, including two projects for European automakers.
- First series production in India for a vehicle fitted with an onboard charger and DC/DC converter made in China.

Full powertrain systems for all vehicle architectures

- Substantial order intake for high-temperature and pressure sensors meeting forthcoming regulations and ensuring improved control for critical powertrain subsystems.
- Market share gains on new-mobility projects in Europe and Asia.
- Partnership with Dana Incorporated to strengthen offerings on 48V electrified powertrain systems. Two expert appraisal phases are under way in Europe and Asia.

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:

Medium-power electrification (48V)

Under mounting pressure to reduce fuel consumption and thereby vehicle CO_2 emissions, automakers are increasingly turning to powertrain electrification solutions. By 2025, 45% of vehicles made worldwide will be either hybrid, plug-in hybrid or all-electric(2), with half of these being medium-power models. Because medium-power solutions offer a very attractive cost/performance trade-off, market take-up will continue to grow. As the world's leading player in this field, having developed new technological solutions that anticipate automakers' future needs, Valeo is ideally placed to benefit from the increase in content per vehicle.

High-power electrification (>60V)

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, which represent just 5% of all electric vehicles in 2019, but will account for almost a quarter by 2025(2), hold great promise for the future, since they enable vehicles to run in zero-emissions mode in urban environments. The Valeo Siemens eAutomotive joint venture will offer a full range of products that meet expectations for this wave of innovation.

The first all-electric vehicles fitted with Valeo Siemens eAutomotive solutions are already on the road in Europe and Asia. Many more will follow in the near future, including a vehicle for a leading German manufacturer.

Smart engines and transmissions

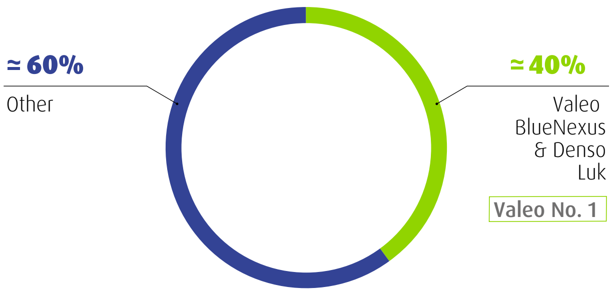
In 2019, internal combustion engines powered over 97% of vehicles produced worldwide, or 87 million units. Through to 2025, the number of internal combustion engine vehicles produced will continue to rise, driven by an increase in the number of vehicles manufactured worldwide.

In addition, more and more drivers are beginning to appreciate the comfort of automatic transmissions.

These two trends are generating continued growth in the transmissions field. With its strong position on this market (number two worldwide(1)) and its growing product range (now including actuators for dual-clutch transmissions, electric oil pumps and built-in anti-theft systems, 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)(2).

Along with work on powertrain electrification, automakers will also be continuing to improve engine performance and efficiency.

Main competitors on the powertrain systems market(2)



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

1.3.3 Thermal Systems

KEY FIGURES IN 2019

€4.6bn[1]
SALES
24%
of Group sales[1]

3 pt
OUTPERFORMANCE[2] FOR ORIGINAL EQUIPMENT SALES VALEO NO. 2
on a like-for-like basis[3]

€502m
EBITDA
11%
of the Business Group's sales

25,100
EMPLOYEES

68 plants

3 research centers
&
10 development centers

(1) Excluding the Top Column Module business, from which Valeo has withdrawn.
(2) Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.
(3) See financial glossary, page 48.

2019 HIGHLIGHTS

MAJOR CONTRACTS with European, Japanese and Chinese automakers for battery thermal management for electric vehicles on the Chinese and Japanese markets.

START OF SERIES PRODUCTION for a high-voltage electric air-circuit heating solution on the world's largest electric vehicle platform, for a leading German group.

CONTRACT for an air conditioning and heat pump system, and a battery cooling and heating system, for a leading European bus manufacturer.

Description of the Business Group

The strategic objectives of the Thermal Systems Business Group address the emerging challenges facing the automotive industry in two fields:

- intelligent management of thermal systems for all vehicles;
- passenger health and well-being.

Vehicle electrification requires new thermal management solutions to ensure a comfortable cabin temperature, without compromising travel range, keeping the battery cells of hybrid and electric vehicles at optimum operating temperature, and enhancing vehicle performance, through lightweight, aerodynamic design.

Intelligent management of thermal systems

Battery thermal management

The purpose of battery thermal management is to ensure the longest possible battery life. Specifically, the battery cells must be kept at a temperature of between 15°C and 45°C during storage, operation and charging.

If the battery heats to above its usual limit during the acceleration and rapid charge phases, additional cooling is required. The air conditioning loop must be adapted for use both in cabin climate control and in battery cooling, and must meet the following demands:

- extended reliability for the ventilation system in the front-end cooling module;
- higher cooling capacity for the compressor and condenser;
- energy balance between cabin and battery, through dynamic thermal system control.

In winter, the battery may need pre-heating to yield performance on acceleration and rapid charge. This is done by heating the liquid in the battery pack exchanger by means of a dedicated high-voltage component.

Passenger comfort and vehicle travel range

The Business Group develops thermodynamic heating systems based on intelligent heat-pump principles, to recover heat generated by the battery for use in heating the cabin, thereby minimizing the impact of cabin heating on travel range.

Electric vehicle systems also need to run quietly so as to avoid disturbing both passengers in the vehicle and pedestrians during charging operations. The Thermal Systems Business Group uses acoustic materials (air conditioning and front-end modules) or encapsulation to attenuate noise and vibration (compressor and front-end air guiding modules).

Aerodynamic and lightweight design

Electric vehicle travel range is also a question of aerodynamics and weight. For this reason, the Thermal Systems Business Group uses composite materials in all heavy and structural parts such as battery packs, bolsters and shock absorption units, bringing weight reductions of up to 30% compared with aluminum solutions.

Passenger health and well-being

To anticipate new mobility trends, the Thermal Systems Business Group harnesses its extensive expertise through an approach focused on passenger health and well-being. With the emergence of electric and autonomous cars, life on board the vehicle is being reimagined. The Thermal Systems Business Group is intent on providing a healthy and comfortable environment in which passengers feel at ease.

Personalized comfort

The Thermal Systems Business Group offers intelligent comfort solutions that adjust to each individual passenger, by analyzing metabolism, clothing and thermal environment, while minimizing energy consumption. Using cameras, biometric sensors, heating systems (FlexHeater flexible heating surfaces) and localized cooling systems (cold air jets), the Business Group is fine tuning its innovative thermal comfort model with the help of artificial intelligence.

A vehicle that empathizes with users

Going a step further than thermal comfort, the Business Group is preparing the "empathic" vehicle of the future, aiming to offer peace of mind and a travel experience based on emotions, using an algorithm that adjusts thermal comfort, scent and audio parameters in line with passenger usages and preferences.

Air quality

Health and safety are more important than ever when it comes to car journeys, with the increasing need to ensure optimum air quality. In response, the Thermal Systems Business Group offers solutions for detecting pollution risks in the outside air and activating cabin isolation and filtration systems to ensure clean air inside the cabin. Integrated digital services warn the driver when the cabin air filter needs changing, and even recommend the most suitable type of filter for the vehicle usage.

Thermal Systems has five Product Groups:

- Thermal Climate Control
- Thermal Powertrain
- Thermal Compressor
- Thermal Front End
- Thermal Commercial Vehicles

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, electric or powertrains) and trucks. These systems are designed to optimize in-vehicle thermal comfort and passenger well-being.

Thermal Powertrain

This Product Group develops systems for effectively managing thermal energy, an essential factor in optimizing powertrain performance for reduced fuel consumption and CO_2 emissions, pollutant gases and toxic particles. Systems are developed for combustion, hybrid and electric engines and motors.

The systems and their components are designed for high performance, minimum weight and size, and optimum energy management. They can include exchangers plus a fan unit at the front of the vehicle.

Thermal Compressor

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

Thermal Commercial Vehicles

This Product Group develops and produces customized solutions for intelligent air control in all types of buses, aimed at major manufacturers and operators of large vehicle fleets. It offers heating and air conditioning (HVAC) systems, roof hatches and cabin thermal management systems adapted to widely differing local weather conditions, for customers worldwide.

2019 highlights

The Business Group's innovations generated substantial interest among automakers. A robust order book was secured through new contracts on new electric platforms with French and Asian automakers in particular.

The Business Group seized growth opportunities in a number of key areas:

- sustained sales of air conditioning modules, with multiple orders from Japanese and French automakers;
- major contracts with European, Japanese and Chinese automakers on battery thermal management for electric vehicles on the Chinese and Japanese markets;
- contract with a leading Japanese automaker for an innovative high-voltage water source heating system;
- start of series production for a high-voltage electric air source heating solution and an extra-wide water source battery cooling system on the world's largest electric vehicle platform, for a leading German group;
- contract for the second phase of this platform in China, in addition to air conditioning modules and a package of solutions for protecting cabin air quality;
- start of series production for the first electric compressor in the portfolio, together with an indirect water source heat pump and a structural water source battery cooler for the worldwide electric platform of a French group;
- contract with one of the world's largest bus manufacturers for an R-744 (natural coolant) roof-mounted air conditioning system;
- contract for an air conditioning and heat pump system, and a battery cooling and heating system in Northern Europe, for a leading European bus manufacturer;
- contract for a roof-mounted electric air conditioning system for a leading South American electric bus manufacturer.

The Business Group also cemented its positioning in terms of innovation, ranking as a finalist in the prestigious 2019 PACE Awards, thanks to its composite-material bolster, a world first unveiled in 2018.

The Business Group made substantial industrial investments in production plants, primarily in Russia, the United States and China, to prepare for forthcoming automaker platforms. It also opened facilities in Morocco and South Africa to support its European customers.

Market trends and outlook

The value of the Thermal Systems Business Group's addressable market is expected to outperform global automotive production by 2030, chiefly as a result of strong growth on the electrified vehicles market and the gradual take-up of health and well-being solutions.

A stable market for internal combustion engines

In 2019, internal combustion engines powered 98% of vehicles made worldwide, i.e., nearly 88 million units. This figure is expected to remain stable, reaching around 91 million units by 2029[1]. Reducing emissions from internal combustion engines and improving energy efficiency therefore remain key challenges. The Business Group has developed a broad product offering to address these objectives, including front-end air-grille shutters, variable-capacity compressors, and brushless motors for cabin ventilation and engine cooling. This enables it to capture the value of this market, which is expected to grow at an annual average of more than 4% over the next 10 years[1].

Accelerating growth in the electrified vehicles market

The electrified vehicle market continues to expand, accelerating as a result of national legislation to reduce emissions of CO_2 and other pollutants. In addition, concern over air quality has prompted many major cities to encourage the rapid emergence of electric vehicles through increasingly restrictive legislation on internal combustion engines.

In 2019, close to 7 million electrified vehicles were manufactured worldwide, i.e., more than 7% of all vehicles manufactured. By 2029, the Business Group expects 60% of all light vehicles to be electrified, of which 6% plug-in hybrids, more than 18% battery-powered vehicles and more than 35%[1] mild and full hybrids.

Electrified vehicles, including plug-in battery-powered vehicles (EVs), are entering a new life cycle phase, marked by customer expectations for longer travel range, fast or ultra-fast charging as close as possible to current use of internal combustion engine vehicles, and affordable pricing. Volumes are expected to grow at an annual 26.4% over the next 10 years[1].

(1) *Based on Valeo estimates.*

The market for thermal systems for electrified vehicles is therefore set to grow at an annual average of 28% over the next 10 years[1]. This will generate substantial automaker demand for:

- more powerful water source active cooling systems for battery cells, meeting demand for cell cooling (flat, surface, compact) that interacts with the air conditioning system via a heat exchanger. Annual growth in this market is expected to average more than 31% over the next 10 years[1];
- more powerful and more efficient front-end cooling modules, for silent release of the extracted heat, especially during fast-charge phases. In this area, the Business Group is developing high-power brushless ventilation motors and more powerful exchangers (radiators and condensers). Growth in this segment is expected to be around 27% per year[1];
- specially adapted air conditioning circuits ensuring passengers' thermal comfort and battery cooling even during ultra-fast charging[1]. The market for electric air conditioning compressors is projected to grow by 19% per year, with higher power ratings for ultra-fast charging[1]. To ensure thermal comfort does not compromise the travel range of electric vehicles, the Business Group offers heat-pump climate control systems, and expects annual average growth of more than 40% in this segment;
- weight reduction and aerodynamic performance are determining factors in the energy efficiency, and therefore the travel range, of battery-powered electric vehicles. With this in mind, the Business Group has developed composite-material battery casing to bring down vehicle weight, demand for which is expected to top 90% per year over the next 10 years, and a wide range of front-end air-grille shutters for improved aerodynamics, the market for which is expected to grow at 34% per year[1].

For thermal systems overall, average content per vehicle in value terms for electrified vehicles (hybrid, plug-in hybrid and all-electric) is currently around twice that for internal combustion engine vehicles (based on 2019 prices and technologies)[1], meaning that this market holds major growth opportunities for the Business Group.

In-vehicle health and well-being

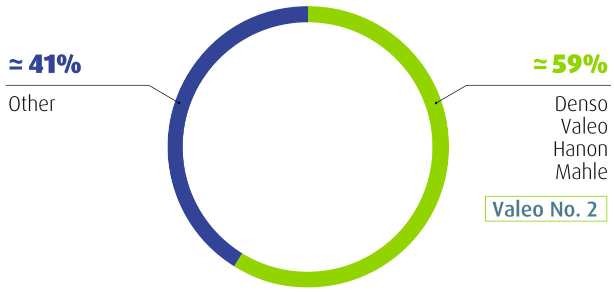
As new forms of mobility emerge (car-pooling, vehicle fleets, autonomous vehicles), the car interior is increasingly becoming a living space in its own right, meaning comfort is no longer seen as a simple matter of ergonomics and climate control. The trend is toward individualization, with services adjusted to the preferences of each user, in car-pooling as well as individual ownership situations.

In this area, the Business Group has developed comfort solutions closely adapted to vehicle occupant preferences, with active heating of interior surfaces and control algorithms offering both personalized thermal comfort and reduced energy consumption.

In-vehicle air quality management has made way for a broad offering of pollution detection sensors and algorithms for air management and cabin air filter maintenance.

The Thermal Systems Business Group expects the in-vehicle health and well-being market to grow by 10% per year through 2029[1], which will bring Valeo additional opportunities for increasing its average content per vehicle.

Main competitors on the thermal systems market[2]



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

1.3.4 Visibility Systems

KEY FIGURES IN 2019

€6.0bn[1]
SALES
31%
of Group sales[1]

6 pt
OUTPERFORMANCE[2] FOR ORIGINAL EQUIPMENT SALES
on a like-for-like basis[3]

€660m
EBITDA
11%
of the Business Group's sales

38,900
EMPLOYEES

51 plants

5 research centers
&
16 development centers

(1) Excluding the Top Column Module business, from which Valeo has withdrawn.
(2) Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.
(3) See financial glossary, page 48.

2019 HIGHLIGHTS

START OF SERIES PRODUCTION on mainstream vehicles, as Valeo drives widespread take-up of glare-free pixel lighting.

GROWTH IN NUMBER OF CUSTOMERS for autonomous vehicle sensor cleaning systems and driving assistance systems, with order intake from regions including Asia and North America.

CREATION OF VISTRONIC, a cross-functional Business Group entity specializing exclusively in visibility system electronics.

Description of the Business Group

The Visibility Systems Business Group designs and produces innovative and efficient exterior and interior lighting, wiper and sensor cleaning systems to help motorists drive more comfortably and safely in all road and weather conditions, and to improve the experience of traveling for all vehicle occupants.

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

- enabling drivers to see the road clearly, and be seen, by means of lighting, wiper and signaling systems;
- making sure cameras and optical sensors are kept clean;
- enhancing driver and passenger comfort by means of innovative interior lighting features.

Designed to offer the best performance at an affordable cost, all of the systems developed by the Business Groups are also optimized in terms of weight and energy consumption, to help reduce the CO_2 emissions of internal combustion engine vehicles as much as possible and increase the travel range of electric vehicles.

The Visibility Systems Business Group has two Product Groups and one Product Line:

- Lighting Systems Product Group;
- Wiper Systems Product Group;
- Vistronic Product Line: visibility systems electronics.

Lighting Systems

The Lighting Systems Product Group is the world leader[1] in its sector, thanks to its broad portfolio of solutions covering all market needs.

(1) Based on Valeo estimates.

Exterior lighting

The Product Group develops exterior lighting solutions tailored to automakers' specific performance and design requirements. It helps automakers produce vehicles with high technological content for added comfort and safety, through a platform-based organization that offers design- and cost-optimized innovations such as:

- **efficient, dynamic lighting systems:** in 2019, Valeo made a major contribution to widespread take-up of ADB (Adaptive Driving Beam) glare-free high beam headlamps, with world-first Pixel Lighting on a mainstream D-segment vehicle and European premiere for Matrix Beam on a mainstream B-segment vehicle. The Product Group also offers a high-definition lighting solution using a monolithic LED of close to 4,000 pixels, developed jointly with Cree[1]. The road-ready prototype, tested by Driving Vision News, is considered the most effective lighting solution to date;
- **appealing lighting solutions:** external lighting plays a dominant role in vehicle design. In addition to the LED daytime running lights already commonplace on the market, new features such as illuminated logos and grilles are also beginning to appear, as additional features of a model's or a brand's visual identity. To meet a recurring demand expressed by auto designers, Valeo has also developed extra-fine modular light engines. Following the 40 mm high PowerFullLED module, the useful lens height has been reduced to 25 mm on ThinLens modules, and this will shortly be coming down further still, to 15 mm on UltraThinLens modules;
- **economical lighting solutions:** Valeo always strives to make its innovations widely affordable, offering comfort, safety and style on all types of vehicles. The Business Group offers solutions for replacing halogen lamps with affordable LED modules that give drivers enhanced 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 from most automakers.

The Product Group also develops innovative signaling solutions that improve communication with the vehicle's surroundings and provide information to other road users. These enhanced signaling functions will be essential if autonomous vehicles are able to notify others of their intentions.

In the signaling equipment released in 2019, the Product Group benefited from a growing tendency among automakers to extend the vehicle's rear signaling functions across the whole vehicle width. A number of rear lighting strips entered series production in 2019, bringing about a substantial increase in content per vehicle.

Interior lighting

Valeo's innovative interior lighting developments draw from extensive expertise in lighting and close synergies with Valeo's other Business Groups. Solutions are designed to create a genuine traveling experience:

- feeling good: lighting contributes to vehicle occupants' sense of well-being and comfort;
- feeling safe: lighting lends an additional dimension to the human-machine interface. It informs the driver of vehicle intentions and potential hazards;
- feeling privileged: the combination of lighting and materials contributes to the perception of the value of the vehicle being driven, and automakers use this for brand differentiation.

New visual and tactile solutions are emerging in response to the trend toward simpler car interiors, along with automakers' efforts to offer drivers a smoother onboard experience. Interior lighting solutions combine with sleek, touch-sensitive surfaces to produce a unique and immersive experience. These interior lighting solutions are developed jointly with the Comfort & Driving Assistance Systems Business Group's Intuitive Controls team.

The traveling experience begins as the passenger approaches the vehicle. With this in mind, the Product Group develops "extraterior" functions such as the projection of patterns or logos on the ground near the vehicle.

Wiper Systems

Sensor cleaning for autonomous vehicles

An unobstructed view of the road, for both the driver and the vehicle's optical sensors, is essential for road safety. With the development of more autonomous cars and advanced driving assistance, the car's many cameras, LiDARs (laser detection systems) and infrared sensors also need to be cleaned.

The Wiper Systems Product Group develops:

- technologies that keep optical sensors perfectly clean while minimizing the consumption of wiper fluid (which can reach up to 20 liters per day for a robotaxi) and thereby the tank weight, for reduced vehicle CO_2 emissions;
- systems extending the range of weather conditions under which a vehicle can be used (for example, enabling robotaxis and automated delivery vehicles to drive in rain or snow);
- comprehensive systems (including tanks, pumps, nozzles, pipes, solenoid valves, miniature wipers, blowers, etc.) for cleaning optical sensors (cameras, infrared cameras, LiDARs, etc.), to ensure an uninterrupted video stream and therefore safety and comfort. These systems consume very little wiper fluid, minimizing the amount of fluid carried and thereby keeping vehicle weight to a minimum.

(1) Cree is the creator of Wolfspeed®, a range of power and RF semiconductors, LED solutions and lighting products.

The Wiper Systems Product Group also designs and will shortly be producing complete roof- and side-mounted "pods", featuring sensors, cleaning systems, cooling systems and their mechanical structure, complete with style features. On this kind of module, components may be supplied by other Product Groups (sensors and cooling systems, for example).

Window wipers

The Wiper Systems Product Group develops technologies that efficiently clean the windshield and rear window. Smart input from the use of electronic solutions helps improve safety and reduce weight. It also paves 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 requirements;
- remote control windshield washing and de-icing systems (from a smartphone application, for example);
- rear wiper systems with integrated washing based on a new line of motors designed to simplify integration into the vehicle;
- the AquaBlade® wiper system already in series production on many vehicles, which ensures clear, precise, safe vision for the cameras behind the vehicle windshield, a crucial sensing function on automated vehicles. In addition, AquaBlade® technology reduces wiper fluid consumption and thereby the size of the fluid tank. This helps keep down the overall vehicle weight.

Vistronic

Vistronic is a cross-functional Business Group entity specializing exclusively in hardware and software for visibility system electronics. It provides technical support to Product Group development teams, and designs and produces circuit boards and standard LED drivers. In addition to its operations within the Business Group, Vistronic also has the capacity to sell its LED drivers outside Valeo.

2019 highlights

Lighting and Signaling Systems

Significant events for the Lighting Systems Product Group in 2019 include:

- series production startup for PeopLED headlamps on various vehicles in Europe, the United States and China: Ford Puma, Chevrolet Suburban and Nissan Sylphy;
- 25 mm high ThinLens lighting modules fitted on vehicles including Ford Mustang Mach-E, Nissan Sentra and Ferrari Roma;
- new Opel Corsa, the first mainstream B-segment vehicle in Europe fitted with the anti-glare BiLED™ Access Matrix Beam module;
- Renault Espace facelift with ThinLens Matrix Beam lighting modules, a first for the Renault-Nissan Alliance;
- Pixel lighting modules for Volkswagen Golf and Passat, a first for mainstream C- and D-segment models;
- widespread take-up of rear light strips on all types of vehicles in all regions: Porsche 911, Lincoln Aviator, Seat Tarraco and Lynk&Co 05;
- interior lighting solutions developed for two new Japanese customers in North America and Asia;
- order intake for decorative exterior lighting solutions in Asia and Europe;
- initial orders for a solution combining dynamic interior lighting and human-machine interface.

Wiper Systems

Numerous systems were brought to market in 2019, including:

- complete sensor cleaning systems (from tank to nozzle, including control electronics, Pump2Lens) selected for use on several vehicles in Europe, Asia and North America;
- AquaBlade® embedded wiper system and electronically controlled wiper motor on the Lincoln Aviator and Explorer (Ford group) in North America;
- AquaBlade® embedded wiper system on DAF XF trucks;
- production start-up of wiper systems for the Changan CS75 in China.

These systems confirm the trend toward blade-integrated nozzles and electronics in wiper motors (electronic systems already accounted for more than 48% of sales in value terms in Europe in 2018).

Market trends and outlook

Growth in the Visibility Systems Business Group is driven by a series of innovations, targeting reduced CO_2 emissions and the development of intuitive driving and autonomous vehicles:

- **generalization of LEDs:** following the massive adoption of BiLED™ solutions by many automakers in replacement of xenon technology, Valeo's range of thinline and rectangular modules is being taken up by more and more automakers. At entry-level, PeopLED solutions are being widely adopted to replace halogen units. For upmarket equipment, anti-glare Matrix Beam and Pixel Lighting solutions are starting to appear on mainstream models. High-definition LED solutions such as Valeo's PictureBeam Monolithic are expected from 2023;

- **functional and dimensional extensions to signaling functions:** since 2019, car design teams have expressed a growing trend toward light signatures across the whole vehicle width, at both rear and front, with daylight running lamps (DRLs) between the two headlamps providing central illumination for the automaker's badge. Style considerations aside, signaling features are also extending functionally to inform the vehicle's immediate environment of its driving mode (electric or autonomous) and its trajectory;
- **reinvented wiper systems:** wiper systems are undergoing major change, thanks to new-generation wiper motors. The Wiper Systems Product Group is a front-runner in electronically controlled wiper system motors, which are lighter, making for lower CO_2 emissions, and quieter, a crucial factor in electric vehicles. Electronic control also brings an opportunity to sell software for functions such as windshield de-icing and bug removal.

  One advantage of wiper systems that integrate a windshield cleaning function is that their smaller washer fluid tanks help reduce the overall vehicle weight. To meet growing demand, the Wiper Systems Product Group offers a range of solutions including AquaBlade® and, for entry-level vehicles, WetArm, less efficient but more affordable. These wiper systems are also growth drivers for Valeo's aftermarket business.

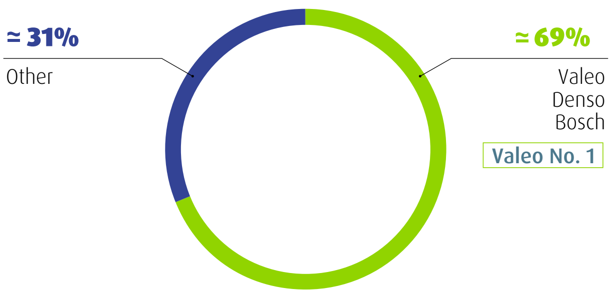
  Vehicle cameras and other optical sensors are becoming increasingly commonplace with the rapid development of advanced driving assistance systems and the emergence of automated cars. These devices need to be cleaned properly to ensure video flow quality and thereby passenger safety. This new type of cleaning requirement is a major growth opportunity for the Wiper Systems Product Group. The Product Group is also the leader in the assembly of pods[(1)] for robotaxis and autonomous delivery vehicles;
- **experience of traveling**: the Business Group is designing advanced, intuitive interior lighting solutions complete with human-machine interfaces, that improve passenger well-being and enhance the ride experience in autonomous vehicles. 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 vehicle's light signature is extending beyond headlamps and rear lamps to include other light features, either on the vehicle, with illuminated logos and grilles, or projections of patterns or logos near the car.

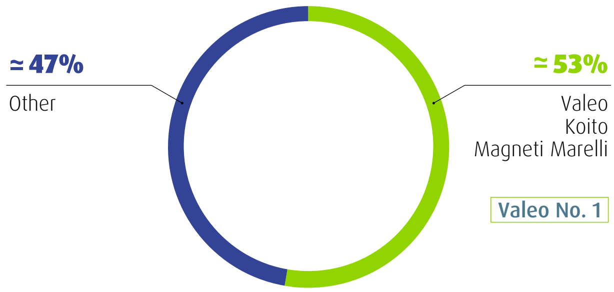
As the integration of electronics gathers pace, the Business Group is strengthening its development capacities (in areas including data science and artificial intelligence) and production capabilities (deployed since 2015) to cover all the requirements of the two Product Groups.

Main competitors on the lighting systems and wiper systems market[(2)]

Wiper Systems



Lighting Systems



(1) Based on Valeo estimates.

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

1.3.5 Valeo Service, products and services for the aftermarket

KEY FIGURES IN 2019

- 320 product categories
- 13 product lines for passenger cars
- 10 product lines for industrial vehicles
- 13,000 new product references added in 2019(1)
- 15 distribution platforms
- A footprint in more than 150 countries

2019 HIGHLIGHTS

RAMP-UP OF E-SERVICES
for workshops and fleets

FASTER DEVELOPMENT
of dedicated product offering and new commercial agreements

VALEO SERVICE'S
strategy rewarded

Presentation of Valeo Service

Valeo Service supplies original equipment spares to car dealer networks (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 commercial vehicles;
- 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 sector thanks to Valeo's original equipment expertise, and innovative solutions developed for the aftermarket.

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

- traditional retailers, key partners of Valeo Service;
- online platforms;
- workshops, which play a decisive role in the choice of replacement parts, advise drivers, and carry out the vehicle maintenance or repair operation;
- 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 ratios perfectly matched to the needs of the automotive aftermarket;
- technical support to help distributors and workshops 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.

2019 highlights and distinctions

Ramp-up of the e-services program for workshops and fleets

- **Widening worldwide rollout of e-platforms**: addressing key users (distributors, workshops, motorists), with an emphasis on user experience and customization. The international platform valeoservice.com, along with 19 national websites, today covers the United Kingdom, France, Spain, Portugal, Italy, Germany, Poland, the Netherlands, Belgium, Russia, the United States, Mexico, Brazil, Argentina, India, Turkey, China and Thailand. Valeo's e-platforms enjoy a large and rapidly growing number of visitors, making them some of the most widely viewed aftermarket websites in the world.
- **Upgrade to the Valeo Tech@ssist online technical support platform for workshops, co-designed with workshops and distributors.** The platform upgrade covers three key points:
  - a quick and intuitive parts search engine: Valeo Tech@ssist is easily accessible via all the websites and uses databases widely recognized in the market. Mechanics can find Valeo product details with ease, including technical features, automaker compatibility information and product images. Users can search by vehicle (brand, model or version), vehicle identification number (VIN), license plate (in some countries) or product reference. An autocompletion feature provides faster access to parts details;

(1) *Independent aftermarket.*

- full technical information, including technical service bulletins, instructions and installation videos, are now available in a single location for immediate consultation. Valeo Service has observed that the ability to search for technical information specific to each spare part is essential for its partner users. Valeo Tech@ssist is therefore continuously upgraded to provide access to product-specific technical information, for increased efficiency and lower error risk;
- online training modules accessible live or on demand: given the increasing use of technology in automotive maintenance and repair, training is of crucial importance. However, in 73% of independent workshops, not a single employee has received training of any kind in the last 12 months[1]. Ongoing training for professionals is particularly challenging owing to lack of time and the difficulty of interrupting mechanics' everyday routines. To overcome these limitations, Valeo Service has made online training modules available via Valeo Tech@ssist. Workshops' strong interest in this type of content drove a sharp acceleration in the number of participants compared with 2018;
- Following 2018 rollout across Valeo Service's European websites, in 2019 Tech@ssist was extended to Southeast Asia, Africa, French overseas territories, and China (on the website and on the WeChat application, specific to China).

- **Valeo Specialist Club: a unique workshop loyalty program,** developed with input from partner workshops. Valeo Specialist Club is accessible via a smartphone app or the Valeo Service website, and includes a feature allowing workshops to sign up using a single account or open multiple accounts to reward their teams:
  - the program is 100% digital, straightforward and efficient, its defining characteristic being the total freedom from cumbersome procedures: no need to cut out packaging or collect documents and return by mail. It takes mechanics no more than a couple of minutes to open an account, start scanning Valeo products, and watch the points add up in their accounts in real time;
  - in addition to recognizing spare parts for passenger cars, Valeo Specialist Club also offers rewards on industrial vehicle parts;
  - after a highly successful launch in Spain in September 2018, international rollout continued in 2019, meaning that workshops in 12 countries can now earn rewards for loyalty to Valeo products.
- **Enhanced digital strategy for original equipment spares (OES) with the creation of innovative communication materials.**

  Valeo Service has rolled out a new content strategy guided by the objective of helping automakers promote aftermarket solutions. It has provided its automaker customers with dedicated communication materials to help them improve the way they communicate about their spare parts and retrofit offerings. The e-surveys program is being rapidly expanded, as is the rollout of training modules (webinars and shorter formats) and consumer webseries.

Faster development of dedicated product offering and new commercial agreements

More than 13,000 new products listed in 2019, with 50% outside Europe

To ensure workshops can keep their spare parts listings and tooling up to date, Valeo Service pays special attention to launching the latest original equipment innovations on the aftermarket and accelerating the development of dedicated aftermarket solutions. More than 13,000 products were added in 2019.

Extended offering in transmission and braking systems following Valeo's acquisition of FTE automotive

The acquisition of FTE automotive in 2017 extended Valeo's offering in a strategic high-growth market largely driven by surging demand for automatic-transmission, hybrid and electric vehicles.

Valeo's aftermarket offering in the manual transmission segment is both comprehensive, with 3,000 original equipment products and, above all, of high quality, with FTE automotive's products making a meaningful addition to the Valeo range: dual mass flywheels, clutch kits, and hydraulic parts. Valeo now covers 80% of market demand with an expanded dual-mass flywheel range that includes its VBLADE™ DMF technology, launched in 2018 and protected by more than 80 patents.

Valeo is also in a position to offer a wide range of all-in-one kits, including Valeo FullPACK DMF™, clutch kits with a hydraulic bearing and Valeo KIT4P™ conversion kits with a hydraulic bearing. These unique kits, made up of the best Valeo and FTE automotive parts, are the easiest, most reliable choice for distributors and mechanics.

In 2019, Valeo also expanded its FTE line of brake products, increasing the number of products available on the market. The product portfolio covers sensor hoses, wheel cylinders and master cylinders as well as brake pads, discs and drums.

Launch of a new workshop concept in India: Valeo Electrical Shoppe

In India, Valeo adapts its practices to provide the best possible customer service conditions. For example, the Group has partnered with a major local retailer, specialized in electrical systems, to launch a store concept dedicated to these solutions.

In India, in 65% of cases electrical systems are repaired rather than replaced. Valeo holds very strong positions in original equipment spares, since one in three vehicles is fitted with a Valeo electrical system.

Building on its expertise and quality offering, Valeo plans to open four more Valeo Shoppe concept stores in India in 2020.

(1) *GiPA repairer survey France, 2019.*

Extension of Reman programs for OES in Europe, China and North America

In 2019, Valeo Service stepped up support for car and truck makers' circular economy strategies.

In Europe, it extended its offering to include a remanufactured dual mass flywheel, which continues its growth as existing customers extend their product ranges and as other automakers join Valeo's customer roster. Valeo Service OES is also preparing to launch a new remanufactured dual-clutch product line, addressing a growing market.

In China, where the remanufacturing market is in its early days, Valeo Service launched an air conditioning compressor line in 2019, for two automaker customers.

Rollout of the Fleet Management offering for automaker leasing companies, a new customer target on a recent and fast growing market

Valeo Service is rolling out its Valeo-Kuantic fleet management service to automakers' fleet management entities. These "captive" customers account for a significant proportion of the leasing market, with leasing companies belonging to financial sector players accounting for the rest.

The high-growth fleet management market is a priority target for the development of automotive connected services. Valeo and Kuantic have a unique and comprehensive offering (hardware and software) that fully addresses fleet users' expectations. It includes acquisition of data for reducing the total cost of ownership (TCO) of fleet vehicles, by optimizing use and maintenance, assistance for responsible eco-driving and geo-tracking in the event of theft.

Valeo Service's strategy rewarded

In 2019, Valeo Service won a large number of awards, both for its wide product coverage and for its capacity to provide innovative customer support solutions.

- Valeo earned the Frost & Sullivan European Aftermarket Company of the Year Award in the commercial vehicles (trucks, buses, etc.) category, for its customer service quality, innovation capacity and solutions capable of reducing vehicle maintenance costs.
- The distributor Temot International awarded Valeo four prizes in 2019:
  - Special prize celebrating 25 years of continuous cooperation and sustainable growth;
  - Best product for the electrical systems product category;
  - Best product for the wiper systems product category;
  - Best product for the climate control systems product category.
- At its fifth anniversary celebrations, the distributor Nexus awarded Valeo Chairman and Chief Executive Officer Jacques Aschenbroich its "growth accelerator" prize in recognition of his managerial vision and the successful performance of the company he has been leading since 2009.

Market trends and outlook

The automotive repair market is in a state of transformation, as evidenced by the arrival of new entrants on the aftermarket, the strong growth in online sales and the increasing complexity of automotive technology. In this changing market context, vehicle maintenance and repair specialists face uncertainty, and must address challenges relating to productivity, efficiency and profitability.

With its "We Care for You – Trust the Specialist" promise, Valeo Service makes a firm commitment to support vehicle maintenance and repair specialists, with solutions closely tailored to their needs: rational product lines, quality products, and on-hand assistance enabling them to capitalize on market developments.

More than ever, Valeo Service harnesses the Group's capacity for innovation to provide 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.

1.4 Geographic and industrial footprint

Geographic footprint at December 31, 2019

	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	11	5	30,458
CENTRAL AND EASTERN EUROPE					
Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Turkey	19	-	5	3	18,963
AFRICA					
Egypt, Morocco, South Africa, Tunisia	9	-	1	-	5,607
NORTH AMERICA					
Canada, Mexico, United States	25	-	6	2	19,563
SOUTH AMERICA					
Argentina, Brazil	8	-	3	2	3,357
ASIA & MIDDLE EAST/OCEANIA					
China, India, Indonesia, Japan, Malaysia, South Korea, Thailand	82	5	13	3	36,752
TOTAL	**191**	**20**	**39**	**15**	**114,700**

At December 31, 2019, the net carrying amount of the Group's real estate portfolio (land and buildings) was 1,464 million euros (see Chapter 5, section 5.4.6, Note 6.3 "Property, plant and equipment" to the consolidated financial statements, pages 341 to 344). 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 3,568 million euros at December 31, 2019, 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, pages 341 to 344).

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 "Operational and strategy risks", page 80 and Chapter 4, section 4.1.3 "Sustainable development policies", under "Environmental policy", pages 194 to 196).

1.5 Functional structure

The Group's functional structure is as follows:

- the **Audit and Internal 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 that are deployed across the principal operational entities through the functional networks;
- 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 Office** is tasked with putting in place, managing, and coordinating the Compliance program, as decided by the Operations Committee, on global, national, local, and plant levels;
- 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 **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.

1.5.1 Sales and Business Development

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

Valeo supports its customers in the development of their markets on all continents, fielding a unique portfolio of innovative technologies and products designed to meet the automotive industry's challenges in powertrain electrification and autonomous drive.

Mission

The Sales and Business Development Department is tasked with designing and implementing a sales strategy adapted to all markets, and forging local and global partnerships with automakers to sustain profitable, global growth.

Organization

The Sales and Business Development Department pursues a program of continuous improvement to ensure customer expectations are met as fully as possible. It breaks down into four main functions:

- **Sales Directors**, reporting to each of the four Business Groups' management teams, in charge of defining and applying the sales strategy of each Business Group and its Product Groups. They head up a network comprising the Sales Directors of each Product Group;
- **Group Customer Directors**, in charge of defining and implementing a growth strategy to grow the Group's business with customers, cross-functionally for all Business Groups;
- **National Directors** represent Valeo and develop business through close relations with customers in China, Germany, India, Italy, Japan-Asean, North America, Poland, Russia and South America, South Korea, Spain, Turkey;
- **International Development Directors** in each of the four Business Groups are responsible for identifying market opportunities in high-growth countries, defining and implementing the Business Group's external growth strategy, and managing relations with partners.

2019 highlights

The breakdown of 2019 original equipment sales among the Group's customers once again confirms the geographic diversity and balance of Valeo's customer portfolio:

- German customers account for 30% of original equipment sales;
- Asian customers (including Nissan) come second, with 33%;
- US customers (including Chrysler) account for 18%;
- French customers account for 13% of sales.

Thanks to its diverse customer portfolio and powerful product strategy in electrification and driving assistance systems, Valeo (including Valeo Siemens eAutomotive) attained an order intake of 22.8 billion euros in 2019, with 47% of orders for innovative products.

1.5.2 Communications

Mission

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, shareholders, journalists, suppliers, partners and the general public).

Organization

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 & Managerial Communications**, tasked with building team cohesion, encouraging employees to act as company and brand ambassadors, and nurturing a Group-wide team spirit. Digitalization of internal communications and employee mobilization through the Valeo Employee Advocacy program are two of the key levers applied for strengthening individual involvement and supporting the Group's major projects;
- **Brand** is responsible for ensuring a coherent brand expression worldwide, along with lasting brand integrity and strength to enhance Valeo's image;
- **Digital Communications**, responsible for the Group's communications on social media, with influencers and on the valeo.com website. It continuously tracks the Group's digital footprint and develops content to be posted online;
- **Events**, which is tasked with organizing trade shows, sales and corporate events, 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 determined annually by the Communications Department.

1.5.3 Finance

The Finance Department comprises the following departments: Management Control, Reporting, Accounting, Financing, Treasury, Tax, Investor Relations (see Chapter 6, section 6.2 "Investor relations", pages 423 to 424), Strategic Operations, Information Systems and Risk and Insurance. Operating either on a Group-wide network basis or centrally from headquarters, these functions execute 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 control function acts as 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. It assists with the monthly accounts closing and provides analyses of performance, risks and opportunities using both key financial and operating indicators. It draws up three-month forecasts on a monthly basis and sets out the budget and the medium-term plan.

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

Accounting

Mission

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.

Organization

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). One of the focuses of this work in 2019 was application of the new standard, IFRS 16 – Leases, following initial work on this subject in 2018. The new standard came into force on January 1, 2019. This department also prepares and organizes training sessions for the Group's finance teams with a view to continuously 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.

The accounts function for Group subsidiaries is usually handled by the Shared Services Centers (SSC). The Group currently has 16 SSCs worldwide.

The Group Accounting Department guarantees the quality of the consolidated financial statements and their consistency with IFRS, and ensures that subsidiaries' statutory financial statements are compliant with local accounting standards. As part of its role, it strives for continuous improvement in the transparency, relevance and readability of the financial information reported by Valeo.

2019 highlights

In 2019, Valeo came in second at the 10th Regulatory Information Transparency Awards (*Grand Prix de la Transparence*) in recognition of the quality of its regulatory information and its performance in transparency and best practices.

Financing and Treasury

Mission

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 and manages relations with banks and rating agencies.

Organization

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 SSCs, 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;
- **Valeo Internal Bank**:
  - the front office of Valeo Internal Bank, which identifies and centralizes the management of market risks (essentially interest rate, foreign currency, commodity and liquidity risk). The financing, investment and risk hedging strategies are reviewed monthly by the Group's Finance Department,
  - the middle office of the Valeo Internal Bank supervises control over operations,
  - the cash management/back office oversees banking relations and activities with external and internal counterparties.

2019 highlights

To carry out and process the growing volume of operations and related controls, the Financing and Treasury Department modernized its treasury management system in 2019.

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 in 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

Mission

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.

Organization

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

- the **Enterprise Management Systems Department**, which 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**, which 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, and planning, resource management and project reporting tools;
- the **Office Systems Department**, which 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**, which 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**, which sets IT security policy, audits internal and external production systems and participates in the definition of new solutions;
- the **Valeo Service IT Department**, which 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 SSCs, usually one per country.

Specialized functional analysts provide systems support for the IT managers at each site.

2019 highlights

- Consolidation of Valeo's unique PLM (Product Life Cycle Management) system.
- Rollout of integrated financial and production management system to recently acquired companies.
- Continued rollout of Factory of the Future systems (eight in all) across a large proportion of Valeo sites.

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 and strategy risks", pages 81 to 89. Details on insurance and risk coverage are given in Chapter 2, section 2.2 "Insurance and risk coverage", page 93.

1.5.4 Legal

Mission

The Legal Department ensures that Valeo's operations are carried out in compliance with all applicable legislation and internal procedures, and works closely with Valeo's specialist departments to defend Group interests on any issues arising.

Organization

The Legal Department is run by the Group's General Counsel, who sits on the Operations Committee. He is also the Group's General Secretary.

He leads a team that is mainly based at the Paris headquarters but also extends to Valeo's main markets: Germany, America, Japan and China. The Paris-based team comprises the Deputy Group General Counsel, whose tasks include handling due diligence and negotiating and drafting contracts during mergers and acquisitions, and five General Counsels each responsible for a Business Group or Valeo Service, who supervise legal affairs worldwide for the activity under their remit. The other members of the Legal Department are based abroad. These regional General Counsels report to their respective National Directorates and are more particularly dedicated to operations in their particular countries or regions, in coordination with and under the responsibility of the General Counsels of the Business Groups and Valeo Service. All of the General Counsels advise operational managers and ensure that transactions within their remit are carried out in line with the Group's applicable ethics and compliance rules, the delegation and approval procedures implemented by General Management, and 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 closely with the other functional departments to ensure maximum overall business security. They also oversee legal matters at Group entities.

1.5.5 Operations

Purchasing

Mission

The main responsibilities of the Purchasing function are to reduce costs by sourcing from the most competitive suppliers, to implement 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.

Organization

The Group's Purchasing Department has two major priorities:

- a commodity/segment priority, focusing on the specific purchasing strategy for commodities. Its global approach allows for a consistent supplier selection policy, run through business allocation committees. The seven 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;
  - indirect purchasing of products, equipment and services used in the design of Valeo products or in manufacturing processes;
- an Operation and Projects priority, focusing on ensuring projects are initiated 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.

2019 highlights

In 2019, Valeo continued to strengthen measures to ensure the continuity and performance of its supplier panel:

- the supplier insurance program, put together with one of the leading players in the market. Suppliers signing up to the program reduce their exposure to risk of a product recall in the event of defects in the delivered product;
- the Supply Chain Finance program, a reverse factoring program that enables suppliers to obtain favorable finance conditions;
- the RSQ (Restore Supplier Quality) program, for suppliers that show signs of possible quality failings. Valeo liaises closely with the supplier's management to reduce the number of incidents impacting end-product quality;
- self-assessment questionnaire on sustainable development, submitted to more than 80% of the supplier panel. The questionnaire develops suppliers' maturity on sustainable development matters;
- internal tools to evaluate financial risk and its transparent business allocation process.

This reflects Valeo's commitment to supporting its suppliers in their own quality initiatives, and to integrating them into Group projects.

Industrial

Mission

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 production resources and applying Valeo standards on industrial processes, production systems and logistics.

Organization

The Group's Industrial Department has two main focuses:

- 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. It also manages industrial capacity and production facilities in line with lean principles, to support growth while limiting investment expenditure;
- in each region, a team of experts in logistics and the Valeo Production System ensures rigorous application of industrial standards and methodologies, which are issued and implemented through training and individual development programs, and continuous improvement workshops.

2019 highlights

Continuous improvement in industrial performance has helped to significantly boost the Group's profitability:

- application of Valeo Production System tools and methodologies generated 50 million euros in savings in 2019, up from 43 million in 2018;
- ongoing efforts to optimize and centralize storage and transportation logistics costs saved an additional 34 million euros in 2019, up from 26 million in 2018.

The Group's lean management of resources has contributed to cash flow generation.

Quality

Mission

The Quality network's 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 "zero defects delivery" quality policy and tools needed to meet targets as part of a continuous improvement process;
- ensure that all Valeo sites meet the latest quality assurance standards for the sector.

Organization

The Quality network is organized by customer, product line, supplier and region:

- every customer is represented in the Group by a "champion" who continuously summarizes Valeo's global performance and coordinates targeted progress plans. These champions provide Valeo employees with "Customer Way" training modules on each customer's individual work methods. The Group also has a network of resident engineers who continuously analyze the performance of products delivered by Valeo on assembly lines and products under warranty;
- at product-line level, the Quality Department is responsible for the robustness of product and process development, and for capitalizing on best practices;
- partner suppliers are selected in close cooperation with the Group Purchasing Department. Dedicated supplier quality engineers based near supplier locations ensure on-schedule component qualification during the development phase, and provide support to the supplier quality assurance teams at Valeo sites, responsible for managing incidents;
- within a given region, the Quality Department fully integrates local requirements while ensuring consistent Group performance worldwide and recruiting the best local talent.

2019 highlights

In 2019, Valeo received 66 quality distinctions from customers worldwide (more than one per week), an increase of 12% on 2018. The volume of deliveries to automakers with quality issues was less than three parts per million products made.

Valeo continued rollout of its system for detecting weak signals from the warranty process, with collection and analysis of returns from its main customers' dealerships worldwide. This unique system of defect prevention and continuous improvement in 3 MIS (3 Months In Service) performance enables precise identification and speedier return of parts for analysis.

Valeo strengthened its systems and software quality organization in response to the growing challenges raised by the integration of electronics and software in all product lines.

In an automotive sector in (r)evolution and an increasingly strict regulatory environment, these results reflect well on Valeo's ability to manage the technology transition.

1.5.6 Research and Development and Product Marketing

Mission

The main purpose of Valeo's Research and Development and Product Marketing Department is to position Valeo among the world's best automotive suppliers, in terms of innovation, CO_2 emissions reduction and the development of autonomous, connected cars in favor of safer, greener mobility.

Organization

Valeo's Research and Development and Product Marketing Department covers Research, Innovation, Development, Product Marketing and Intellectual Property.

Product Marketing teams carry out surveys to develop a fuller understanding of users' mobility expectations, factoring in new usage patterns related to electric, autonomous and connected vehicles. These surveys are correlated with the needs expressed by automakers. The findings, along with benchmarking results, enable Valeo to draw up the most appropriate roadmaps.

Valeo's successful open innovation program has opened the way to various types of partnership with start-ups and top-ranking universities and research institutes in Europe, Asia and North America. It has also proved to be an efficient way of staying abreast of technological progress.

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 strengthened to share experience, best practices and research efforts in a spirit of collaborative innovation (see Chapter 4, section 4.1.3 "Sustainable development policies", paragraph "Research and development policy", pages 192 to 194).

To ensure the most efficient use of resources, the Research and Development function optimizes team location on the basis of customers, costs, the skills market, and opportunities for synergies within the Group. Teams were accordingly strengthened in China, Japan, India and the United States.

Processes, methods and development tools are continually adapted to enhance team performance and improve the technical and economic efficiency of the technological platforms that structure developments in electrification and in autonomous and connected vehicles. One example is the rollout of the new Product Life Cycle Management (PLM) system.

The new competencies developed in cybersecurity and artificial Intelligence (more than 200 engineers held AI expertise in 2019) put Valeo among the leading automotive suppliers.

2019 highlights

In 2019, the Group's gross Research and Development expenditure totaled 2,054 million euros, representing more than 12.6% of its original equipment sales. Innovation is central to the function, and the Group's innovative products[1] accounted for 47% of order intake in 2019.

Valeo gives priority to protecting its innovations, and its policy has proved effective on several counts. Innovations are protected by patents: 1,698 initial patents were filed in 2019. The Group currently manages a portfolio of more than 33,340 titles.

1.5.7 Human Resources

Mission

The Human Resources Department holds a key place in Valeo's strategy, helping to build a common corporate culture rooted in strong values – including teamwork, transparency, empowerment, professionalism and ethics – and geared towards achieving the Group's industrial and commercial objectives.

Its multiple aims address primordial challenges (see Chapter 4, section 4.1.3 "Sustainable development policies", paragraph "Employee policy", pages 196 to 199):

- ensuring employee safety and well-being at work, by making sure workplaces are free of accident risks and offering a good work-life balance for each employee;
- attracting and developing top talent to strengthen the Group's market share and support innovation and business growth;
- promoting diversity across all teams worldwide;
- promoting labor relations and guaranteeing the dignity of individuals and fundamental labor rights.

Organization

Valeo's Human Resources strategy plays a key role in the Group's international expansion and positioning as a company developing and manufacturing high-tech products and systems. It is based on a comprehensive approach, taking into account specific cultural, economic and market conditions.

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

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

This "three pillars" model is rolled out at each level of the organization: in the Group Human Resources Department, in each Business Group, in each country and in certain Product Families and Product Lines. A total of more than 1,400 people work in the Human Resources network, broken down between the various specialties:

- attracting and developing talent;
- compensation and benefits;
- employee relations;
- Human Resources information systems.

This organizational model is designed to reinforce the partnership between the business and Human Resources teams, develop Human Resources expertise and thereby foster greater efficiency in the function.

2019 highlights

Significant fall in accident frequency rate 1[2], to less than 2 in 2019, a year ahead of its 2020 target

This result, the outcome of year-after-year perseverance in its sites' prevention, employee awareness-raising and training policies, is a source of great pride for Valeo. Nevertheless, the Group remains vigilant and takes nothing for granted – there is always room for further progress (see Chapter 4, section 4.1.3 "Sustainable development policies", paragraph "Employee policy", pages 196 to 199).

International extension of gender equality index

Under French legislation, French-based companies are required to announce their gender pay performance, determined according to an index. Valeo has decided to extend this index to all its sites worldwide, emphasizing its commitment to reduce the gender pay gap (see Chapter 4, section 4.1.3 "Sustainable development policies", paragraph "Employee policy", pages 196 to 199).

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

(2) FR1 is an indicator measuring the number of accidents with lost time per million hours worked.

2

RISKS AND RISK MANAGEMENT

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

2.1 Risk factors AFR

The environment in which the Group conducts its business is constantly changing. Valeo is therefore exposed to risks, i.e., events which, if they occurred, could prevent it from meeting its medium-term objectives.

Risks are mapped using a global approach involving several stages:

- risks are identified using various methods, including meetings with key stakeholders;
- risks are then assessed according to two measures, each divided into four levels:
  - net impact (limited/significant/critical/high), which looks at risks from a financial, operational, reputational, human and/or legal perspective,
  - likelihood of occurrence (unlikely/fairly likely/likely/very likely).

This general risk map is updated on a regular basis. Two other specific maps were also put in place in 2018 to meet new regulatory requirements:

- a corruption risk map was drawn up in compliance with France's Sapin II law[1];
- a map of non-financial risks was drawn up in connection with the non-financial information statement[2].

This chapter describes the main general risks to which the Group is exposed. The risk categories indicated below are not shown in order of importance.

The list below indicates those risks that could have a major impact on the Group:

- risks related to changes in the technological environment;
- risks related to the development and launch of new products;
- risks related to attracting and retaining talent;
- risks related to the quality and safety of products and services sold;
- cybersecurity and IT systems failure risk;
- industrial risks related to growth;
- risks related to the automotive equipment industry;
- supplier failure risk;
- commodity risk.

The other risks shown in the table below are considered to have a medium level of criticality.

By putting in place action plans and controls, the Group strives to limit the impact and likelihood of occurrence of these risks as far as possible. The relationship between risk management and internal control is described in Chapter 2.3.3, "Components of the Group's internal control and risk management system", page 95.

The Group's operations could also be impacted by other risks of which it is not currently aware, or which is does not consider material at the date of this document. These procedures do not provide absolute assurance that the Group's objectives will be achieved and that risks will be avoided.

Risk categories	Risk factors
Operational and strategy risks	Risks related to changes in the technological environment
	Risks related to the development and launch of new products
	Risks related to attracting and retaining talent
	Risks related to the quality and safety of products and services sold
	Cybersecurity and IT systems failure risk
	Industrial risks related to growth
	Risks related to the automotive equipment industry (including the current Covid-19 situation)
	Supplier failure risk
	Environmental or technological risks
Legal risks	Intellectual property risks (patents and trademarks)
Financial risks	Commodity risk
	Foreign currency risk

(1) *Law no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization, known as the Sapin II law.*
(2) *Government order No. 2017-1180 of July 19, 2017 on the disclosure of non-financial information by certain large corporations and groups of corporations.*

2.1.1 Operational and strategy risks

Risks related to changes in the technological environment

Risk factor	Potential impact on the Group

Valeo's sales and earnings growth depends on the ability of the Group to anticipate technological and/or regulatory changes and to adapt to major changes and shifts in the automotive market.
 	
The automotive industry is highly competitive and characterized by rapid technological change.
	This risk could have a major impact on the Group.
	
	Unexpected advances in a given technology on the market, or difficulties encountered in developing a new technology internally, could prevent Valeo from seizing opportunities relating to technological breakthroughs and as a result could impact the Group's competitive positioning, growth and profitability.
	
	Valeo is at the center of the three major revolutions shaping the automotive industry: powertrain electrification, the autonomous and connected vehicle, and the emergence of digital services. To meet its various customers' requirements and maintain its technological leadership, Valeo constantly develops and adapts its range of products and systems. Its Research and Development policy is rooted in anticipation, integration, localization and collaboration and is focused on customer needs (see Chapter 4, section 4.1.3 "Research and Development policy", pages 192 to 194). It is built around the following priorities:
	▪ Valeo's technological development process, supported by:
	  ▪ an approach to innovation based on an analysis of social megatrends and the long-term expectations of vehicle users,
	  ▪ key technological thrusts incorporated into ten-year product roadmaps, which are updated twice a year,
	▪ an "open innovation" approach, centered on an ecosystem involving numerous collaborations with universities, laboratories, start-ups and other major companies working in manufacturing or the new economy. Several strategic acquisitions have been made over the past few years to support Valeo's value creation model based on innovation;
	▪ An approach built on standard processes, using monitoring, measurement and reporting tools such as the Technological Development Plan and the Mid-Term Plan, which enable the Group to constantly adjust its approach.
	
	The significant order intake over the last few years and the increasing proportion of innovative products therein demonstrate the success of Valeo's innovations (see the Integrated Report, section "In an evolving market environment, the 12 new technological platforms will ensure Valeo's growth and resilience", page 29).

Risks related to the development and launch of new products

Risk factor	Potential impact on the Group
Valeo is exposed to the risks inherent in developing and launching new products. The Group may face problems in connection with project management, from design through to industrialization and including management of changes to orders already made. As the Group conducts its business in an international environment, it is also exposed to risks resulting from changes in applicable laws or regulations affecting its products in all or some of its markets, or from changes in export control regimes.	This risk could have a major impact on the Group. Failure to deliver in a timely manner innovative solutions, solutions that meet new regulatory requirements, or products expected by its clients, could harm Valeo's reputation and affect its financial position. The Group may incur administrative and/or criminal sanctions and its customers and/or suppliers may be unable to carry on their business either temporarily or definitively. Measures in place to mitigate the risk inherent in developing and launching new products are based on: ▪ project teams to ensure that products are developed in compliance with deadlines and duly meet customer expectations. Each project has a specific team with a shared objective and schedule. The Group strengthened project oversight capabilities in 2019; ▪ an organization based on technological platforms allowing a high degree of product and production process standardization: systematic reuse of technological components in innovation processes and technology roadmaps. These platforms enable Research and Development expenditure to be adapted to the technological maturity of the market concerned; ▪ training for members of the project teams so that they can develop the skills they need. Reviews are performed to ensure that this policy is duly applied; ▪ ongoing operating and financial supervision, based on a structured approach that defines key issues in terms of product development and processes. Valeo has also implemented a structured approach to develop software and systems. All of these methodological principles are applicable at the Product Group level. Organizational and governance guidelines, business and best practices descriptions, and forms are available to the teams in their daily work. In order to anticipate regulatory changes and ensure that the products it develops and manufactures are compliant, Valeo has implemented the following measures: ▪ the Research and Development teams have been strengthened with the appointment of a Regulatory Officer for each Product Group, responsible for identifying and properly understanding the regulations applicable to its products in each of the countries where it operates. Each regulation is translated into a standard for the Group's products; ▪ in the 2018-2019 period a Product Development Integrity Charter was rolled out in the form of online training to General Management and to Research and Development, Project, Purchasing, Quality, Industrial, and Sales and Business Development networks, representing some 28,000 people. The charter is based on five core pillars: regulation, transparency, compliance, quality assurance and management reporting; ▪ a special training program for all employees of the Research and Development and Production Quality laboratories, in order to guarantee the independence of its laboratories. Valeo's export control policy consists of a specific compliance program based on strict rules and procedures applicable to Purchasing and Research & Development teams. 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 4.5.2 "Technological commitments", pages 238 to 240.

Risks related to attracting and retaining talent

Risk factor	Potential impact on the Group
The Group operates in a competitive environment and in a sector that is undergoing radical change. This requires an increase in human resources as well as a broader spectrum of critical skills to ensure that it can adapt to changes in the automotive industry. However, Valeo may face difficulties firstly, in attracting and retaining talent, and secondly, in adapting and taking on the necessary qualifications and skill sets to develop and manufacture its systems and products. For example, the turnover rate, i.e., the number of resignations as a percentage of the average headcount, deteriorated slightly between 2018 and 2019, climbing from 9.2% to 9.7%. The Group's huge investments in innovation mean that it needs to recruit a growing number of Managers and Professionals. The scarcity of labor in certain employment areas makes it difficult to hire the employees needed to increase production.	This risk could have a major impact on the Group. Failure by the Group to attract and retain talent could impact the progress of the Group's product innovation, development, launch and production operations, and have a negative impact on its business, earnings and reputation. For more information on the program, policies and actions implemented by the Human Resources Department and the related results, see Chapter 4, section 4.3.3 "Valeo's non-financial risks", paragraphs "Risk related to attracting talent" and "Risk related to developing and retaining talent", pages 221 to 226. Attracting the highest performers is a key challenge for the Group amid a competitive environment undergoing a profound transformation. To meet its growth and development objectives, a new recruitment organization system has been set up with the creation of Talent Acquisition Centers (TAC). They bring together all teams dedicated to scouting and attracting talent in a given country or region. The Group regularly reports on career opportunities and job vacancies through a variety of channels, particularly social networks and partnerships with higher education institutions including universities, engineering schools and business schools. A co-optation program has been put in place for employees. Ensuring that high-performing employees remain with the Group is also a key priority for Valeo. Wishing to facilitate quick and successful integration, the Group has also developed an onboarding program called "Valeo Discovery" for its Managers and Professionals in 2019. Valeo's internal mobility policy is based on annual interviews as well as on "country mobility forums", which were launched in 2019. The aim is to better identify all employees looking for mobility opportunities and be able to place them in vacant positions across the country concerned. An ambitious compensation, career development and training policy is also a critical way of recognizing, developing and leveraging talent. Valeo also seeks to encourage diversity when recruiting talent. Valeo has rolled out action plans in each country addressing local recruitment and employee loyalty issues, particularly in areas of full employment. The Group strives to recruit its blue-collar workers from the communities surrounding its plants. Wherever possible, it hires under permanent rather than temporary contracts while maintaining a certain degree of flexibility. It is also reviews its teams' work schedules and ensures that new recruits are well integrated. The Group's compensation, training and career development policy is key to retaining blue-collar staff.

Risks related to the quality and safety of products and services sold

Risk factor	Potential impact on the Group
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. The highly demanding contractual commitments imposed by Group customers reflect the excellence they expect from their suppliers in terms of operational performance. If products sold by the Group were to prove defective, non-compliant or incompatible with applicable regulations, Valeo could be exposed to the following risks: ▪ risk of liability warranty claims by its customers; ▪ major recalls; ▪ risk of individual or group liability claims in the event that such products are alleged to have caused damage to users and/or third parties; ▪ risk of liability claims by its customers for breach of contractual commitments.	This risk could have a major impact on the Group. The Group's businesses, earnings and financial position as well as its image and reputation could be significantly affected. 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 1.5.5 "Operations", pages 76 to 77), driven by the same total quality approach, look to ensure that components and materials purchased are appropriate and meet the requisite quality standards, and also make sure that production processes are stable. The measures described below illustrate this approach within the Quality network: ▪ lessons learned from past incidents are used to revise definitions of the standards and processes concerned; ▪ accelerated tests are carried out on products in abnormal conditions of use in order to identify any product weaknesses that could appear in the first three months on the road; ▪ a system for collecting and analyzing returns at dealerships enables Valeo to identify weak warranty signals before the parts are physically returned or a customer alert is received. The Group has taken out specific insurance policies to cover the risk that products may be recalled and protect itself against civil liability claims. However, it is uncertain whether these policies 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 93. Provisions for customer warranties are set aside to cover the estimated cost of returns of goods sold. These amounted to 266 million euros at December 31, 2019 (see Chapter 5, section 5.4.6, Note 7 "Other provisions and contingent liabilities" to the consolidated financial statements, pages 348 to 349).

Cybersecurity and IT systems failure risk

Risk factor	Potential impact on the Group
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 breaches 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). These may result from 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.	This risk could have a major impact on the Group. All of these risks and threats could impact the Group's operations, its reputation and its profitability. To address these risks and threats, in 2016 the Group stepped up information system security by recruiting a Group Chief Information Security Officer, who reports to the Chief Financial Officer. 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 on information system security issued by various government 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 fair and 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 international standards; ▪ verifying that the various Product Groups develop their projects in compliance with the internal methodology and 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.

(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 cybersecurity risks 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.

Industrial risks related to growth

Risk factor	Potential impact on the Group
For several years, the Group's growth has come from a high level of order intake as a result of its successful innovations. This situation makes industrial risk management crucial.	This risk could have a major impact on the Group. Failure to anticipate growth trends, manufacturing performance adversely affected by the launch of new products, the inability of suppliers to provide sufficient capacity, and unexpected surges in customer demand, could have operational, reputational and financial consequences for the Group. For example, Valeo faced operational difficulties related to the launch of new products at a site in North America, resulting in the Group's gross margin narrowing by 0.2 points in 2016. The Group's industrial strategy is rolled out in a growth environment shaped by numerous product launches, and is aimed at preserving that environment. The key aspects of this strategy are based on: ▪ managing capacity, in terms of plants, investments and 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 cycle time and costs generated by quality issues; ▪ standardizing procedures for Product Groups, 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 1.5.5 "Operations", page 76.

Risks related to the automotive equipment industry

Risk factor	Potential impact on the Group
The Group's sales are directly dependent on the level of automotive production, which itself depends on car registrations and automaker sales and production policies. In turn, these are influenced by a number of contextual factors linked to the geopolitical and macroeconomic landscape. It should also be pointed out that supply contracts with automakers take the form of open orders, with no minimum volume guarantee.	This risk could have a major impact on the Group. A deterioration in the automotive market or a change in regulations, customs, taxes or other barriers or restrictions 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. For example, in 2019, Valeo's sales were negatively impacted by the sharp slowdown in the Chinese automotive market. The Group has operations in 33 countries and its sales are made in some 60 countries. 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 also seeks to ensure that its original equipment sales are well balanced. The Group's two largest customers account for 31% of its original equipment sales, its five largest customers, 55%, and its ten largest customers, 82%. Valeo makes 10% of its sales on the spare parts market, which is less sensitive to fluctuations in the economy. The balanced geographic alignment of Valeo's businesses and its diversified customer portfolio are described in Chapter 5, section 5.1.1 "Business review", pages 280 to 282. 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.

Current Covid-19 situation

The Covid-19 pandemic, which emerged in December 2019 in China and began impacting plants in Europe and North America in the last two weeks of March 2020, led Valeo's automaker customers to suspend production the Group's main host regions.

At the date of this document, production has gradually resumed at all 34 Group plants in China since February 10. Following very sluggish activity levels in February, sales in March climbed back to 60% of prior-period levels. Activity levels should return to those seen in 2019 during the second quarter. In Europe and North America, Valeo has adjusted production levels in line with stoppages decided by automaker customers. Automaker production should resume progressively by the end of April in Europe and by end-April/early May in North America.

The crisis will cause a sharp decline in global automotive production and, consequently, will have a negative impact on Valeo's activity in 2020.

The Covid-19 pandemic could impact the health and availability of our employees, as well as the Group's financial position. Given the lack of visibility regarding the duration of the crisis and the pace of our customers' production when it resumes, it is currently impossible to quantify the impacts of the pandemic.

The Group has implemented a reinforced safety protocol to allow activity to resume in order to meet customer demand while ensuring maximum protection for employees. The protocol is based on the Group's experience and combines proven best safety practices in China, South Korea and Japan where activity has resumed under optimal conditions. The measures aimed at protecting personnel go beyond public local regulations and the recommendations of the health authorities. The protocol is mandatory and will be applicable consistently across all Valeo sites worldwide, whether at plants, R&D centers or head offices. The 30 or so mandatory measures include daily body temperature checks, mandatory use of face masks at the workplace and during trips between home and the workplace, disinfection of workspaces at the beginning and end of every shift, and the provision of hydroalcoholic gel. The safety protocol has been approved by the majority of employee representative organizations as part of a Group-wide agreement.

To mitigate the financial impact of the crisis as far as possible, Valeo has implemented the following measures: (i) variabilization of costs across all plants, particularly through short-time working arrangements, (ii) variabilization of costs for support activities such as R&D and at administrative centers, (iii) strict control over working capital, thanks to close monitoring of trade receivables and inventory levels, (iv) reduction of investments by more than 45% in the second quarter, (v) drastic reduction of all costs not essential for business continuity, and (vi) strict monitoring of the Group's cash position. In terms of cash flow, the Group has 2.3 billion euros in undrawn credit lines, enabling it to withstand any prolongation of the current crisis.

Supplier failure risk

Risk factor	Potential impact on the Group
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 risk could have a major impact on the Group. Failure of one or more of the Group's major suppliers in this respect could cause interruptions to suppliers and prevent the Group from delivering to its customers, or cause returns of products under warranty or product recalls. This would also generate additional costs (exceptional transportation costs, deterioration in the supplier's production facilities or financial difficulties of the supplier). The Group's earnings and financial position could be affected. Supplier failure could result: ■ either in Valeo growing on innovative markets, thereby leading it to increase its share of business among an optimal number of suppliers; ■ or in a structural change in automotive markets and the disappearance of certain products, which could immediately impact a supplier's financial staying power if that supplier were unable to reposition itself on other markets. The Group ensures secure relations with its suppliers, through: ■ a solid risk identification and monitoring process for each new contract and new business awarded, as well as for new suppliers with a long history with recently consolidated entities; ■ continuous monitoring of the supplier base in accordance with supplier risk assessment procedures based on criteria including financial and management criteria, dependence on Valeo, integration and quality, as set out in IATF standard 16949[1]; ■ a watch list of high-risk suppliers, who are monitored monthly by the Group Purchasing Committee. Emergency stockpiles are built up where necessary and/or additional production facilities are launched (see Chapter 4, section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 228 to 232); ■ a product civil liability insurance program, set up in 2016 for its suppliers. Each supplier can 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; ■ diversified supply streams in order to mitigate supplier failure risk as much as possible while maintaining acceptable economic conditions. Since the supply capacity of certain businesses is limited, particularly electronic components, Valeo may be exposed to inadequate capacity leading to production 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 1,202 suppliers. The Group's biggest supplier accounts for 4% of its purchases, its five biggest suppliers, 10% and its ten biggest suppliers, 15%. Following the recent capacity crisis for certain electronic components, a detailed action plan has been put in place involving the Purchasing Department, Research and Development Department, and the Industrial Department. Under this plan, the Group's projected requirements are to be communicated to its supplier database and the purchasing strategy is to systematically factor in purchases of components in product designs. Valeo is highly involved 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.

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

Environmental or technological risks

Risk factor	Potential impact on the Group
Owing to their geographic location, Valeo's plants may be exposed to the risk of natural events such as earthquakes, or extreme weather events such as hurricanes, cyclones, floods, or other events which are becoming more common and severe due to climate change. In addition, Valeo's production facilities may be exposed to accident risks resulting from their activities including fire, explosions and/or machine breakages, which could affect the availability of said facilities.	This risk is considered to have a medium level of criticality. Environmental or technological events that could affect one of the Group's manufacturing plants could make production sites partly or wholly unavailable and lead to bodily injury and/or material (buildings, equipment, products) or immaterial (operating losses, loss of market share) damage. This could have significant financial consequences for Valeo. The Group has always had a policy of providing the highest level of protection for its sites against natural events (e.g., earthquakes) and technological or environmental risks. Health, Safety and Environment teams are responsible for managing environmental and accident risks. Valeo has put in place various standards in this respect: ■ before it builds or acquires a site, Valeo performs an audit to identify the potential existence of an environmental liability or hazardous surroundings, as well as sensitivity to natural hazards such as earthquakes, floods, strong winds, etc.; ■ the Valeo Risk Management Manual contains operating guidelines regarding water, atmospheric emissions and ground management, etc. and a special chapter on damage limitation in crisis situations. As decided by the Risk and Insurance Department, supervised by the Group's Operations Department via the Health, Safety and Environment Department, Valeo has also put in place a Worldwide program to ensure use of and compliance with these standards (see Chapter 4, section 4.1.3 "Environmental policy", page 194). The Group endeavors to measure its exposure to each type of natural event in order to better anticipate those events that could become more commonplace and/or more severe as a result of climate change, and puts in place the appropriate measures to manage and mitigate the impact of these risks. 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. It strives to reduce its energy consumption and GHG emissions in line with the 2°C target of the Paris climate agreement (COP21). In terms of technological risks, the Group has banned the use of asbestos in products and processes at all production plants for many years now, even in countries that still allow it to be used. Some Group companies are however involved in lawsuits for asbestos-related damages. Proceedings have been brought mainly in France by former employees (see section 2.1.2 of this chapter, paragraph "Legal risks", pages 90 to 92). Valeo has also taken specific organizational measures in order to minimize the financial impact of environmental or technological 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, "Insurance and risk coverage" of this chapter, page 93); and ■ maintaining environmental and technological risk provisions (primarily for site restoration) which amounted to 14 million euros at December 31, 2019 (see Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the consolidated financial statements, pages 348 to 349).

2.1.2 Legal risks

Intellectual property risks (patents and trademarks)

Risk factor	Potential impact on the Group
The Group is subject to the major risk of infringement of its patents and trademarks. It may: ▪ result from actions by third parties against Valeo's patented products or manufacturing processes; ▪ be committed involuntarily by Valeo as a result of the time it takes for patents filed by third parties to be published. Claims might also be filed against Valeo by non-practicing entities (NPEs). In addition, the emergence of connectivity and software into the automotive industry is increasing the number of patent holders, particularly holders of standard-essential patents, to be monitored. On account of their growing visibility, Valeo's brands are also exposed to infringement risk, particularly in Asia and the Middle East.	This risk is considered to have a medium level of criticality. Infringement by third parties has an immediate adverse financial impact. It can also harm Valeo's reputation if the quality of the counterfeit products is lower than that of Valeo's products. Products under development or even recently brought to market could also be impacted by willful infringement. Valeo may have to increase the Research and Development expenditure for the project, or negotiate a license for the patented item. 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 a significant patent filer, with around 1,698 new inventions patented in 2019. These patents, covering the major automotive markets, provide the Group with an effective weapon against infringement. The Group set up procedures several years ago to identify the different cases of infringement: ▪ 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; ▪ in terms of patents, the Group systematically monitors potential infringements in its four Business Groups and in Valeo Service. This involves keeping a close watch on product launches 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, based on the results of its monitoring procedures, takes court or administrative action to 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. Inadvertent willful infringement risks are managed by the Research and Development Department's Intellectual Property unit. There is an Intellectual Property unit in each Business Group, as well as in the regions where research and development activities are most significant. 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 notably cover intellectual property disputes (see Chapter 5, section 5.4.6, Note 7.1 to the consolidated financial statements, "Other provisions", pages 348 to 349).

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 claim of inexcusable misconduct and the occupational nature of the illness are confirmed, Valeo will be required to pay compensation to claimants and any beneficiaries as well as the increase in the annuity awarded by the primary health insurance fund (*Caisse Primaire d'Assurance Maladie*).

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 have brought claims against Valeo before the French Labor Court (*Conseils de prud'hommes*) seeking damages for anxiety regarding an asbestos-related illness.

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 notably cover risks relating to former employees, particularly in connection with asbestos. A provision is also set aside for tax disputes.

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 5.4.6, Note 7.2 "Antitrust proceedings" to the consolidated financial statements, page 349).

In the United States, the Department of Justice and Valeo's Japanese subsidiary, Valeo Japan Co. Ltd, reached a settlement of the Department of Justice's investigation into conduct involving climate control products on September 20, 2013 as part of which Valeo Japan Co. Ltd agreed to pay a fine of 13.6 million US dollars. The settlement agreement, which was ratified by the United States Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings by the US federal authorities against the Valeo Group for practices that came to light during their investigations. Separately, the Department of Justice investigated conduct involving access mechanism products, but granted Valeo amnesty and so did not fine Valeo for this conduct.

Also in the United States, three class actions were filed by automotive dealers, direct purchasers, and automotive endpayers against Valeo Group companies with the United States District Court for the Eastern District of Michigan, for alleged antitrust violations involving the sale of climate control products. Each of these class actions was settled with court approval. Separately, Valeo reached court-approved settlement agreements in connection with two prospective actions relating to access mechanisms over which automotive dealers and end customers were threatening to file claims. Certain customers opted out of the aforementioned US settlement agreements, and Valeo has reached settlements with some of these customers.

In Europe, the European Commission issued a decision on March 8, 2017, fining certain automotive air conditioning and engine cooling suppliers for conduct involving thermal systems products. Valeo was fined a total of 26.8 million euros. On June 21, 2017, the European Commission issued a further decision fining automotive lighting system suppliers and marking an end to all its investigations involving Valeo. Valeo was among those identified by the Commission in the automotive lighting system case, but was granted immunity and was therefore not fined.

Valeo is in contact with a number of European automakers regarding claims for damages resulting from the European Commission's proceedings. One of those, BMW on November 25, 2019, filed a complaint with the Munich Regional Court in Germany, naming Denso and Valeo and seeking compensation for alleged damages based, in Valeo's view, on unfounded claims related to conduct identified in the European Commission's March 2017 Thermal Systems decision.

In Canada, certain class actions remain ongoing.

Additional actions for damages can or may be brought further to the aforementioned antitrust investigations. The Group sets aside provisions whenever the payment of compensation is likely and can be quantified.

2.1.3 Financial risks

Valeo's Financing and Treasury Department (part of the Finance Department) proposes and implements rules on managing financial 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	Potential impact on the Group
The Group uses a variety of raw materials for its industrial operations, including non-ferrous metals, steel, plastics and rare-earth metals. Commodity prices can fluctuate owing to the structural capacity of supply and/or international geopolitical relations.	This risk could have a major impact on the Group: As the Group may not always be able to pass on the full extent of a rise in raw material prices to its customers, this may have an adverse effect 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 361 to 362.

Foreign currency risk

Risk factor	Potential impact on the Group
As the Group conducts its business in an international environment, Group entities conducting cross-border operations may be exposed to operational currency risk, resulting from purchases or sales of products or services 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.	This risk is considered to have a medium level of criticality. The Group's earnings may be adversely impacted in the event of significant fluctuations in certain currencies. See Chapter 5, section 5.4.6, Note 8.1.4.1 "Fair value of foreign currency derivatives" to the consolidated financial statements, pages 359 to 361.

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;
- Group liability for all kinds of damage caused to 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 one 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.

In 2019, the general liability insurance policy provided coverage of up to 400 million euros per claim per year. The recall policy covers claims in full without sublimits. Valeo pays eight million euros per claim per year through its reinsurance subsidiary, above and beyond the applicable deductibles.

The Group paid a total of 22 million euros in premiums for its insurance coverage in 2019.

Insurance is adjusted each year and cover is extended where necessary in order to best protect the Group's exposures.

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 could cause Valeo as a result of the products they supply.

2.3 Internal control and risk management

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 categories 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 any problems and weaknesses identified.

GENERAL MANAGEMENT

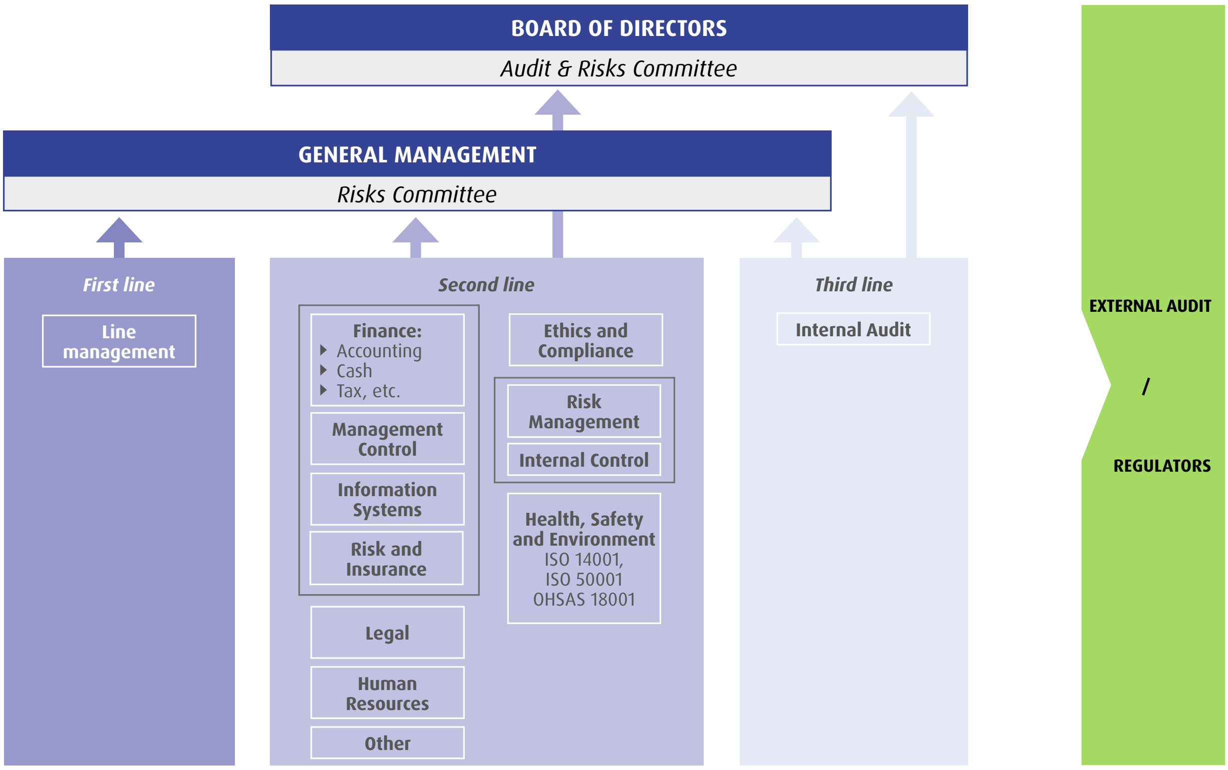
General Management sets strategic guidelines, arbitrates the allocation of resources to the Business Groups/Product Groups and Valeo Service, develops synergies between the Business Groups and National Directorates through the functional networks, and ensures that internal control procedures are duly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

RISKS COMMITTEE

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

OTHER PLAYERS

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



FIRST-LINE DEFENSE

The **Business Groups**, **Product Groups**, **Valeo Service** and **National Directorates** verify the performance of 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 Organization of the Treadway Commission (COSO), the findings of which were published in 1992 in the United States. There are no significant discrepancies between Valeo's internal control organization and the procedures and principles described in the reference control framework and the Application Guide set out by the AMF.

2.3.2 Scope of internal control and risk management

Valeo's internal control and risk management procedures are applied to the entire Valeo Group, defined as the parent company Valeo and all of its fully consolidated subsidiaries (see Chapter 5, section 5.4.6, Note 2 "Scope of consolidation" to the consolidated financial statements, pages 310 to 312).

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

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

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 in 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 delegations 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 self-imposed policies and behavioral principles are set out in its 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, the fight against discrimination and harassment, occupational health and safety, diversity, and promoting the employment of disabled workers (see Chapter 4, section 4.5.4 "Employee-related commitments", pages 253 to 260). 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 26 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 specific and well-suited to the regulatory constraints of the countries where Valeo operates. This program, described in Chapter 4, section 4.1.3 "Sustainable development policies", paragraph "Social policy", pages 199 to 202), is based on 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 France's Sapin II law[(1)].

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

In particular, the Group drew up a specific corruption risk map and continues to roll 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 has been in place since the entry into force of EU Regulation No. 596/2014 on market abuse (see Chapter 3, section 3.2.2 "Preparation and organization of the Board of Directors' work", pages 132 to 143).

A data protection compliance program has also been set up pursuant to the General Data Protection Regulation (see Chapter 4, section 4.1.3 "Sustainable development policies", paragraph "Social policy", pages 199 to 202).

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 as well as their impact in terms of production, human capital, liability and the Group's image and reputation, along with their 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 ten 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; the General Counsel; the Corporate Secretary; and the Director of Communications. The committee met six times in 2019 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, 2019. A 2020 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 80 to 92. They are:

- operational and strategy risks, which include in particular risks related to changes in the technological environment, risks related to the development and launch of new products, risks related to attracting and retaining talent, risks related to the quality and safety of products sold, cybersecurity and IT systems failure risk, industrial risks related to growth, risks related to the automotive supply industry, supplier failure risk, and environmental or technological risks;
- legal risks, which include risks related to intellectual property (patents and trademarks);
- financial risks, which include commodity and foreign currency risks.

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 2019, the National Directors and National Financial Directors, the Financial Directors of the Shared Services Centers (SSC), 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:

- CPM (Clean Project Management), 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;
- rules for using new information technologies.

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) customer feedback consolidation 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 2019, 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 of (i) processes and tools aimed at identifying and preventing quality problems, (ii) process and tools that anticipate and manage changes in production volumes in the short and medium term, and (iii) processes ensuring that the Group's development processes take due account of cybersecurity risks.

In 2019, 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 (SSC), 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, 2019, 135 plants had been certified ISO 14001 and 131 plants had been certified OHSAS 18001, out of a total of 155 eligible plants. The percentage of ISO 14001 and OHSAS 18001 certified plants is therefore 87.1% and 84.5%, respectively. In 2013, Valeo launched a certification program for its manufacturing plants in accordance with ISO 50001 (relating to energy management systems). At December 31, 2019, 28 plants (18.1%) had been certified ISO 50001 out of a total of 155 eligible plants (see Chapter 4, section 4.5.3 "Environmental commitments", paragraph "ISO 14001, ISO 50001 and OHSAS 18001 certification audits", page 242).

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 2019, it was made up of a team of 14 people, exclusively dedicated to internal control at Group and regional level. In 2019, 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 2019, 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; and cash flow. The self-assessment campaign involved 301 operational entities including 18 finance Shared Services Centers (SSC).

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 2019 was presented to the Audit & Risks Committee on November 22, 2019. 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 for improvement for the Group's internal control and risk management procedures are presented in section 2.3.7 "Outlook" of this chapter, page 99.

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 (SSC). 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 then presented to the Group's Operations Committee, comprising the Chairman and Chief Executive Officer, the Chief Operating Officer and 14 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 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 Group 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 intercompany 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 2020, the Group will continue to develop its internal control policy, in particular by continuing to roll out IT internal control guidelines, adapting its internal control guidelines to meet emerging operating imperatives, using data analysis software to enable constant monitoring of its operational entities, and completing a project to digitalize and automate the accounts closing process.

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 48.

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 last updated on January 30, 2020, 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 145.

The information contained in this chapter, pages 101 to 182, 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, Appointments & 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 also has an Executive Committee that works alongside the Chairman and Chief Executive Officer and the Operations Committee.

The members of the Group's Executive Committee and Operations Committee are presented below.

Chairman and Chief Executive Officer

Jacques Aschenbroich

(Current term of office began on May 23, 2019 and expires at the close of the Shareholders' Meeting that will be called to approve the financial statements for the year ended December 31, 2022[1]*).*

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 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.

(1) Jacques Aschenbroich's term of office as a director was renewed for a term of four years at the Shareholders' Meeting of May 23, 2019. He was then reappointed as Chairman and Chief Executive Officer at the Board meeting held on the same date. However, it should be noted that during the first two years of his new term as Chairman and Chief Executive Officer, the separation of the offices of Chairman of the Board of Directors and Chief Executive Officer will be implemented.

COMPOSITION OF THE EXECUTIVE COMMITTEE AND OPERATIONS COMMITTEE AT DECEMBER 31, 2019

Executive Committee members are indicated by an asterisk.

Jacques Aschenbroich*
Chairman and Chief Executive Officer

Geoffrey Bouquot
Vice-President, Corporate Strategy and External Relations[1]
since 2016

Fabienne de Brébisson*
Vice-President, Communications
since 2011

Robert Charvier*
Chief Financial Officer
since 2010

Catherine Delhaye*
Chief Ethics and Compliance Officer
since 2012

Éric Antoine Fredette*
General Counsel and General Secretary
since 2015

Bruno Guillemet*
Senior Vice-President, Human Resources
since 2015

Hans-Peter Kunze*
Senior Vice-President, Sales & Business Development
since 2018

Christophe Périllat*
Chief Operating Officer
since 2011

Jean-François Tarabbia
Senior Vice-President, Research & Development and Product Marketing
since 2013

Xavier Dupont
President, Powertrain Systems Business Group
since 2015

Maurizio Martinelli
President, Visibility Systems Business Group
since 2014

Francisco Moreno
President, Thermal Systems Business Group
since 2017

Éric Schuler
President, Valeo Service
since 2016

Marc Vrecko
President, Comfort & Driving Assistance Systems Business Group
since 2011

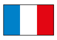
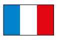
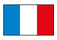
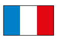
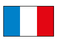
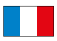
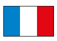
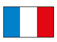
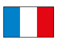
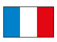
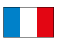
(1) Member of the Operations Committee and Secretary of the Executive Committee.

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

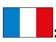
3.2.1 Composition of the Board of Directors

Composition of the Board of Directors at December 31, 2019 and changes during 2019

The composition of the Board of Directors at December 31, 2019 is shown in the table below.

	Personal information				Experience	Position on the Board of Directors				
	Age	Gender	Nationality	Number of shares	Number of directorships held in listed companies[1]	Independence	First appointed	Expiration of term of office	Years' service on the Board	Membership of Board committees[2]
Jacques Aschenbroich Chairman and Chief Executive Officer	65	M		832,833	2	-	03/20/2009	2023 Shareholders' Meeting	11 years	-
Bruno Bézard	56	M		1,500	0	✔	10/24/2017	2022 Shareholders' Meeting	3 years	ARC
Stéphanie Frachet Permanent representative of Bpifrance Participations	42	F		12,368,826[3]	2	✔	06/21/2019	2022 Shareholders' Meeting	1 year	ARC/GACSRC/CC
Éric Chauvirey Director representing employees	45	M		N/A[4]	0	N/A[5]	06/30/2017	06/30/2021	3 years	CC
C. Maury Devine	68	F		3,500	2	✔	04/23/2015	2021 Shareholders' Meeting	5 years	GACSRC/CC
Mari-Noëlle Jégo-Laveissière	51	F		1,500	1	✔	05/26/2016	2021 Shareholders' Meeting	4 years	ARC
Gilles Michel Lead Director since October 24, 2019	63	M		1,500	2	✔	05/23/2018	2022 Shareholders' Meeting	2 years	GACSRC (Chair)/CC (Chair)
Thierry Moulonguet	68	M		1,500	0	✔	06/08/2011	2020 Shareholders' Meeting	9 years	ARC (Chairman)/SC
Georges Pauget Lead Director until October 24, 2019	72	M		1,500	2	✔	04/10/2007	2020 Shareholders' Meeting[6]	13 years	SC
Olivier Piou	61	M		1,500	2	✔	05/23/2019	2023 Shareholders' Meeting	1 year	ARC/SC
Patrick Sayer	62	M		1,500	3	✔	05/23/2019	2023 Shareholders' Meeting	1 year	GACSRC/CC/SC
Ulrike Steinhorst	68	F		1,500	2	✔	02/24/2011	2020 Shareholders' Meeting	9 years	GACSRC/CC/SC (Chair)
Véronique Weill	60	F		2,390	0	✔	05/26/2016	2021 Shareholders' Meeting	4 years	ARC/GACSRC/CC

N/A = Not applicable.
(1) Except for the directorship in the Company.
(2) ARC = Audit & Risks Committee; GACSRC = Governance, Appointments & Corporate Social Responsibility Committee; CC = Compensation Committee; SC = Strategy Committee.
(3) These shares are held by Bpifrance Participations.
(4) 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.
(5) The director representing employees does not count, in accordance with the recommendation in Article 9.3 of the AFEP-MEDEF Code.
(6) Georges Pauget does not intend to stand for reappointment at the Shareholders' Meeting on June 25, 2020.

NATIONALITIES
*: French* – *: American* – *: German*

The changes in the composition of the Board of Directors and Board committees in 2019 are shown in the table below.

	Departures	Appointment	Reappointment
Board of Directors	Pascal Colombani[1] (May 23, 2019) Michel de Fabiani[1] (May 23, 2019) Noëlle Lenoir[2] (June 14, 2019)	Olivier Piou[3] (May 23, 2019) Patrick Sayer[3] (May 23, 2019) Stéphanie Frachet (permanent representative of Bpifrance Participations)[4] (June 21, 2019)	Jacques Aschenbroich[3] (Chairman) (May 23, 2019)
Governance, Appointments & Corporate Social Responsibility Committee	Pascal Colombani[1] (May 23, 2019) Michel de Fabiani[1] (May 23, 2019) Georges Pauget[5] (Chairman) (October 24, 2019)	Patrick Sayer[6] (May 23, 2019) Véronique Weill[6] (May 23, 2019) Stéphanie Frachet (permanent representative of Bpifrance Participations)[4] (June 21, 2019) Gilles Michel[7] (Chairman) (October 24, 2019)	N/A
Compensation Committee	Pascal Colombani[1] (May 23, 2019) Michel de Fabiani[1] (May 23, 2019) Georges Pauget[5] (Chairman) (October 24, 2019)	Patrick Sayer[6] (May 23, 2019) Véronique Weill[6] (May 23, 2019) Stéphanie Frachet (permanent representative of Bpifrance Participations)[4] (June 21, 2019) Gilles Michel[7] (Chairman) (October 24, 2019)	N/A
Audit & Risks Committee	Michel de Fabiani[1] (May 23, 2019) Noëlle Lenoir[2] (June 14, 2019)	Olivier Piou[6] (May 23, 2019) Stéphanie Frachet (permanent representative of Bpifrance Participations)[4] (June 21, 2019) Bruno Bézard[8] (July 19, 2019)	N/A
Strategy Committee	Pascal Colombani[1] (May 23, 2019) Véronique Weill[6] (May 23, 2019)	Olivier Piou[6] (May 23, 2019) Patrick Sayer[6] (May 23, 2019)	N/A
Lead Director	Georges Pauget[5] (October 24, 2019)	Gilles Michel[7] (October 24, 2019)	N/A

N/A: Not applicable.
(1) Until the end of his term on May 23, 2019.
(2) Until the date of her resignation, which took effect on June 14, 2019.
(3) At the Shareholders' Meeting on May 23, 2019. Olivier Piou brings the Board of Directors the benefit of his expertise in digital security and his experience as an executive corporate officer. Patrick Sayer is a valuable asset to the Board of Directors thanks to his experience in investment funds and his experience as an executive corporate officer. Following the reappointment of Jacques Aschenbroich as director, the Board of Directors was able to reappoint him as Chairman and Chief Executive Officer of the Company.
(4) Decision of the Board of Directors on June 21, 2019, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee. The co-optation of Bpifrance Participations will be submitted to the Shareholders' Meeting on June 25, 2020 for ratification.
(5) Until October 24, 2019, the date of his resignation as member and Chair of the Governance, Appointments & Corporate Social Responsibility Committee, member and Chair of the Compensation Committee and Lead Director. After this date, Georges Pauget remained a director and member of the Strategy Committee.
(6) Decision of the Board of Directors on May 23, 2019, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee.
(7) Decision of the Board of Directors on October 24, 2019, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee. Gilles Michel was already a member of the Governance, Appointments & Corporate Social Responsibility Committee and the Compensation Committee before being appointed their Chairman.
(8) Decision of the Board of Directors on May 23, 2019, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, effective July 19, 2019.

Summary of the main rules regarding the 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 (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. At December 31, 2019, the Board of Directors had 13 members, including one director representing employees in accordance with the applicable legal provisions.

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. They are appointed for a term of four years expiring at the close of the Shareholders' Meeting called in the year in which their term expires to approve the financial statements for the previous year. They may be reappointed and may be removed from office by the Shareholders' Meeting at any time. To ensure smooth turnover on the Board of Directors, the Company's articles of association, as amended by the Shareholders' Meeting of June 8, 2011, provide for staggered terms of office, with one quarter of the directors up for reappointment in any one year. Where one or more seats on the Board become vacant due to the death or resignation of any member or members, the Board of Directors may appoint new members on a temporary basis until the next Shareholders' Meeting, in accordance with the applicable legislation. The term of office of the Chairman of the Board of Directors may not exceed his term of office as a director.

By exception and in accordance with the applicable law, the directors representing employees are appointed in accordance with the arrangements provided for in the articles of association. To comply with the amendment to Article L.225-27-1 of the French Commercial Code enacted in France's new law on business growth and transformation dated May 22, 2019 (known as the "PACTE law"), the Shareholders' Meeting of June 25, 2020 will be asked to approve an amendment to the Company's articles of association permitting the Group's European Works Council to appoint a second director representing employees when the number of directors appointed by the Shareholders' Meeting is more than eight[(1)].

The rules presented above as regards the term and renewal of office also apply to the directors representing employees (other than the rule regarding the reappointment of one quarter of the Board of Directors' members), insofar as their 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. Should the number of directors fall below or be equal to the legal threshold of eight, the term of office of the second director representing employees appointed by the European Works Council will be maintained until it expires. 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. The Shareholders' Meeting of June 25, 2020 will be asked to approved an amendment to the Company's articles of association to provide that, in the event that the Company is no longer subject to the above requirement, the director or directors representing employees may stand down, by decision of the Board of Directors, at the close of the Board meeting at which the Board of Directors duly notes that Valeo is no longer subject to that requirement.

Directors appointed by the shareholders are selected on the basis of the diversity policy as described in paragraph "Board of Directors' diversity policy" of this section, pages 110 to 112.

For details of the directorships and other positions held by the members of the Board of Directors (including those held in the last five years), and their experience and expertise, see paragraph "Presentation of directors in 2019" of this section, pages 116 to 131.

Attendance rate at Board of Directors' meetings

The Board of Directors met ten times in 2019, including the Board meeting that closed the three-day strategy seminar held in India.

The average attendance rate of directors at Board of Directors' meetings held in 2019 was: (i) 100% of directors present or represented, and (ii) 95% of directors present (excluding directors represented).

In addition, 19 Board committee meetings were held in 2019[(2)]:

- the Governance, Appointments & Corporate Social Responsibility Committee met five times with an average attendance rate of 94%;
- the Compensation Committee met five times with an average attendance rate of 94%;
- the Audit & Risks Committee met five times with an average attendance rate of 96%;
- the Strategy Committee met four times with an average attendance rate of 85%.

(1) As the Board of Directors has more than eight members, the second director representing employees will take office no later than six months after the Shareholders' Meeting of June 25, 2020, in accordance with the applicable legislation.

(2) The average attendance rate is based on members actually present, excluding members represented.

The attendance rate of directors at Board and committee meetings in 2019 is shown in the table below (based on members actually present, excluding members represented).

	Attendance rate at Board meetings(1)	Attendance rate at GACSRC meetings(1)	Attendance rate at CC meetings(1)	Attendance rate at ARC meetings(1)	Attendance rate at SC meetings(1)
Jacques Aschenbroich (Chairman and Chief Executive Officer)	100%	N/A	N/A	N/A	N/A
Bruno Bézard (Independent director)	100%	N/A	N/A	100%(2)	N/A
Stéphanie Frachet(3) permanent representative of Bpifrance Participations (Independent director)	100%	100%	100%	100%	N/A
Éric Chauvirey (Director representing employees)	100%	N/A	100%	N/A	N/A
Pascal Colombani(4) (Independent director)	100%	100%	100%	N/A	100%
C. Maury Devine (Independent director)	90%	80%	80%	N/A	N/A
Michel de Fabiani(5) (Independent director)	100%	100%	100%	100%	N/A
Mari-Noëlle Jégo-Laveissière (Independent director)	90%	N/A	N/A	80%	N/A
Noëlle Lenoir(6) (Independent director)	100%	N/A	N/A	100%	N/A
Gilles Michel (Lead Director since October 24, 2019 and independent director)	90%	80%	80%	N/A	N/A
Thierry Moulonguet (Independent director)	100%	N/A	N/A	100%	100%
Georges Pauget (Lead Director until October 24, 2019 and independent director)	90%	100%(7)	100%(7)	N/A	75%
Olivier Piou(8) (Independent director)	100%	N/A	N/A	100%	100%
Patrick Sayer(9) (Independent director)	100%	100%	100%	N/A	100%
Ulrike Steinhorst (Independent director)	90%	100%	100%	N/A	75%
Véronique Weill (Independent director)	90%	100%(10)	100%(10)	100%	50%(11)

N/A: Not applicable.

(1) Board = Board of Directors; ARC = Audit & Risks Committee; GACSR = Governance, Appointments & Corporate Social Responsibility Committee; CC = Compensation Committee; SC = Strategy Committee.

(2) Since his appointment as a member of the Audit & Risks Committee effective July 19, 2019.

(3) Since her co-optation by the Board of Directors and appointment as a member of the Audit & Risks Committee, the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee on June 21, 2019.

(4) Until the end of his term on May 23, 2019.

(5) Until the end of his term on May 23, 2019.

(6) Until her resignation effective June 14, 2019.

(7) Until his resignation as member and Chair of the Governance, Appointments & Corporate Social Responsibility Committee and member and Chair of the Compensation Committee effective October 24, 2019.

(8) Since his appointment as a Director, member of the Audit & Risks Committee and member of the Strategy Committee on May 23, 2019.

(9) Since her appointment as a Director, member of the Governance, Appointments & Corporate Social Responsibility Committee, member of the Compensation Committee and member of the Strategy Committee on May 23, 2019.

(10) Since his appointment as a member of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee on May 23, 2019.

(11) Until the end of his term as a member of the Strategy Committee on May 23, 2019.

Director independence review

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

In accordance with the Internal Procedures and the AFEP-MEDEF Code, and on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee at its meeting of January 21, 2020, the independence of the directors in office was reviewed at the Board of Directors' meeting of January 23, 2020.

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 its Management that may compromise his/her ability to exercise freedom of judgment.

In particular, in accordance with the Internal Procedures and in line with the AFEP-MEDEF Code, 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 (Criterion 1);
- 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 (Criterion 2);
- is not (and is not related to) a customer, supplier, commercial banker, investment banker or adviser:
  - that is material to the Company or its Group, or
  - for which the Company or its Group represents a significant part of their 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 quantifiable and qualitative criteria used for the assessment (continuity, economic dependency, exclusivity, etc.) are explicitly stated in the Annual Report (Criterion 3);
- is not related by close family ties to a corporate officer (Criterion 4);
- has not been a Statutory Auditor of the Company in the past five years (Criterion 5);
- has not been a director of the Company for more than 12 years, at which point the director is no longer considered to be independent (Criterion 6).

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 (Criterion 7).

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 of Directors, 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 Company's share capital and the existence of any potential conflict of interest (Criterion 8).

The table below provides an overview of the status of each director at December 31, 2019, in light of the independence criteria set out in the AFEP-MEDEF Code and the Internal Procedures.

Criterion[1]	Criterion 1: Employee or corporate officer in the last five years	Criterion 2: Cross-directorships	Criterion 3: Significant business relationships	Criterion 4: Family ties	Criterion 5: Statutory Auditors	Criterion 6: In office for more than 12 years	Criterion 7: Non-executive corporate officer	Criterion 8: Major shareholder
Jacques Aschenbroich Chairman and Chief Executive Officer	✖	✔	✔	✔	✔	✔	✔	✔
Stéphanie Frachet[2] Permanent representative of Bpifrance Participations	✔	✔	✔	✔	✔	✔	✔	✔[3]
Bruno Bézard	✔	✔	✔	✔	✔	✔	✔	✔
Éric Chauvirey[4] Director representing employees	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C. Maury Devine	✔	✔	✔	✔	✔	✔	✔	✔
Mari-Noëlle Jégo-Laveissière	✔	✔	✔	✔	✔	✔	✔	✔
Gilles Michel Lead Director since October 24, 2019	✔	✔	✔	✔	✔	✔	✔	✔
Thierry Moulonguet	✔	✔	✔	✔	✔	✔	✔	✔
Georges Pauget Lead Director until October 24, 2019	✔	✔	✔	✔	✔	✔[5]	✔	✔
Olivier Piou	✔	✔	✔	✔	✔	✔	✔	✔
Patrick Sayer	✔	✔	✔	✔	✔	✔	✔	✔
Ulrike Steinhorst	✔	✔	✔	✔	✔	✔	✔	✔
Véronique Weill	✔	✔	✔	✔	✔	✔	✔	✔

N/A: Not applicable.

(1) In the table, ✔ signifies an independence criterion that has been met and ✖ signifies an independence criterion that has not been met.

(2) This independence assessment was conducted for both the company (Bpifrance Participations) and its permanent representative (Stéphanie Frachet).

(3) Bpifrance Participations held 5.13% of Valeo's share capital and 5.01% of the voting rights at December 31, 2019. Bpifrance Participations is controlled by Bpifrance SA, a 50%-50% joint venture between Caisse des Dépôts et Consignations and EPIC Bpifrance.

(4) The director representing employees does not count, in accordance with the recommendation in Article 9.3 of the AFEP-MEDEF Code.

(5) At its meeting of January 24, 2019, the Board of Directors unanimously agreed (with Georges Pauget abstaining from the deliberations and the vote), on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, that Georges Pauget would continue to qualify as an independent director until the end of his term of office expiring at the close of the 2020 Shareholders' Meeting to be called to approve the 2019 financial statements (see Chapter 3 "Corporate Governance" of the 2018 Registration Document, page 111).

During the independence review, the Board of Directors paid particular attention to the independence of Bruno Bézard, Gilles Michel and Bpifrance Participations (represented by Stéphanie Frachet) given the business relationships between the Group and the groups in which they hold directorships or other offices.

- Bruno Bézard's independence: 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. The Group has made three investments in the Sino-French (Innovation) Fund, the Sino-French (Innovation) Fund II and the Cartech fund (the "**Cathay Funds**" managed by Cathay Capital (two of which were made before Bruno Bézard's co-optation as director). The review to determine whether these business relationships should be classified as significant was based on several quantifiable and qualitative criteria. As regards financial transactions, the Group's investments in the Cathay Capital group via the Cathay Funds represented approximately 0.5% of its 2019 sales and 2.8% of the Cathay Capital group's assets under management at December 31, 2019, and are therefore not material. 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 Cathay Funds and the Group's share is not material. Bruno Bézard does not sit on any committee responsible for the Group's past or future investments in the three funds. Furthermore, Bruno Bézard has no direct or indirect decision-making power in the continuation of this business relationship, which existed before he was appointed as a 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, economic or otherwise, between the Group and the Cathay Capital group. The same is true for the Cathay Capital group funds, in which many other investors have invested. Lastly, Bruno Bézard does not receive any form of compensation in relation to the abovementioned investments. Accordingly, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors concluded that Bruno Bézard qualified as independent.

- Gilles Michel's independence: Gilles Michel is a director of the Solvay group, whose business relationships with Valeo are not material. The review to determine whether these business relationships should be classified as significant was based on several quantifiable and qualitative criteria. As regards financial transactions between the Group and Solvay, the total amount of polyamides purchased by the Group from Solvay represented (i) less than 0.20% of the Group's total production purchases in 2019 and (ii) a very tiny percentage of the Group's 2019 sales (0.10%) and Solvay's 2019 sales (0.16%). There is no relationship of exclusivity or dependency, economic or otherwise, between the Group and the Solvay group inasmuch as the Group has eight polyamide suppliers and its suppliers are selected through a competitive bidding procedure in order to obtain the best possible terms. Solvay itself also has many other customers. The agreements governing the business relationship between the Group and Solvay are arm's length agreements for both parties and have not been entered into by Valeo SA. Therefore, they have not been reviewed by the Board of Directors of either group under the procedure for related party agreements pursuant to Article L. 225-38 of the French Commercial Code. Furthermore, Gilles Michel does not hold any executive office in the Solvay group and is therefore not involved in day-to-day operations and has no influence over operational decision-making. Accordingly, Gilles Michel has no direct decision-making power in the continuation of this business relationship, which existed before Gilles Michel was appointed as a director of Valeo and Solvay. Lastly, Gilles Michel does not receive any form of compensation related to the Group's purchases from Solvay. Accordingly, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors concluded that Gilles Michel qualified as independent.
- Independence of Bpifrance Participations and its permanent representative, Stéphanie Frachet: Bpifrance Participations is a member of the Supervisory Board of Peugeot SA, which has business relationships with the Group. The review to determine whether these business relationships should be classified as significant was based on several quantifiable and qualitative criteria. BPI holds 12.23% of the share capital and 17.59% of the voting rights of Peugeot SA via Lion Participations, a holding company wholly owned by Bpifrance Participations. Lion Participations also has a seat on Peugeot SA's Supervisory Board, but the permanent representative of Lion Participations is neither an employee nor an executive officer of Bpifrance Participations. The relationship between Bpifrance Participations and Peugeot SA should be assessed on the basis of the decision-making power that Bpifrance Participations may have over Valeo and/or Peugeot SA through its seats on the governance bodies of those two companies. In this respect, it should be noted that Bpifrance Participations is a member of a Peugeot SA supervisory body and not an executive body. In addition, the permanent representative of Bpifrance Participations on the Supervisory Board of Peugeot SA is not the same as its permanent representative on the Board of Directors of Valeo. Furthermore, Bpifrance Participations has no direct or indirect decision-making power over Peugeot SA. Valeo's Board of Directors does not have any say in decisions about the business relationships with Peugeot SA. Accordingly, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors concluded that Bpifrance Participations and Stéphanie Frachet both qualified as independent.

Jacques Aschenbroich cannot be considered as independent inasmuch as he is the Chairman and Chief Executive Officer. There is a non-material business relationship between the Group and the BNP Paribas group, of which Jacques Aschenbroich is a director. This business relationship, which is conducted on an arm's length basis, is described in section 3.2.3 of this chapter, paragraph "Conflicts of interest", page 144.

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, 2019, 11 of the 12 directors were independent (the director representing employees does not count in accordance with the recommendation set out in Article 9.3 of the AFEP-MEDEF Code): Bruno Bézard, Bpifrance Participations (represented by Stéphanie Frachet), C. Maury Devine, Mari-Noëlle Jégo-Laveissière, Gilles Michel, Thierry Moulonguet, Georges Pauget, Olivier Piou, Patrick Sayer, Ulrike Steinhorst and Véronique Weill.

Board of Directors' diversity policy

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. Valeo is thus committed to promoting diversity within its governing bodies and across the Group as a whole (see Chapter 4, section 4.5.4 "Respecting and promoting diversity", pages 254 to 258).

The policy described below reflects Valeo's approach to diversity within the Board of Directors.

Policy statement

The Board of Directors believes it is essential to encourage gender diversity on the Board, as well as a broad mix of backgrounds and expertise, to ensure that the Board can operate smoothly, to help the Group achieve its objectives, including by ensuring a high quality of discussion within the Board, and to protect the interests of both the Company and all its shareholders.

A broad mix of experience and viewpoints and the independence of the directors gives the Board of Directors the objectivity and independence required in relation to General Management and a specific shareholder or group of shareholders. A diversified composition of the Board of Directors also means seeking a permanent balance between recently appointed members and more long-serving directors, to bring a fresh slant to the Board's discussions whilst ensuring the long-term consistency of its decisions. The length of the directors' term of office and staggered appointments also help to maintain the stability of the Company's corporate bodies.

Through that experience and diversity, Valeo's directors are able to exercise good judgment and have an ability to anticipate events, enabling them to act in the Company's interests and to respond to the challenges facing the Group.

The Board of Directors regularly reviews its composition and identifies ways in which to ensure the broadest possible diversity.

Composition of the Board of Directors and objectives

Gender diversity and independence

At December 31, 2019, the Board of Directors had 13 members, of which five women and eight men, including one director representing employees appointed by the Group Works Council. 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 proportion of men and women on the Board of Directors. The percentage of women on the Board of Directors is therefore 42%, unchanged since May 26, 2016. The Company plans to build on the balanced representation of women and men on the Board of Directors and continue its drive to diversify the composition of the Board.

All members of the Board of Directors are independent with the exception of Jacques Aschenbroich, Chairman and Chief Executive Officer. 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 9.3 of the AFEP-MEDEF Code.

Diversity of backgrounds and experience

At December 31, 2019, nine of the directors held directorships in French or international listed companies outside the Group, and only Jacques Aschenbroich (Chairman and Chief Executive Officer) and Éric Chauvirey (director representing employees) held positions within the Group.

The members of the Board of Directors at December 31, 2019 come from different backgrounds, bringing the Group the benefit of their broad range of experience and expertise in business, industry and finance. Furthermore, the director representing employees appointed by the Group Works Council brings the Board of Directors the benefit of his knowledge of the Company and its businesses, markets, customers and expertise. For a presentation of the background and experience of each Board member, see paragraph "Presentation of directors in 2019" of this section, pages 116 to 131. The Board of Directors intends to further diversify the profiles of its members.

Arrangements, implementation and monitoring

The Board of Directors regularly reflects on how best to evolve its composition, particularly when co-opting directors or proposing directors for appointment or reappointment and as part of the annual assessment of the Board's operating procedures, composition and organization (for further information on the Board's self-assessment, see section 3.2.2 of this chapter, "Preparation and organization of the Board of Directors' work", pages 132 to 143).

The Board of Directors relies on advice from the Governance, Appointments & Corporate Social Responsibility Committee, which initially selects candidates for the position of director. In its drive to achieve a diversified composition guided by the interests of the Company and all its shareholders, the Board takes the following considerations into account: (i) the appropriate balance based on the composition of and changes in the Company's ownership structure, (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 Governance, Appointments & Corporate Social Responsibility Committee may call on the services of outside specialized consultants to identify potential directors that meet the selection criteria and diversity objectives defined in this policy (for further information about the role of the Governance, Appointments & Corporate Social Responsibility Committee, see section 3.2.2 of this chapter, "Preparation and organization of the Board of Directors' work", pages 132 to 143).

Based on the principles and objectives of the diversity policy, the Governance, Appointments & Corporate Social Responsibility Committee has identified some interesting new potential candidates for appointment or co-optation to the Board of Directors. The Board of Directors reports annually on the results of this diversity policy in the Corporate Governance Report.

Results achieved in the previous year

The following objectives, which had been set by the Board of Directors for 2019, were achieved:

- an appropriate balance in its membership in light of changes in the Company's ownership structure;
- a continued balanced representation of women and men on the Board of Directors (42% women);
- a continued high proportion of independent directors (91.5%);

- continued international experience within the Board of Directors;
- continued expertise in manufacturing and the automotive sector, as well as experience as an executive corporate officer;
- greater expertise in digital technology following the appointment of Olivier Piou, an expert in information technology security and former Chief Executive Officer of Gemalto;
- greater expertise in finance and asset management following the appointment of Patrick Sayer, former Chairman of the Executive Board and current member of the Supervisory Board of Eurazeo, one of the leading listed investment companies in Europe.

Diversity policy within the governing bodies

As part of the Group's diversity policy, the Board of Directors also ensures that the Chairman and Chief Executive Officer implements a policy of non-discrimination, diversity and gender diversity, particularly as regards a balanced representation of women and men on the governing bodies. Valeo promotes equality between men and women, particularly pay equality, and ensures that women are represented at all levels of the Company, including top management. Valeo's Executive Committee has eight members, six of whom are men and two of whom are women – Catherine Delhaye (Chief Ethics and Compliance Officer) and Fabienne de Brébisson (Vice-President, Communications) – i.e., a proportion of 25%. Catherine Delhaye and Fabienne de Brébisson are also members of the Operations Committee, which has 15 members.

The overall proportion of women in top management[1] remains stable.

Valeo is committed to making the further progress required and taking all possible measures to improve gender diversity within the governing bodies. In accordance with the AFEP-MEDEF Code's new seventh recommendation (as updated on January 30, 2020), the Board of Directors will set its gender diversity targets for the governing bodies acting on the recommendation of the Chairman and Chief Executive Officer.

In addition, action and measures taken by Valeo to promote diversity and equality between men and women are presented in Chapter 4, section 4.5.4 "Respecting and promoting diversity", pages 254 to 258.

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.

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 reappointment of Georges Pauget as a 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, reappointed Georges Pauget as Lead Director.

Georges Pauget resigned from office as Lead Director effective as of the Board meeting held on October 24, 2019. During the meeting, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors appointed Gilles Michel as Lead Director to replace Georges Pauget.

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. The Lead Director regularly organizes and chairs meetings to address various aspects that come under the authority of the Board of Directors, including, but not limited to, the assessment of (i) the performance of General Management, and (ii) the smooth running of the Board of Directors. These "executive meetings" are held without executive corporate officers and non-independent directors being present, unless they are invited. The Lead Director also organizes such meetings after each Board meeting.

(1) *Employees in the two highest levels of the six-level Managers and Professionals category.*

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 chairs 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 and General Secretary.

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. 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.

The Lead Director also plays a key role in relations with shareholders. He/she is informed by the Chairman and Chief Executive Officer of any concerns that major shareholders not represented on the Board of Directors may have and ensures that they receive a response. The Lead Director may also have discussions with the shareholders after first informing the Chief Executive Officer (or, as applicable, the Chairman and Chief Executive Officer) and reports thereon to the Chief Executive Officer (or, as applicable, the Chairman and Chief Executive Officer) and the Board of Directors.

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, Gilles Michel reports on the due diligence performed as Lead Director since February 21, 2019, the date of the last report, until February 20, 2020, the date on which this report was finalized. In 2019, Georges Pauget was Lead Director until October 24 when he was replaced by Gilles Michel (**"Lead Director"**).

Appointment and duties of the Lead Director

Following the decision to combine the offices of Chairman of the Board of Directors and Chief Executive Officer, and in accordance with Article 1.7(a) of the Board of Directors' Internal Procedures, the Board of Directors decided to appoint a Lead Director to meet 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. Accordingly, 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. Georges Pauget resigned as Lead Director with effect from the Board meeting held on October 24, 2019. During that meeting, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors appointed Gilles Michel, independent director, as Lead Director to replace Georges Pauget, who will remain a Director until the end of his current term of office.

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 paragraph "Lead Director" of the 2019 Universal Registration Document.

Work of the Lead Director

Access to information

The Lead Director has extensive knowledge of the Group and keeps abreast of developments in the Group's business in order to perform his duties. 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 contact with the General Counsel and General Secretary, the Chief Financial Officer and the Human Resources Director. During these exchanges, governance matters and strategic issues were discussed with General Management.

Organization of the Board of Directors' work

The Lead Director has extensive knowledge of the Group and an understanding of the issues and challenges facing Valeo and their full import, enabling him to make an effective contribution to the Board of Directors' work. The Lead Director also contributes to the balance of the Group's current governance structure, particularly in the preparation and organization of the Board of Directors' work. He was consulted by the Chairman and Chief Executive Officer and the General Counsel and General Secretary 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 satisfactorily (see paragraph "Other duties" below). For information purposes, 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 of Directors' meetings was provided to the directors to enable them to perform their duties in an informed way.

Executive sessions

The Lead Director plays a key role in "executive sessions", which he generally organizes and chairs at the end of each Board of Directors' meeting. These sessions are designed to encourage and stimulate debate among the independent directors. The executive sessions are held without executive corporate officers and non-independent directors being present unless invited. Where applicable, the Lead Director refers matters to General Management. Executive sessions were therefore held regularly in 2019.

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

Other duties

The Lead Director led the work of the Governance, Appointments & Corporate Social Responsibility Committee, particularly on governance issues within the committee's remit, including the annual assessment of the Board of Directors' operating procedures. As the assessment was performed by an outside firm the previous year, the Board decided to conduct the 2019 assessment internally.

The assessment was carried out between late 2019 and early 2020 by the Lead Director, supported by the General Counsel and General Secretary, by means of a questionnaire sent to all the directors in order to obtain their insight into the Company's governance, the operating procedures of the Board and its specialized committees, and their suggestions for improvement. The findings of the assessment and the avenues for improvement identified by the Board of Directors are described in Valeo's 2019 Universal Registration Document in the paragraph "Assessment of the Board's operating procedures".

The Lead Director 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 applicable at the time and its implementation guidance, and (ii) the 2019 reports of the AMF and of the High Committee on Corporate Governance (*Haut Comité de Gouvernement d'Entreprises*). The Lead Director paid special attention to changes in corporate governance regulations, and in particular Law No. 2019-486 of May 22, 2019 on business growth and transformation (the "PACTE law") and Law No. 2019-744 of July 19, 2019 on the simplification, clarification and modernization of company law (the "Soilihi law").

In addition, he actively participated in the work on diversity and equality within the Group, in particular equal treatment, gender equality and gender diversity within the governance bodies. He was also committed to furthering the Group's social responsibility and sustainability commitments. Valeo takes a determined and proactive approach to these issues, which are closely monitored by the Governance, Appointments & Corporate Social Responsibility Committee.

The Lead Director also oversaw compliance within the Board of Directors of the diversity policy, as well as its implementation.

He oversaw the Board renewal plan, took part in preparing the Group's executive succession plan, and led the work of the Governance, Appointments & Corporate Social Responsibility Committee in that respect. Particular attention was paid to the succession of the Chairman and Chief Executive Officer.

The Lead Director also led the work of the Compensation Committee as regards the review of the Chairman and Chief Executive Officer's compensation for 2020.

Furthermore, he took part in the preparations for the Shareholders' Meeting held on May 23, 2019.

Given his duties and broad powers, the Lead Director is the main contact point for Valeo's institutional investors on corporate governance matters. He maintains relationships with some of Valeo's institutional investors and proxy advisory firms, which he met during 2019 and in early 2020, in particular to discuss the proposed changes to the 2020 Compensation Policy for the Chairman and Chief Executive Officer, the reappointment of directors and the governance structure.

Attendance

Since his last report on February 21, 2019 and until February 20, 2020, the date on which this report was finalized, the Lead Director has attended all Board meetings (including the strategy seminar in India) and chaired all meetings of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee.

Succession and development plan

Executive succession planning is an important matter for Valeo. In order to protect the interests of the Company and its shareholders, Valeo takes all possible measures to anticipate and prepare for the succession of its executive corporate officers and, where necessary, prepare for the potential unforeseen departure of the Chief Executive Officer.

Succession planning is reviewed in depth regularly by the Governance, Appointments & Corporate Social Responsibility Committee, which then presents its recommendations to the Board of Directors in terms of the internal and external candidates identified and the appropriate governance structure for the Company. In preparing the succession and development plan, the Governance, Appointments & Corporate Social Responsibility Committee involves the Chairman and Chief Executive Officer in the preparation of his own succession, which was a particular focus for attention in 2019, and works with General Management to monitor and see to the training of high-potential internal candidates. It may also seek the assistance of external specialized consulting firms to identify potential candidates that meet the selection criteria and objectives set. By regularly reviewing this issue and adapting the plan to changes in the Group and its market, all potential situations can be anticipated.

Valeo's succession and development plan covers various time horizons depending on the nature of the succession:

- short-term horizon for unforeseen vacancies (death, resignation, unavailability) or forced vacancies (mismanagement, poor performance, failure);
- medium-term horizon for planned successions (end of term, retirement).

Implementing the succession and development plan mainly involves monitoring the career of each candidate and their acquisition of the expertise and experience regarded as necessary, and assessing them periodically.

In 2019, the Governance, Appointments & Corporate Social Responsibility Committee did some preliminary work on the succession of Jacques Aschenbroich.

The Group also has a succession plan for members of Valeo's Operations Committee and Liaison Committee. This plan is reviewed annually by the Governance, Appointments & Corporate Social Responsibility Committee and the Board of Directors. For each of the positions considered, the Group endeavors to identify an internal successor. When a person leaves the Group, the Group attempts to find an internal successor as far as possible.

Presentation of directors in 2019

(Information updated at December 31, 2019)

Jacques Aschenbroich

Chairman and Chief Executive Officer

French
Age: 65
Valeo
43, rue Bayen,
75017 Paris, France

First appointed: 03/20/2009
Start of current term of office: 05/23/2019
End of current term of office: Shareholders' Meeting called to approve the 2022 financial statements
Number of shares held: 832,833
Membership of Board committees: –

Main position held outside the Company

- Director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- 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)
- Co-President of the Franco-Japanese Business Club

Directorships and other offices held within the past five years

- Chairman, Valeo Finance, Valeo SpA (Italy), Valeo (UK) Limited (United Kingdom)

Summary of main areas of expertise and 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.

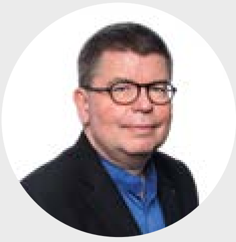
Jacques Aschenbroich graduated in engineering from *École des Mines*.

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: 56

Cathay Capital Private Equity
52, rue d'Anjou
75008 Paris

First appointed: 10/24/2017

Start of current term of office: 05/23/2018

End of current term of office: Shareholders' Meeting called to approve the 2021 financial statements

Number of shares held: 1,500

Membership of Board committees:

- Audit & Risks Committee (since July 19, 2019)

Main position held outside the Company

- Managing Partner of investment fund Cathay Capital Private Equity

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Director, Matmut

Directorships and other offices held within the past five years

- Director, EDF, SNCF, Areva, La Poste, Thales, Air France, Engie, PSA and Fonds Stratégique d'Investissement (FSI)
- Head of the French Public Finance General Directorate
- Head of the French Treasury

Summary of main areas of expertise and 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 spends 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 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 start-ups, 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.

Stéphanie Frachet

Permanent representative of Bpifrance Participations
Independent director (since June 21, 2019)

French
Age: 42
Bpifrance Investissement
6-8, boulevard Haussmann
75009 Paris, France

First appointed: 05/23/2019
Start of current term of office: 05/23/2019
End of current term of office: Shareholders' Meeting called to approve the 2022 financial statements
Number of shares held: 12,368,826(1)
Membership of Board committees:
- Audit & Risks Committee (since June 21, 2019)
- Compensation Committee (since June 21, 2019)
- Governance, Appointments & Corporate Social Responsibility Committee (since June 21, 2019)

Main position held outside the Company
- Director, Bpifrance Investissement; member of the Management Committee, Bpifrance Capital Développement

Directorships and other offices currently held

Directorships and other offices within the Group
–

Directorships and other offices held outside the Group
- Member of the Supervisory Board, Sabena Technics Participations
- Director, Constellium ♦
- Permanent representative of Bpifrance Investissement, Director, Sulo
- Permanent representative of Bpifrance Participations, Director, Eutelsat Communications ♦ (member of the Appointments & Governance Committee)
- Board Observer, Paprec (member of the Audit Committee)

Directorships and other offices held within the past five years
- Independent director, Eurosic
- Permanent representative of Bpifrance Participations, Director, FIDEC
- Permanent representative of Bpifrance Investissement, Director, Sarenza
- Permanent representative of Bpifrance Participations, Board Observer, Horizon Parent Holdings (Verallia) and Financière Carso

Summary of main areas of expertise and experience

Stéphanie Frachet has been a director of Bpifrance Investissement and a member of the Management Committee of Bpifrance Capital Développement since 2017. She joined Bpifrance (formerly Fonds Stratégique d'Investissement) in 2009 and has 18 years' experience in finance and private equity.

From 2001 to 2007, she worked in audit at Ernst & Young and then Transaction Services at PricewaterhouseCoopers, handling M&A and LBO operations.

In 2007, she joined Société Générale's Leveraged Finance team where she was in charge of LBO deals for middle market companies and large groups.

Stéphanie Frachet is also the permanent representative of Bpifrance Participations on the Board of Directors of Eutelsat Communications, permanent representative of Bpifrance Investissement on the Board of Directors of Sulo (formerly Plastic Omnium Environnement), and director of Constellium (listed on the New York Stock Exchange) and a member of the Supervisory Board of Sabena Technics Participations. She is also a Board Observer of Paprec.

She was previously an independent director of Eurosic, permanent representative of Bpifrance Participations on the Board of Directors of Fidec, Board Observer of Horizon Parent Holdings (Verallia) and Financière Carso, and permanent representative of Bpifrance Investissement on the Board of Directors of Sarenza.

She is a graduate of ESSEC Business School.

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

(1) These shares are held by Bpifrance Participations.

Éric Chauvirey

Director representing employees

French
Age: 45

14, avenue des Béguines
Immeuble Le Delta
95892 Cergy-Pontoise
Cedex

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

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

Membership of Board committees:

- Compensation Committee

Main position held outside the Company

–

Directorships and other offices currently held

Directorships and other offices within the Group

- R&D Knowledge Manager Special Projects in the Group

Directorships and other offices held outside the Group

–

Directorships and other offices held within the past five years

–

Summary of main areas of expertise and 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 since 1999 in production (Étaples-sur-Mer) and R&D (Montigny-le-Bretonneux & Cergy). He began his career with Valeo 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. Since December 1, 2017, he has been R&D Knowledge Manager Special Projects, responsible for managing the Valeo Experts.

He was a member of the Works Council, 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.

3

Pascal Colombani

Independent director (until May 23, 2019) – Honorary Chairman

French
Age: 74

3, rue de Logelbach
75017 Paris, France

First appointed: 05/21/2007

Start of current term of office: 05/26/2015

End of current term of office: Shareholders' Meeting called to approve the 2018 financial statements

Number of shares held: 1,800

Membership of Board committees:

- Governance, Appointments & Corporate Social Responsibility Committee (until May 23, 2019)
- Compensation Committee (until May 23, 2019)
- Strategy Committee (until May 23, 2019)

Main position held outside the Company

- Chairman, TII Stratégies SASU
- Senior Advisor, J.P. Morgan Chase (United States), ♦ A.T. Kearney Paris and Truffle Venture
- Lead 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)
- Member of the Supervisory Committee, SIACI Saint-Honoré (Chairman of the Audit Committee)

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Director, *Agence Nationale de la Recherche*, Sorbonne University, and *Institut de physique du globe de Paris*
- Member of the European Advisory Board, J.P. Morgan Chase (United States) ♦
- 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

Directorships and other offices held within the past five years

- Director, Alstom SA, Technip SA and Energy Solutions Inc. (United States)
- Chairman of the Board of Directors, N.H.V. (Belgium)
- Member, AFEP-MEDEF High Committee on Corporate Governance (*Haut Comité de Gouvernement d'Entreprise AFEP-MEDEF*)

Summary of main areas of expertise and experience

Pascal Colombani was a director of Valeo until May 23, 2019 and Chairman of the Board of Directors from March 20, 2009 to 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 and Rhodia SA, 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).*

C. Maury Devine

Independent director

American
Age: 68
1219 35th Street NW
Washington DC 20007,
United States

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
Number of shares held: 3,500
Membership of Board committees:

- Governance, Appointments & Corporate Social Responsibility Committee
- Compensation Committee

Main position held outside the Company

- Director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Director, John Bean Technologies (United States) ♦ (Chair 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 member of the Executive Committee) and ConocoPhillips (United States) ♦ (member of the independent Nominations and Governance Committee and the Public Policy Committee)
- Member of the independent Nominating and Governance Committee, Petroleum Geo-Services (Norway) ♦ (until April 24, 2019)

Directorships and other offices held within the past five years

- Director, Technip SA (Lead Director, member of the Nominating and Compensation Committee and Chair of the Ethics and Governance Committee) and FMC Technologies (United States)

Summary of main areas of expertise and 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).*

Michel de Fabiani

Independent director (until May 23, 2019)

French
Age: 74
CCI Franco-Britannique
63, avenue de Villiers,
75017 Paris, France

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
Number of shares held: 1,500
Membership of Board committees:

- Audit & Risks Committee (until May 23, 2019)
- Compensation Committee (until May 23, 2019)
- Governance, Appointments & Corporate Social Responsibility Committee (until May 23, 2019)

Main position held outside the Company

- 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)

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Director, EB Trans SA (Luxembourg)
- Member of the Supervisory Board, Valco Group
- Chairman of the Board of Directors, British Hertford Hospital Corporation (United Kingdom)
- Founding Chairman, *Cercle économique Sully* (a think tank) and Association for the Promotion of Ecological Vehicles (*Association pour la promotion des véhicules écologiques*)
- Director, *Œuvre du Perpétuel Secours* (a non-profit association)

Directorships and other offices held within the past five years

- Director, BP France, Rhodia group, Star Oil Mali (Mali) and SEMS (Morocco)
- Member of the Supervisory Board, Vallourec

Summary of main areas of expertise and 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 of Directors 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

French
Age: 51
Orange
78, rue Olivier-de-Serres,
75015 Paris, France

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
Number of shares held: 1,500
Membership of Board committees:
- Audit & Risks Committee

Main position held outside the Company

- Deputy Chief Executive Officer, Technology & Global Innovation, Orange

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Director, Engie ♦ (member of the Ethics, Environment and Sustainable Development Committee), Orange Romania (Romania), BuyIn SA and NowCp
- Chair of the Board of Directors, Soft@Home and Viaccess SA

Directorships and other offices held within the past five years

- Director, Nordnet and the French National Frequency Agency (*Agence Nationale des Fréquences*)

Summary of main areas of expertise and experience

Mari-Noëlle Jégo-Laveissière brings the Board of Directors 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 (until June 14, 2019)

French
Age: 71
Kramer Levin Naftalis & Frankel LLP
47, avenue Hoche
75008 Paris, France

First appointed: 06/03/2010
Start of current term of office: 05/23/2018
End of current term of office: Shareholders' Meeting called to approve the 2021 financial statements
Resigned on June 14, 2019
Number of shares held: 3,000
Membership of Board committees:
- Audit & Risks Committee (until June 14, 2019)

Main position held outside the Company

- Partner, Kramer Levin Naftalis & Frankel LLP

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Honorary member of the *Conseil d'État* (France's highest administrative court) and the French Constitutional Council (*Conseil constitutionnel*)
- President, HEC Europe Institute (*Institut de l'Europe de l'École des Hautes Études Commerciales*)
- Adjunct Professor, HEC business school in Paris (HEC)
- Member of the French Technology Academy (*Académie des Technologies*) and the American Law Institute
- Member of the bureau, French Association of Constitutionalists (*Association Française des Constitutionnalistes*)
- Member of the International Committee of the French Institute of Directors (IFA) (until January 2019)
- Founding Chair, *Cercle des Européens* and *Association des amis d'Honoré Daumier*
- Chair of the Ethics and Scientific Committee, Parcoursup (until February 2019)
- Chair of the Committee for the Attractiveness of the Paris Ile-de-France Economic Capital (*Comité Attractivité de la Paris Ile-de-France Capitale Économique*)
- Vice-President of the International Chamber of Commerce (French section)
- Director, Cluster Maritime Français and HEC business school in Paris

Directorships and other offices held within the past five years

- Chair of the Ethics Committee, Radio France
- Director, Generali France and Compagnie des Alpes (member of the Appointment & Compensation Committee, member of the Strategy Committee)
- Ethics Officer at the French National Assembly
- Director, Comparative Law Society (*Société de Législation Comparée*)

Summary of main areas of expertise and 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 of Directors 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 a member of the *Conseil d'État* (France's highest administrative court) and the French Constitutional Council, a director of Generali France and Compagnie des Alpes, 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.

Gilles Michel

Independent director, Lead Director since October 24, 2019

French
Age: 63
Valeo
43, rue Bayen,
75017 Paris, France

First appointed: 05/23/2018
Start of current term of office: 05/23/2018
End of current term of office: Shareholders' Meeting called to approve the 2021 financial statements
Number of shares held: 1,500
Membership of Board committees:
- Governance, Appointments & Corporate Social Responsibility Committee (Chair since October 24, 2019)
- Compensation Committee (Chair since October 24, 2019)

Main position held outside the Company
- Director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group
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Directorships and other offices held outside the Group
- Director, Charles Telfair Institute (Chairman of the Board of Directors) (Mauritius), IBL Ltd (Mauritius) ♦ (Chair of the Corporate Governance Committee, member of the Strategy Committee) and Solvay (Belgium) ♦ (member of the Finance Committee, member of the Appointments Committee and member of the Compensation Committee)
- Director, Maurilait Production Ltée (Mauritius) and Management and Development Company Limited (Mauritius)
- Chairman of the Board of Directors, Imerys (until June 25, 2019) ♦

Directorships and other offices held within the past five years
- Chairman and Chief Executive Officer, Imerys

Summary of main areas of expertise and experience

Gilles Michel has extensive experience in the automotive industry, after a number of years in senior management positions at PSA Peugeot Citroën, where he held roles such as brand manager for Citroën and Peugeot SA Managing Board member.

He began his career at ENSAE, before moving to the World Bank in Washington DC. He joined Saint Gobain in 1986, where he spent 16 years in various senior management roles, mainly in the United States, before being appointed Chairman of the Ceramics & Plastics division in 2000. He joined PSA Peugeot Citroën in 2001 as Executive Vice-President of Platforms, Technical Affairs and Purchasing, before becoming brand manager for Citroën and a member of the Peugeot SA Managing Board. From December 1, 2008, Gilles Michel served as Chief Executive Officer of Fonds Stratégique d'Investissement (FSI), where he was responsible for equity investments in companies offering growth and competitiveness for the French economy.

He was Chairman of the Board of Directors of Imerys until June 25, 2019, having previously been a director, Chief Operating Officer and Chairman and Chief Executive Officer.

He is a graduate of the *École Polytechnique*, ENSAE and the *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).*

Thierry Moulonguet

Independent director

French
Age: 68
Fimalac
97, rue de Lille,
75007 Paris, France

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
Number of shares held: 1,500
Membership of Board committees:
- Audit & Risks Committee (Chairman)
- Strategy Committee

Main position held outside the Company

- Director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Independent director, Fimalac SA (member of the Remunerations Committee), Fimalac Développement (Luxembourg), Lucien Barrière group (Chairman of the Audit and Risk Committee and member of the Strategy Committee and the Compensation Committee) and HSBC France (Chairman of the Audit Committee)
- Chairman of the Supervisory Board, Webedia (Fimalac group) (Chairman of the Audit and Risks Committee until June 2019)

Directorships and other offices held within the past five years

- Independent director, HSBC Europe (United Kingdom) and Prodways Group

Summary of main areas of expertise and 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 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.

Georges Pauget

Independent director, Lead Director until October 24, 2019

French
Age: 72

Rue Augusto Rosa 7-5ESQ
1100-058 Lisbon
Portugal

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
Number of shares held: 1,500
Membership of Board committees:

- Governance, Appointments & Corporate Social Responsibility Committee (Chair) (until October 24, 2019)
- Compensation Committee (Chairman) (until October 24, 2019)
- Strategy Committee

Main position held outside the Company

- Legal Manager of ALMITAGE16.LDA (Portugal) and ALMISANTO.LDA (Portugal); director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Director, Worldline SA ♦ (since April 30, 2019)
- Honorary Chairman, LCL – Le Crédit Lyonnais
- Member of the Supervisory Board, Eurazeo ♦ (Chairman of the Compensation, Selection and Governance Committee and member of the Audit Committee)
- Vice-President, Club Med (Chairman of the Audit Committee)

Directorships and other offices held within the past five years

- Chairman, Économie Finance et Stratégie SAS
- Director, Tikehau and Dalenys (member of the Audit Committee and the Compensation Committee)

Summary of main areas of expertise and 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 Chair of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee until October 24, 2019, 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). Georges Pauget was also Chairman of the Board of Directors of the Amundi Group until the end of February 2011 and of Viel & Cie until March 14, 2012.

He was previously Scientific Director of the Chair of Asset Management and Adjunct Professor at Paris Dauphine university, 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 in Economic Sciences, and holds a master's degree in Economic Sciences, with econometrics as his specialization, from the University of Lyon.

He is a French citizen and speaks French, English, Spanish and Italian.

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

Olivier Piou

Independent director (since May 23, 2019)

French
Age: 61
1, avenue Frédéric Le Play
75007 Paris, France

First appointed: 05/23/2019
Start of current term of office: 05/23/2019
End of current term of office: Shareholders' Meeting called to approve the 2022 financial statements
Number of shares held: 1,500
Membership of Board committees:
- Audit & Risks Committee (since May 23, 2019)
- Strategy Committee (since May 23, 2019)

Main position held outside the Company

- Director, Nokia (Finland) ♦ and TechnipFMC (United Kingdom) ♦

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Director, Nokia (Finland) ♦ and TechnipFMC (United Kingdom) (since June 1, 2019) ♦

Directorships and other offices held within the past five years

- Chief Executive Officer, Gemalto NV (Netherlands)
- Director, Alcatel-Lucent

Summary of main areas of expertise and experience

Olivier Piou has extensive executive experience and recognized expertise in the field of digital security, having spent a number of years in general management positions at Schlumberger, Axalto and Gemalto, including as Chief Executive Officer of Gemalto from 2006 to 2016.

Olivier Piou began his career with Schlumberger in 1981 as a production engineer, and has held various senior management positions in the technology, marketing and operations divisions of Schlumberger in France and the United States. He was Chief Executive Officer of Axalto, Schlumberger Limited's Smart Cards division, at the time of its initial public offering in 2004. He then successfully completed the merger between Axalto and Gemplus to create Gemalto.

In 2015, he was ranked as one of the world's best-performing chief executive officers by the prestigious Harvard Business Review.

Olivier Piou is a member of the Board of Directors of Nokia and TechnipFMC. He served as Chairman of Eurosmart, a trade association for the smart cards industry, from 2003 to 2006. He served as a director of Axalto NV from 2004 to 2006, of Gemalto from 2006 to 2019, of INRIA (*Institut National de Recherche en Informatique et en Automatique*), the French national institute for research in computer science and control, from 2003 to 2010, and of Alcatel-Lucent from 2008 to 2016.

Olivier Piou is a graduate of the *École Centrale de Lyon* and is *a Chevalier de la Légion d'Honneur* (Knight of the Legion of Honor).

He is a French citizen and speaks French and English.

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

Patrick Sayer

Independent director (since May 23, 2019)

French
Age: 62
Augusta
143, avenue Charles de Gaulle
92200 Neuilly-sur-Seine, France

First appointed: 05/23/2019
Start of current term of office: 05/23/2019
End of current term of office: Shareholders' Meeting called to approve the 2022 financial statements
Number of shares held: 1,500
Membership of Board committees:

- Governance, Appointments & Corporate Social Responsibility Committee (since May 23, 2019)
- Compensation Committee (since May 23, 2019)
- Strategy Committee (since May 23, 2019)

Main position held outside the Company

- Chairman of Augusta

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Chairman, Augusta, CarryCo Capital 1, CarryCo Croissance and CarryCo Croissance 2 (Eurazeo group)
- Member of the Supervisory Board, Grand Port Maritime de Marseille (Chairman of the Audit Committee), Eurazeo SE (member of the Finance Committee)♦ and Europcar Mobility Group (member of the Strategic Committee) ♦
- Director, Ipulse (United States), the Paris Museum of Decorative Arts (*Musée des arts décoratifs de Paris*), AccorHotels (until April 30, 2019)♦ and Tech Data Corporation (United States) ♦
- Founder member of the legal think-tank *Club des juristes*

Directorships and other offices held within the past five years

- Chairman of the Board of Directors, Eurazeo SE
- Managing Director, Legendre Holding 19
- Chairman, Eurazeo Capital Investissement, Legendre Holding 25, Legendre Holding 26 and AFIC
- Chairman of the Supervisory Board, Europcar Mobility Group
- Member of the Supervisory Committee, Foncia Holding
- Director, Colyzeo Investment Advisors, Gruppo Banca Leonardo (Italy) and Rexel
- Manager, Investco 3d Bingen
- Vice Chairman and member of the Supervisory Board, ANF Immobilier

Summary of main areas of expertise and experience

Patrick Sayer is Chairman of Augusta, a family office that focuses on investing in three core sectors: new technologies, luxury goods and real estate.

He served as Chairman of the Management Board of Eurazeo, one of Europe's leading listed investment companies, from 2002 to 2018. He became a member of Eurazeo's Supervisory Board in 2018. After acquiring equity interests in Rhône Capital and Idinvest, Eurazeo directly and indirectly managed assets of almost €20 billion.

Previously, Patrick Sayer was a managing partner at Lazard Frères et Cie in Paris, which he joined in 1982, and a managing director of Lazard Frères & Co. in New York, where he was global head of media and technology. His private equity experience dates back to the creation of Fonds Partenaires, where he was active from 1989 to 1993. He currently serves as a member of the Supervisory Board of Europcar Mobility Group and a director of Ipulse and Tech Data Corporation (United States). He is a former President of the French Association of Investors for Growth (*Association Française des Investisseurs pour la Croissance*) (AFIC), (2006-2007), director of the Musée des Arts Décoratifs (Paris Museum of Decorative Arts), founder member of the legal think-tank *Club des Juristes* and was a judge at the Paris Commercial Court (*Tribunal de Commerce de Paris*). He is a lecturer in finance (masters program) at Paris Dauphine university.

Patrick Sayer is a graduate of *École Polytechnique* (1980) and *Institut d'études politiques de Paris* (1982). He is also a certified financial analyst, completing the course at the French Society of Financial Analysts training center, where he has also taught classes.

He is a French citizen and speaks French and English.

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

Ulrike Steinhorst

Independent director

German
Age: 68
3, villa du Coteau,
92140 Clamart, France

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
Number of shares held: 1,500
Membership of Board committees:
- Strategy Committee (Chair)
- Governance, Appointments & Corporate Social Responsibility Committee
- Compensation Committee

Main position held outside the Company
- Founder, Nuria Consultancy, a consulting firm
- Director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group
–

Directorships and other offices held outside the Group
- Chair, Nuria Consultancy
- Director, the Franco-German Chamber of Commerce and Industry, *École nationale supérieure des Mines ParisTech*, Mersen SA ♦ (Chair of the Governance and Remuneration Committee) and Albioma SA ♦ (Chair of the Nomination, Remuneration & Governance Committee and member of the Corporate Social Responsibility Committee)

Directorships and other offices held within the past five years
- Director, F2I (UIMM)
- Strategy, Planning and Finance Director, Airbus group's Technical Corporate division
- Director, Imagine (genetic disease research institute)
- Chief of Staff to the Executive Chairman of EADS

Summary of main areas of expertise and experience

Ulrike Steinhorst, a German citizen, has extensive experience in top-level corporate positions, mainly at EDF, Degussa group and EADS/Airbus, with a strong focus on international business and strategy.

She started her career in France at the office of the Minister for European Affairs. She then worked for the Électricité de France group from 1990 until 1998, where she held a number of positions in the International division, then within the General Management of the group, before becoming head of the International Subsidiaries in the Industrial division. In 1999, she joined Degussa AG group in Germany (Head of Human Resources of a division, and then Vice-President, Executive Development). She later headed the subsidiary Degussa France and 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 until the end of 2017, she was Strategy, Planning and Finance Director at Airbus Group's Technical Corporate division.

Ulrike Steinhorst is a state-certified 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

French
Age: 60
Publicis Groupe
133, avenue des Champs-Élysées,
75008 Paris, France

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
Number of shares held: 2,390
Membership of Board committees:

- Audit & Risks Committee
- Governance, Appointments & Corporate Social Responsibility Committee (since May 23, 2019)
- Compensation Committee (since May 23, 2019)
- Strategy Committee (until May 23, 2019)

Main position held outside the Company

- General Manager responsible for Operations, IT, Real Estate, Insurance and M&A, Publicis Groupe

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Director, Translate Plus – Publicis Groupe (United Kingdom), BBH Holdings Ltd. (Bartle Bogle Hegarty) – Publicis Groupe (United Kingdom), Gustave Roussy Foundation, Georges Besse Foundation and the Louvre Museum

Directorships and other offices held within the past five years

- Chief Customer Officer, AXA group
- Chief Executive Officer, AXA Global Asset Management
- Member of the Scientific Board, AXA Research Fund
- Chair of the Board of Directors, 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, AXA Assistance SA (Italy), AXA MPS Assicurazioni Danni SpA (Italy) and AXA MPS Assicurazioni Vita SpA (Italy)

Summary of main areas of expertise and 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.

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 Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors updated its Internal Procedures on October 24, 2019. 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 "Corporate Governance" page of the Company's website (www.valeo.com).

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 provisions 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, allocated by the Board of Directors to its members under Article L.225-37-2 of the French Commercial Code on the compensation policy for corporate officers (*ex ante* vote). 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 corporate officers (including the directors), based on recommendations made by the Compensation Committee. The compensation policy is subject to an *ex ante* vote by the shareholders and the compensation paid or awarded pursuant to that compensation policy is then subject to a general *ex post* vote by the shareholders.

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 directors representing employees.

Although not expressly provided for by the Internal Procedures, in practice the directors attend the Company's Shareholders' Meetings, in accordance with Recommendation 20 of the AFEP-MEDEF Code.

On January 23, 2008, the Board of Directors adopted a Code of Conduct on trading in financial instruments and compliance with 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 inside information. The Board of Directors last updated its Code of Conduct on October 24, 2019 pursuant to Law No. 2019-744 of July 19, 2019 on the simplification, clarification and modernization of company law (the "**Soilihi law**"). 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 regarding the disclosure of trading in the Company's securities applicable to insiders, and in particular members of the Board of Directors, the Operations Committee and the Liaison Committee, any person with permanent or regular access to inside information and any Group employees who may appear on the lists of occasional insiders drawn up by Valeo (**"Insiders"**).

Under the Code of Conduct, it is prohibited for any person to carry out one or more transactions based on inside 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 cancelation or modification of an order) on financial instruments (shares, bonds, etc., and any related derivatives) of the Company if they have inside information about the Company or any other Group entity. This code also prohibits any person having inside information from disclosing or attempting to disclose inside 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 inside 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 inside 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 inside information if the transaction concerned is based on inside information obtained in the course of their duties.

In the event of uncertainty as to whether information is considered inside information, all persons must contact the General Counsel and General Secretary 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 General Counsel and General Secretary before carrying out any transactions involving the Company's financial instruments that they do not have inside information as a result of their position.

Restrictions on trading in the Company's financial instruments apply to any person having inside information up to and including the date of publication of the press release on the inside information in question.

In addition, subject to the exceptions provided for in the applicable regulations, Insiders 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 black-out periods:

- from the 30th calendar day inclusive preceding the date of publication of Valeo's press release on the annual and half-yearly results up to and including the date of publication of said press release on these financial statements;
- from the 15th calendar day inclusive preceding the date of publication of Valeo's quarterly information up to and including the date of publication of the press release on this quarterly information.

The statutory black-out 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) 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.

Rules governing the operation and organization of the Board of Directors, 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

Directors 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. In 2019, 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 ten Board of Directors' meetings held in 2019 were chaired by its Chairman.

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 General Secretary 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 of Directors

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 frequency of Board of Directors' meetings and the average attendance rate of directors in the 2019 fiscal year are presented in section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", pages 106 and 107. The average duration of Board of Directors' meetings was about four hours. 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.

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 business sector, and its corporate social responsibility (CSR) challenges. They also attend an annual three-day strategy seminar, held in a different part of the world each year. Its purpose is mainly to provide genuine insight into the discussions of the Board of Directors and to gain a practical understanding of the Group's specificities. During the seminar, the directors visit the Group's production facilities and those of its partners. They also meet the local operational teams and local management, and are given presentations on the Group's products and business operations.

In accordance with the recommendations in the AFEP-MEDEF Code, the Company devised a specific training program for Éric Chauvirey prior to his appointment as a director representing employees on June 30, 2017. In this respect, he successfully completed a training course on the role of company directors run by the *Institut d'études politiques de Paris* (IEP) in partnership with the French Institute of Directors (*Institut Français des Administrateurs* – IFA), 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.

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 of Directors

In 2019, the General Counsel and General Secretary, the Chief Financial Officer and the Group Chief Operating Officer attended all meetings of the Board of Directors. Other members of the Group's Management attended for certain specific matters, including the Chief Ethics and Compliance Officer for the gender diversity, equality and diversity policy in the Group, the Health, Safety and Environment Officer for safety within the Group, the Vice-President, Sustainable Development and External Affairs for the corporate social responsibility (CSR) policy and the Head of Strategy for matters related to the Group's operations. The Group's Statutory Auditors attended parts of some Board of Directors' meetings. A representative of the firm Spencer Stuart also took part in a Board meeting to discuss the assessment of the Board's operating procedures.

Role of the Board of Directors

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 power, 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;
- draw up the Corporate Governance Report;
- 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 compensation to the directors in accordance with the compensation policy;
- 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;
- 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). It endeavors to promote the Company's long-term value creation whilst taking into consideration the social and environmental impacts of its operations.

In 2019, 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:
  - reviewing the approximate 2018 results, the 2019 preliminary budget and the 2019 final budget,
  - the Statutory Auditors' presentation on the parent company and the consolidated financial statements for the 2018 fiscal year, and on the review of the interim consolidated financial statements for the six months ended June 30, 2019,
  - preparing the parent company and the consolidated financial statements for the 2018 fiscal year,
  - reviewing the consolidated results for the first half of 2019 and the outlook for the second half of 2019,
  - preparing the Management Report and the related notes for the 2018 fiscal year,
  - handling the proposed payment of a dividend of 1.25 euros per share for 2018,
  - reviewing the quarterly figures and results, and the forecasts and projections prepared for 2019;
- oversight relating to key strategies, and in particular:
  - discussing acquisitions, investments and strategic operations under review,
  - major project development,
  - monitoring changes in the industry and the Group's key strategies,
  - reviewing trends in the automotive market and the competitive environment;
- executive compensation, and in particular:
  - reviewing the Chairman and Chief Executive Officer's variable compensation and pension plan for 2018,
  - reviewing the 2019 Compensation Policy for the Chairman and Chief Executive Officer,
  - reviewing the Chairman and Chief Executive Officer's 2019 long-term compensation,
  - examining the plan to allot free shares or performance shares to Group employees and the Chairman and Chief Executive Officer, and the allotment level for the Chairman and Chief Executive Officer in 2019,
  - measuring the performance criteria for the 2019 performance share plans,
  - examining the Shares4U 2019 and 2020 employee share ownership 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 the role and responsibility of directors,
  - discussing the change of Lead Director,
  - appointment of Gilles Michel as Lead Director and Chair of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee,
  - reviewing risk mapping and the Group's risk management systems,
  - assessing the operation of the Board of Directors and the committees,
  - reviewing the composition and chairmanship of the committees,
  - appointing and reappointing directors and reviewing the succession plan for directors,
  - reappointing the Chairman and Chief Executive Officer,

  - reviewing the succession and development plan for the Group's main executive managers,
  - implementing the succession process of the Chairman and Chief Executive Officer,
  - reviewing the compensation payable to directors,
  - drawing up the Corporate Governance Report,
  - reviewing the draft report of the Lead Director,
  - reviewing the provisions of the consolidated AFEP-MEDEF Code (comply or explain), the report of the High Committee on Corporate Governance, and the AMF's report on executive compensation and the proposed legislative changes,
  - amending the Internal Procedures,
  - amending the Code of Conduct,
  - discussing the Company's transformation into a European Company;
- financial operations, and in particular:
  - sureties, endorsements and guarantees,
  - granting free shares and performance shares,
  - 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, the Board of Directors' Report on the resolutions and special reports),
  - reviewing related party agreements that remain in effect over time,
  - reviewing the cost savings program and cost control,
  - reviewing press releases,
  - reviewing the ownership structure and any changes,
  - reviewing the gender diversity, equality and diversity policy within the Group,
  - analyzing share price trends,
  - reviewing relations with the labor organizations,
  - reviewing CSR and safety policies,
  - reviewing the Group's financial and fiscal policy and insurance program,
  - reviewing the Group's sustainability policy and its main sustainability achievements,
  - reviewing the Group's compliance policy, particularly as regards anti-corruption, economic sanctions, and compliance with competition law, the General Data Protection Regulation (GDPR) and the Sapin II law,
  - reviewing IT governance.

Committees created by the Board of Directors

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, 2019, the committees of the Board of Directors were:

- Governance, Appointments & Corporate Social Responsibility Committee;
- Compensation Committee;
- Audit & Risks Committee;
- Strategy Committee.

The Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee resulted from the split of the Appointments, Compensation & Governance Committee decided by the Board of Directors on January 26, 2017. The purpose of the split was to achieve continuous improvement in governance and to promote sustainable development issues. 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 2019.

The various committees reported regularly on their work to the Board of Directors in 2019.

Governance, Appointments & Corporate Social Responsibility Committee

At December 31, 2019, the composition of the Governance, Appointments & Corporate Social Responsibility Committee was as follows:

- Gilles Michel (Chairman, Lead Director and independent director);
- Stéphanie Frachet, permanent representative of Bpifrance Participations (independent director);
- C. Maury Devine (independent director);
- Patrick Sayer (independent director);
- Ulrike Steinhorst (independent director);
- Véronique Weill (independent director).

Changes in the committee's composition during 2019 are presented in the table in section 3.2.1 of this chapter, paragraph "Composition of the Board of Directors at December 31, 2019 and changes during 2019", pages 104 to 105.

All the members are independent directors and the Company therefore complies with the provisions of Article 17.1 of the AFEP-MEDEF Code recommending that the majority of directors on the Appointments Committee be independent. This provision has been written into its internal procedures. In accordance with the internal procedures of the Governance, Appointments & 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 (see section 3.2.1 of this chapter, paragraph "Succession and development plan", page 115),
   - reviewing the status of each director in light of the independence criteria set out in the Internal Procedures,
   - selecting candidates for the position of director;

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 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 interests of the Company and all its shareholders. It takes the following criteria into consideration as part of the diversity policy: (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 (i) the objectivity and independence required in relation to General Management, a specific shareholder or group of shareholders, and (ii) 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 remit, 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 five times in 2019 with an average attendance rate of 94% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", pages 106 and 107, which presents the average attendance rate of each member at Governance, Appointments & Corporate Social Responsibility Committee meetings).

During these meetings, the Governance, Appointments & Corporate Social Responsibility Committee in particular:

- reviewed directors' independence, including with regard to significant business relationships;
- reviewed potential candidates for appointment as director;
- examined the conditions of the Chairman and Chief Executive Officer's reappointment;
- reviewed the assessment of the operating procedures of the Board of Directors and its committees for 2018;

- reviewed and recommended changes to the composition of the committees;
- discussed the search for new directors, the directors' succession plan and the change of Lead Director, and recommended the appointment of Gilles Michel as Lead Director and Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee;
- reviewed the proposed changes to the articles of association;
- proposed the amendment to the Internal Procedures;
- proposed the amendment to the Code of Conduct;
- reviewed the Comply or Explain table pursuant to the provisions of the consolidated AFEP-MEDEF Code, the report of the High Committee on Corporate Governance's report, and the AMF's report on corporate governance and executive compensation;
- discussed the main legislative developments in corporate governance;
- discussed the method of appointing directors representing employees;
- reviewed the Group's CSR policy and its main achievements in the area;
- reviewed the non-discrimination, diversity and gender diversity policy within the Group;
- discussed the Company's transformation into a European Company;
- reviewed the Corporate Governance Report;
- reviewed the draft report of the Lead Director;
- reviewed the succession and development plan for the Chairman and Chief Executive Officer and the Group's main executive managers;
- reviewed relationships with the labor organizations, in particular as regards Valeo's labor relations strategy.

Compensation Committee

At December 31, 2019, the members of the Compensation Committee were:

- Gilles Michel (Chairman, Lead Director and independent director);
- Stéphanie Frachet, permanent representative of Bpifrance Participations (independent director);
- Éric Chauvirey (director representing employees);
- C. Maury Devine (independent director);
- Patrick Sayer (independent director);
- Ulrike Steinhorst (independent director);
- Véronique Weill (independent director).

Changes in the committee's composition during 2019 are presented in the table in section 3.2.1 of this chapter, paragraph "Composition of the Board of Directors at December 31, 2019 and changes during 2019", pages 104 and 105.

All the members are independent directors (except for the director representing employees who, in accordance with the recommendation in Article 15.1 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 and that a director representing employees be a member of the Compensation Committee (Article 18.1). In accordance with the internal procedures of the Governance, Appointments & 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: the committee 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 directors' compensation 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 directors' compensation 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 and/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 Corporate Governance 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.

In carrying out its work, the committee may hear Company and Group Executive Management teams, after first informing the Chairman and Chief Executive Officer. Where appropriate, and provided that it first informs the Chairman and Chief Executive Officer, it may be assisted by independent consultants.

The Compensation Committee met five times in 2019 with an average attendance rate of 94% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", pages 106 and 107, which presents the average attendance rate of each member at Compensation Committee meetings).

During these meetings, the Compensation Committee in particular:

- reviewed the compensation payable to directors;
- examined the issue of the Chairman and Chief Executive Officer's non-competition compensation;
- reviewed the Chairman and Chief Executive Officer's fixed and variable compensation for 2018 and established the 2019 compensation policy for the Chairman and Chief Executive Officer;
- examined the Chairman and Chief Executive Officer's pension plan for 2019;
- discussed an increase in the Chairman and Chief Executive Officer's fixed compensation following his reappointment at the Board meeting held immediately after the Shareholders' Meeting, both held on May 23, 2019;
- examined the plan to allot free shares or performance shares to the Chairman and Chief Executive Officer and to Group employees, as well as the allotment level for the Chairman and Chief Executive Officer in 2019;
- reviewed long-term incentives and the impact of the 2018 results on the LTI plans;
- examined the proposed resolution on the allotment of free shares or performance shares submitted to the Shareholders' Meeting on May 23, 2019 and the related draft Board of Directors' report;
- examined the proposed resolutions to be put to the Shareholders' Meeting held on May 23, 2019;
- examined the press releases on the Chairman and Chief Executive Officer's compensation;
- reviewed the compensation of the Group's main executive managers;
- reviewed the Shares4U 2018 and Shares4U 2019 employee share ownership plans;
- examined the new defined benefit pension plan;
- reviewed the compensation section of the Corporate Governance Report.

Audit & Risks Committee

At December 31, 2019, the members of the Audit & Risks Committee were:

- Thierry Moulonguet (Chairman and independent director);
- Stéphanie Frachet, permanent representative of Bpifrance Participations (independent director);
- Bruno Bézard (independent director);
- Mari-Noëlle Jégo-Laveissière (independent director);
- Olivier Piou (independent director);
- Véronique Weill (independent director).

Changes in the committee's composition during 2019 are presented in the table in section 3.2.1 of this chapter, paragraph "Composition of the Board of Directors at December 31, 2019 and changes during 2019", pages 104 and 105.

All the members of the Audit & Risks Committee are independent directors and the Company therefore complies with the provisions of Article 15.1 of the AFEP-MEDEF Code 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, accounting or auditing 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 2019", pages 116 to 131.

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:

- monitoring the Group's risk management and internal control systems and, where appropriate, internal audit related to the procedures for preparing and processing financial, accounting and non-financial 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 accounting, financial and non-financial information,
- 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 (including financial, legal, operational, social and environmental risks) 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,
- ensuring that systems are in place for preventing and detecting bribery and influence peddling,
- reviewing the Group's compliance policy, particularly as regards anti-corruption, economic sanctions, and compliance with competition law, the General Data Protection Regulation (GDPR) and the Sapin II law,
- 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 draft Management Report detailing 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 the Statutory Auditors based on the best, and not the lowest, tender and respecting the rotation obligations provided for by law; expressing an opinion on the proposed statutory audit fees; giving an informed opinion on the choice of Statutory Auditors and informing the Board of Directors of its recommendation in accordance with the law,
- obtaining details of fees paid by the Company and the Group to the statutory audit firm and its network, and of any non-audit services provided by the Statutory Auditors; 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 Auditors 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, which are authorized under a general procedure (general approval according to which once a year the Audit & Risks Committee approves all the services to be performed during the year as required by law or regulations);
- non-audit services that are not prohibited, 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 not prohibited, 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 "Corporate 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 five times in 2019 with an average attendance rate of 96% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", pages 106 and 107, which presents the average attendance rate of each member at Audit & Risks Committee meetings).

During these meetings, the Audit & Risks Committee in particular:

- reviewed the draft financial statements for 2018;
- reviewed the Group's draft consolidated results for the first quarter of 2019 and the forecasts for the first half of 2019;
- reviewed the 2019 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 2018 fiscal year;
- 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's Financing and Treasury Director on the Group's financial policy;
- analyzed information presented by the Group Information Systems Director on information systems governance;
- analyzed information presented by the Internal Audit and Control Director on the summary of audit work performed in 2019, the outcome of the 2019 internal control self-assessment survey, the summary of the Statutory Auditors' work on their internal control review, the 2019 risk mapping, the action plans for the main risks identified in the risk mapping, and the 2020 audit plan;
- analyzed information presented by the Group's Head of Information Systems on cybersecurity;
- analyzed information presented by the Group's Head of Insurance on the Group's insurance program;
- analyzed information presented by the Head of Accounting on the impacts of the application of IFRS 15, IFRS 16 and IFRS 9, on the fees paid to the Statutory Auditors in 2018, and on the list of non-audit services provided by each of Valeo's Statutory Auditors in each quarter of 2019;
- 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 Chief Financial Officer, the Internal Audit and Control Director, the General Counsel and General Secretary and the 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

At December 31, 2019, the members of the Strategy Committee were:

- Ulrike Steinhorst (Chair and independent director);
- Thierry Moulonguet (independent director);
- Georges Pauget (independent director);
- Olivier Piou (independent director);
- Patrick Sayer (independent director).

Changes in the committee's composition during 2019 are presented in the table in section 3.2.1 of this chapter, paragraph "Composition of the Board of Directors at December 31, 2019 and changes during 2019", pages 104 and 105.

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 the internal procedures, the Secretary of the Board of Directors or any other person designated by the Chair of the committee acts as the secretary of the meeting.

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 analysis of the Group's development projects, particularly external growth transactions involving acquisitions and disposals of subsidiaries, equity investments and other assets, and any investments or borrowings in excess of 50 million euros per transaction;
- 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 2019 with an average attendance rate of 85% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", pages 106 and 107, which presents the average attendance rate of each member at Strategy Committee meetings).

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 three-day seminar to discuss, debate and exchange views on the Group's strategy.

During these meetings, the Strategy Committee in particular:

- reviewed the Valeo Siemens eAutomotive joint venture;
- reviewed the Company's Research and Development (R&D) and innovation policies;
- reviewed the Group's digital initiatives;
- reviewed the innovations presented by Valeo at the Consumer Electronics Show in Las Vegas;
- analyzed and discussed potential acquisitions, investments and partnerships;
- reviewed the Group's strategic positioning.

Assessment of the Board of Directors' operating procedures

A process is carried out every year to assess the Board of Directors. The 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 conducted, 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 internally), 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 decided to conduct the 2019 assessment internally. The assessment was carried out between the end of 2019 and the beginning of 2020 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's operation and their suggestions for improvement. The topics covered in the assessment included the Board of Directors' operating procedures, structure, governance, composition and duties, Board meeting procedures, directors' access to information, the choice of matters addressed, the quality of debate, and the participation in and general running of the Board Committees.

The outcome of the assessment was reviewed by the Governance, Appointments & Corporate Social Responsibility Committee at its meeting on March 24, 2020, and presented and discussed at the Board of Directors' meeting held on March 24, 2020.

The assessment revealed that its members are unanimously satisfied with the Board of Directors' operation. The main areas of satisfaction include:

- the maturity, dynamism and quality of the Company's governance;
- General Management, considered to be suited to the current situation of the Company, thanks to the role carried out by Jacques Aschenbroich and the Lead Director, who contributes to balanced governance;
- the composition of the Board of Directors, guaranteeing a complementary mix of profiles and solid expertise and experience;
- involvement of new directors;
- the management of succession and renewal plans for the Board of Directors, which have been astutely prepared, particularly due to the carefully selected new members;
- more generally, the quality, interactive nature and content of discussion, and the genuine openness of the Chairman and the members of Management ensure a continued high quality and degree of freedom in debates and discussions;
- the efficient operation of the Board Committees and the effective teamwork achieved by them;
- the strategy seminar in India, considered a key moment for the Board of Directors, as it provides genuine insight into Valeo's strategy and is an excellent opportunity for discussion with the management team;
- the usefulness of "executive sessions", which tackle a variety of key topics.

The Board of Directors continued to work on how best to evolve its composition. In this respect, it 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.

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:

- *"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);*
- *"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, 2019, 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 are business relationships between:

- the Group and the Cathay Capital group, in which Bruno Bézard is a Managing Partner of Cathay Capital Private Equity. These business relationships are not significant and do not affect Bruno Bézard's independence (see section 3.2.1 of this chapter, paragraph "Director independence review", pages 108 to 110). 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 discussions and voting on any such decisions;
- between the Group and the Solvay group, in which Gilles Michel is a director. These business relationships are not significant and do not affect Gilles Michel's independence (see section 3.2.1 of this chapter, paragraph "Director independence review", pages 108 to 110). Should the Board of Directors make any decision about a commitment to the Solvay group, Gilles Michel will abstain from the discussions and vote on any such decision;
- between the Group and Peugeot SA, in which Bpifrance Participations is a member of the Supervisory Board. These business relationships do not affect the independence of either Bpifrance Participations or its permanent representative Stéphanie Frachet (see section 3.2.1 of this chapter, paragraph "Director independence review", pages 108 to 110). In any event, Stéphanie Frachet will abstain from the discussions and vote on resolutions concerning any matters involving Peugeot SA;
- the Group and the BNP Paribas group, which is one of the Group's main financial services providers and also provides the Group with real estate services. 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 in 2017. The business relationship with BNP Paribas is longstanding and existed prior to Jacques Aschenbroich's appointment as Chief Executive Officer of the Group on March 20, 2009. It has not evolved significantly over the past few years. The Group has other financial and real estate 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 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, Appointments & 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 addition, the Internal Procedures stipulate that each executive corporate officer must seek the opinion of the Board of Directors before accepting a new corporate office in a listed company.

To the best of the Company's knowledge, there are no family ties between the members of the Board of Directors.

As far as the Company is aware, in the past five years no member of the Board of Directors has (i) been convicted of a fraudulent offense, (ii) been involved in any bankruptcies, receiverships or liquidations, (iii) been issued any official public incriminations and/or sanctions by statutory or regulatory authorities (including designated professional bodies), or (iv) been disqualified by a court of law from acting as a member of the administrative, management or supervisory bodies of an issuer, or from acting in the management or conduct of the affairs of any issuer.

As far as the Company is aware, none of the members of the Board of Directors have agreed to any restrictions concerning the disposal of their interests in the Company's share capital within a certain period of time, other than the restrictions set down by the applicable laws and regulations, the Company's articles of association or pursuant to the Code of Conduct described in section 3.2.2 of this chapter, paragraph "Directors' rights and duties", pages 132 to 133.

As indicated in section 3.3.1 of this chapter, "Compensation policy for corporate officers", pages 152 to 164, the Chairman and Chief Executive Officer is subject to holding obligations and, in accordance with the Company's articles of association and the Internal Procedures, directors (except for the director representing employees) must hold at least 1,500 shares in the Company 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

3.2.4 Corporate Governance Code

In 2019, the Company referred to the AFEP-MEDEF Corporate Governance Code of Listed Companies, which is available on the MEDEF website (www.medef.com). In accordance with the AFEP-MEDEF Code, the High Committee on Corporate Governance is responsible for overseeing its application.

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 2019, this involves the recommendations set out in the following table:

Recommendations	Explanation
Directors' compensation (Article 21.1 of the AFEP-MEDEF Code) *"It should be recalled that the method of allocation of this compensation, the total amount of which is determined by the shareholders' meeting, is set by the Board of Directors. It 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."*	The rules for allocating directors' compensation are based on the directors' attendance at Board of Directors' and committee meetings, such that the variable portion has the heavier weighting. However, this rule is not followed for the committee Chairs and the Lead Director, given the special duties they assume.
Supplementary pension schemes with defined benefits governed by Article L.137-11 of the French Social Security Code *(Code de la sécurité sociale)* (Article 25.6.2 of the AFEP-MEDEF Code) *"(...) the beneficiaries must meet reasonable requirements of seniority within the company, equal to 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 21, 2019, 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.

During 2019, no further commitments of this type were made by the Company's Chairman and Chief Executive Officer.

Pursuant to the new Soilihi law, at its meeting of January 23, 2020, the Board of Directors authorized the Chairman and Chief Executive Officer, with the power to subdelegate:

- for a period of one year as of January 23, 2020, to issue sureties, endorsements and guarantees in the Company's name up to a maximum amount of 40 million euros, and to maintain in effect the sureties, endorsements and guarantees previously issued;
- for a period of one year as of January 23, 2020, to issue sureties, endorsements and guarantees in the Company's name to guarantee commitments made by controlled companies within the meaning of Article L.233-16, II of the French Commercial Code, with no maximum limit;
- for a period of one year as of January 23, 2020, to issue sureties, endorsements and guarantees in the Company's name to tax and customs authorities, with no maximum limit.

3.2.6 General Management of the Company and limitations on the powers of the Chief Executive Officer

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. Furthermore, 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.

From March 20, 2009 to February 18, 2016, the offices of Chairman of the Board of Directors and Chief Executive Officer were split. During that period, Pascal Colombani was Chairman of the Board of Directors and Jacques Aschenbroich was Chief Executive Officer. Restrictions on the powers of the Chief Executive Officer were also provided for and reflected in the provisions of the Internal Procedures. In accordance with the Internal Procedures, the Chief Executive Officer was required to 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 of February 18, 2016 noted that under the leadership of Jacques Aschenbroich, since his appointment as Chief Executive Officer on March 20, 2009, Valeo had experienced a spectacular recovery and improved operating performance (revenue, operating margin, EBITDA and net attributable income). This operating performance also enabled Valeo to pay annual dividends, which have been resumed since 2010 (rising from 0 euro per share in respect of 2009 to 0.40 euros per share[1] in respect of 2010 and 1 euro per share[2] in respect of 2015). Since 2016, dividends have stabilized at 1.25 euros per share.

The Board of Directors' decision to combine the offices of Chairman of the Board of Directors and Chief Executive Officer was accompanied by all the guarantees required to preserve the quality of the Group's governance. The balance of power is assured through:

- the strong presence of independent directors on the Board of Directors (11 out of 12 members at December 31, 2019[3]), the Audit & Risks Committee (six out of six members at December 31, 2019), the Governance, Appointments & Corporate Social Responsibility Committee (six out of six members at December 31, 2019), the Compensation Committee (six out of six members at December 31, 2019[4]) and the Strategy Committee (five out of five members at December 31, 2019);

(1) This figure has been adjusted to reflect the 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) This figure has been adjusted to reflect the 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.

(3) The Board of Directors has 13 members. However, 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 9.3 of the AFEP-MEDEF Code.

(4) The Compensation Committee has seven members. However, 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 15.1 of the AFEP-MEDEF Code.

- the presence of a Lead Director (Gilles Michel) with the widest powers for the purpose 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.

  The role and powers of the Lead Director are described in section 3.2.1 of this chapter, paragraph "Lead Director", pages 112 to 114.

Furthermore, the combination of offices has not interfered with the quality of operational management or main Group decisions, but on the contrary has strengthened the relationship between the shareholders and Valeo's executive management.

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 executive corporate officers being present, for purposes of, including but not limited to, the assessment of (i) the performance of General Management, and (ii) the operation of the Board of Directors. These practices have been in place and meetings held periodically in the absence of the executive corporate officers since 2016. 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.

During 2019, Jacques Aschenbroich, Chairman and Chief Executive Officer, did not perform any duties other than those conferred on him by law.

On the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors decided as follows at its meetings of February 21, 2019 and March 21, 2019:

- to reappoint Jacques Aschenbroich as Chairman and Chief Executive Officer, following his reappointment as a director, during the meeting of the Board of Directors held immediately following the Shareholders' Meeting of May 23, 2019;
- to implement the separation of the offices of Chairman of the Board of Directors and Chief Executive Officer within a period of two years following Jacques Aschenbroich's reappointment as Chairman and Chief Executive Officer;

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

As required by the provisions of Article L.225-40-1 of the French Commercial Code, agreements entered into and authorized during previous financial years which remained in force during the last financial year must be reviewed each year by the Board of Directors and sent to the Statutory Auditors to enable them to prepare their report on related party agreements. The following agreements relating to commitments to Jacques Aschenbroich, and the agreements entered into with him, already approved by the Shareholders' Meeting, remained in force in 2019:

- 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 158;
- the non-competition clause under which Jacques Aschenbroich is prohibited from working in any way for an automotive supplier or, more generally, for any of Valeo's competitors. The clause shall apply for 12 months after the termination of his term of office as Chief Executive Officer of Valeo, regardless of the reason for termination.

  Jacques Aschenbroich informed the Board of Directors of his decision to waive the benefit of his non-competition compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-competition agreement accordingly on March 21, 2019.
- the commitment regarding the defined benefit pension plan made to Jacques Aschenbroich, Chairman and Chief Executive Officer, upon his reappointment on May 23, 2019. The main characteristics of the pension plan, which continues to apply to the Chairman and Chief Executive Officer, are as follows:
  - because of its nature, the plan is capped at 1% of the reference salary per year of service, up to a maximum limit of 20%,
  - the plan 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,

- as regards the Chairman and Chief Executive Officer, the vesting of supplementary pension rights has been subject to a performance condition since February 18, 2016, which is deemed to have been met if the variable portion of his compensation, paid in year Y+1 in respect of year Y, reaches 100% of the fixed compensation due in respect of year Y. In the event that the variable portion does not reach 100% of the fixed compensation, the rights granted will be calculated on a pro rata basis.

A special report on related party agreements 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", pages 416 to 417).

3.2.8 Agreements governed by Article L.225-37-4, paragraph 2, of the French Commercial Code

None.

3.2.9 Procedure implemented pursuant to Article L.225-39, paragraph 2, of the French Commercial Code

An internal Valeo charter on related party agreements (the "**Charter**" has been drawn up in accordance with AMF recommendation DOC-2012-05 as amended on October 5, 2018 and Article L.225-39, paragraph 2, of the French Commercial Code. The Charter sets out the procedure for controlling related party agreements and for reviewing agreements entered into in the ordinary course of business on an arm's length basis. It was adopted by the Board of Directors at its meeting of January 23, 2020 and is available on Valeo's website. It may be amended at any time by decision of the Board of Directors, in particular to take into account any legislative or regulatory changes.

In accordance with the law, agreements entered into between the persons referred to in Article L.225-38 of the French Commercial Code (i.e., agreements entered into, whether directly or through an intermediary, between the Company and its Chief Executive Officer, a Deputy Chief Executive Officer, a director or a shareholder holding more than 10% of the voting rights or, in the case of a shareholder corporation, the company that controls it within the meaning of Article L.233-3 of the code), which involve transactions carried out in the ordinary course of business on an arm's length basis, are not subject to prior authorization from the Board of Directors ("**Arm's Length Agreements**").

Under the procedure set out by the Charter, Valeo's Legal Department periodically, and at least once a year, sends the Governance, Appointments & Corporate Social Responsibility Committee for review a list and description of all Arm's Length Agreements entered into since the Governance, Appointments & Corporate Social Responsibility Committee's last review. Members of the Governance, Appointments & Corporate Social Responsibility Committee who are directly or indirectly concerned by the agreement do not take part in the review.

The Governance, Appointments & Corporate Social Responsibility Committee makes sure that the agreements meet the conditions to qualify as an Arm's Length Agreement, i.e., they involve transactions carried out in the ordinary course of business on an arm's length basis.

The conclusions of the Governance, Appointments & Corporate Social Responsibility Committee's review are written up in a report.

The list and description of all agreements reviewed by the Governance, Appointments & Corporate Social Responsibility Committee and the conclusions of its review are then presented to the Board of Directors.

The Board of Director's role is to validate the Governance, Appointments & Corporate Social Responsibility Committee's review. It may either confirm that these agreements qualify as Arm's Length Agreements or consider that they should be subject to the procedure for related party agreements and, therefore, subject to the Board's ratification.

If the Governance, Appointments & Corporate Social Responsibility Committee considers that an agreement initially qualified as an Arm's Length Agreement falls within the scope of a related party agreement, it is subject to ratification by the Board of Directors. The person directly or indirectly concerned by the related party agreement does not take part in the discussions or the vote.

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 online on Valeo's website, under "Financial & Legal documents" (https://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 425.

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", pages 426 to 429.

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. The stated thresholds are calculated in accordance with Articles L.233-7 and L.233-9 of the French Commercial Code and with the AMF's General Regulations.

Powers of the Board of Directors

In accordance with the resolution passed by the shareholders at the Shareholders' Meeting on May 23, 2019, 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, 2019, 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 of May 23, 2019, 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 5, section 5.4.6, Note 8.1.2 "Gross debt" to the consolidated financial statements, pages 351 to 356, 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 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).

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 immediate or future access to the share capital of the Company or one of its subsidiaries (A) Shareholders' Meeting of May 23, 2019 – 12th resolution Expiring on May 23, 2021 (26 months)	70 million euros (A) + (B) + (C) + (D) + (E) + (F) + (G) combined share capital ceiling (the "Combined Share Capital Ceiling") = 131 million euros	1.5 billion euros (A) + (C) + (D) + (E) + (F) + (G) combined debt ceiling (the "Combined Debt Ceiling") = 1.5 billion euros	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 23, 2017 (12th 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, 2019 – 16th resolution Expiring on May 23, 2021 (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 23, 2017 (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 immediate or future access to the share capital of the Company or one of its subsidiaries by way of a public 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, 2019 – 13th resolution Expiring on May 23, 2021 (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 23, 2017 (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 issue shares and/or securities giving access to the Company's share capital by way of private placement (D) Shareholders' Meeting of May 23, 2019 – 14th resolution Expiring on May 23, 2021 (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 23, 2017 (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 power to issue shares and/or securities giving immediate or future access to the Company's share capital to be used as consideration for contributions in kind granted to the Company (E) Shareholders' Meeting of May 23, 2019 – 17th resolution Expiring on May 23, 2021 (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 23, 2017 (17th 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 immediate or future access to the share capital restricted to members of an employee share ownership plan (F) Shareholders' Meeting of May 23, 2019 – 18th resolution Expiring on May 23, 2021 (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 23, 2017 (18th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Used in connection with the June 27, 2019 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 securities to be issued with or without pre-emptive rights under an overallotment option (G) Shareholders' Meeting of May 23, 2019 – 15th resolution Expiring on May 23, 2021 (26 months)	The ceiling is specified in the applicable regulation (currently 15% of the initial issuance), not exceeding 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 23, 2017 (15th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
4. ALLOTMENT OF FREE SHARES			
Authorization to allot free existing or new shares to Group employees and corporate officers Shareholders' Meeting of May 23, 2019 – 19th resolution Expiring on May 23, 2021 (26 months)	Maximum number of shares (existing or to be issued) allotted: 4,445,000 (with a sub-ceiling of 250,000 shares for executive corporate officers), these allotments may not exceed more than 10% of the share capital at the date of the Board of Directors' decision	N/A	Authorization replacing the previous authorization granted by the Shareholders' Meeting of May 23, 2018 (12th resolution) for the same purpose Used by the Board of Directors at its meeting on May 23, 2019 (1,699,281 shares allotted)

3.3 Compensation of corporate officers

In accordance with Article L.225-37-2 of the French Commercial Code, the Shareholders' Meeting of June 25, 2020 will be called upon to approve the elements of the compensation policy for corporate officers, i.e., the Chairman and Chief Executive Officer of Valeo and the directors, as determined by the Board of Directors on the recommendation of the Compensation Committee (twelfth and thirteenth resolutions).

3.3.1 Compensation policy for corporate officers

Compensation policy for 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, 2019, the components of compensation awarded or paid to him for the year ended December 31, 2019 pursuant to such policy, and the Compensation Policy for the Chairman and Chief Executive Officer for the year ending December 31, 2020.

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 applicable at the time of the decision.

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. 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 2019 Compensation Policy for the Chairman and Chief Executive Officer

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 ended December 31, 2019, constituting his compensation policy for 2019 (the "**2019 Compensation Policy for the Chairman and Chief Executive Officer**").

In determining the 2019 Compensation Policy for the Chairman and Chief Executive Officer, the Compensation Committee analyzed the structure of the Chairman and Chief Executive Officer's compensation based on a comparative review on the basis of four panels used by Valeo[1], with particular attention paid to the European car makers and OEMs panel (the "**Comparative Study**"). The panels are available on the Company's website (www.valeo.com), under "Corporate Governance".

In general, the Comparative Study showed that the ceilings for variable and long-term compensation were in line with the market and therefore remained unchanged in the 2019 Compensation Policy for the Chairman and Chief Executive Officer compared to those set in the Compensation Policy for the Chairman and Chief Executive Officer for the year ended December 31, 2018 (the "**2018 Compensation Policy for the Chairman and Chief Executive Officer**").

After the Comparative Study, the Compensation Committee nevertheless suggested certain adjustments to the Board of Directors regarding annual fixed compensation and certain modalities for performance share awards.

At its meeting held on March 21, 2019, the Board of Directors, on the recommendation of the Compensation Committee, established the 2019 Compensation Policy for the Chairman and Chief Executive Officer, as described below. The 2019 Compensation Policy for the Chairman and Chief Executive Officer was approved at the Shareholders' Meeting of May 23, 2019 under the tenth resolution (with a majority of 91.92%). For greater clarity, a full description of the 2019 Compensation Policy for the Chairman and Chief Executive Officer is given below, whereas the description given in the 2018 Registration Document contained a large number of references to the 2018 Compensation Policy for the Chairman and Chief Executive Officer (see Chapter 3, section 3.3.1, paragraph "Compensation Policy for the Chairman and Chief Executive Officer for the year ending December 31, 2019", pages 157 to 160).

(1) 1. CAC 40; 2. CAC 40 excluding finance and luxury sector companies; 3. European car makers and original equipment manufacturers; and 4. International original equipment manufacturers.

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.

The annual fixed compensation received by the Chairman and Chief Executive Officer, which had been 900,000 euros since June 1, 2011, was increased to 1,000,000 euros on February 18, 2016. This increase was decided in light of the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer, the continued growth in the Valeo Group's operations since 2011, and after noting that Jacques Aschenbroich's fixed compensation was below the average reported in various comparative studies[1] on the compensation of Chief Executive Officers and Chairmen and Chief Executive Officers of companies belonging to the CAC 40 index and comparable European industrial companies.

This amount had remained unchanged since February 18, 2016, even though the Group continued to grow in an increasingly complex environment. Valeo has significantly expanded its international footprint, particularly in Asia where the Group has enjoyed rapid growth, a source of added complexity, which was accelerated in 2017 by the creation of the Valeo-Kapec joint venture in South Korea and the acquisition of a controlling stake in Japanese company Ichikoh. Asia accounted for 32% of the Group's sales in 2018 and Asian customers for 34%. Furthermore, investment in R&D and the development of new innovative products, particularly in electrification and autonomous driving, have been a source of growth but also operational complexity. This investment was reflected in the order intake for innovative products, which was 53% in 2018 (60% including the Valeo Siemens eAutomotive joint venture) versus 37% in 2015. More generally, this growth has been accompanied by a significant increase in (i) the Group's sales, which have risen from 14,544 million euros at December 31, 2015 to 19,124 million euros at December 31, 2018, an increase of 31.49% and (ii) the number of employees, which has risen from 82,800 at December 31, 2015 to 113,600 at December 31, 2018, an increase of 37.19%. These figures do not include Valeo Siemens eAutomotive, which since its creation in 2016, has taken orders worth more than 10.5 billion euros. In addition to this growth, the Comparative Study revealed that the Chairman and Chief Executive Officer's annual fixed compensation was below the median of the panels used and in fact was closer to the first quartile.

These factors prompted the Compensation Committee to recommend that the Board of Directors raise the Chairman and Chief Executive Officer's fixed compensation to 1,150,000 euros, effective May 23, 2019, with no plans to change the amount until the end of the Chairman and Chief Executive Officer's term of office[2].

However, acting on the recommendation of Jacques Aschenbroich upon his reappointment as Chairman and Chief Executive Officer after the Shareholders' Meeting on May 23, 2019, the Board of Directors reduced the amount of his annual fixed compensation by 50,000 euros to 1,100,000 euros.

Variable compensation

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 was therefore determined partly according to quantifiable, strict and ambitious criteria based on the Group's operating and financial performance, and partly on a qualitative basis. The quantifiable and qualitative objectives to be reached were set according to specific, strict and ambitious 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, acting on the recommendation of the Compensation Committee and approved by the Shareholders' Meeting of May 23, 2017 in its tenth resolution.

Under the review of the 2018 Compensation Policy for the Chairman and Chief Executive Officer, at its meeting of February 22, 2018, the Board of Directors, acting on the recommendation of the Compensation Committee, decided to make some adjustments to the quantifiable and qualitative criteria previously used. These adjustments were aimed at better reflecting the Group's strategy and current financial, non-financial and operational performance objectives in the proposed criteria.

The principles and criteria relating to variable compensation under the 2018 Compensation Policy for the Chairman and Chief Executive Officer remained unchanged in the 2019 Compensation Policy for the Chairman and Chief Executive Officer.

The Chairman and Chief Executive Officer's annual variable compensation for 2019 was therefore based on (i) the same quantifiable criteria as those used in the 2018 Compensation Policy for the Chairman and Chief Executive Officer[3], and (ii) qualitative criteria similar to those used in the 2018 Compensation Policy for the Chairman and Chief Executive Officer. The quantifiable and qualitative criteria used for the 2019 Compensation Policy for the Chairman and Chief Executive Officer are therefore as follows[4]:

- **five quantifiable criteria:** (i) operating margin rate, (ii) free cash flow, (iii) net income, (iv) return on capital employed rate (ROCE rate), and (v) Group order intake;

(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) From January 1, 2019 to May 23, 2019, the Chairman and Chief Executive Officer's fixed compensation remained at 1,000,000 euros.

(3) However, the free cash flow assumption (i.e., assuming the capex budget is met) and the net income assumption (i.e., assuming a 20% tax rate for the Group), referred to in notes 2 and 3 of the variable compensation summary table for the 2018 Compensation Policy for the Chairman and Chief Executive Officer are not included in the 2019 Compensation Policy for the Chairman and Chief Executive Officer.

(4) The level of achievement of these criteria in 2019 is presented in paragraph "Variable compensation" of this section, pages 165 to 166.

- **three qualitative criteria:** (i) strategic vision, (ii) risk management, and (iii) corporate social responsibility. Sub-criteria are regularly added to strengthen the stringency and the degree of achievement of the objectives.

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 Chairman and Chief Executive Officer's variable portion was capped at 170% of his annual fixed compensation. The decision to cap his variable compensation at 170% of his annual fixed compensation was made 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]. This cap was included in the 2018 Compensation Policy for the Chairman and Chief Executive Officer and remained unchanged in the 2019 Compensation Policy for the Chairman and Chief Executive Officer (170% of annual fixed compensation), as the review conducted by the two consulting firms confirmed that this was an appropriate cap.

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 acting 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.

(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 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 2019:

Quantifiable criteria[1]

Nature of the quantifiable criterion	Maximum amount of the variable portion as a % of annual fixed compensation
Operating margin rate	25%
Free cash flow	25%
Net income	20%
ROCE rate	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 assessed in the light of:* ▪ financial analysts' assessments; ▪ strategic operations carried out by Valeo and integration of recent acquisitions; ▪ the increase in the share of "innovative" products[2] in the order intake for the financial year; ▪ the evaluation of the technology roadmap presented during the strategy seminar, and its impact in terms of R&D and human resources.	20%
Risk management *This criterion is assessed, in particular, in the light of:* ▪ the continued and intensified measures to reinforce the compliance policy; ▪ the management of risks related to new product launches and customer disputes; ▪ the transformation of the Company (industrial, human resources) to adjust to product and technology developments.	15%
Corporate social responsibility *Progress achieved by Valeo, in particular via the following key indicators:* ▪ *number of disabled employees;* ▪ *diversity (gender and age).* *Assessment of overall safety performance, in particular via the following key indicators:* ▪ *number of lost-time workplace accidents;* ▪ *reduction in the number of category 1 accidents (death, amputation, major trauma, invalidity/incapacity) and category 2 accidents (substantial material damage and quasi-major accident).* *Evolution in Valeo original equipment 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 impacts.
(2) Products and technologies in series production for less than three years.

Long-term compensation policy – Allotment of performance shares

The Chairman and Chief Executive Officer's maximum long-term variable compensation, which in any event remains capped at 270% of annual fixed compensation, remained unchanged compared with the 2018 Compensation Policy for the Chairman and Chief Executive Officer, as the Comparative Study confirmed that this was an appropriate level.

As indicated in the 2018 Compensation Policy for the Chairman and Chief Executive Officer, the aim of allotting performance shares is not only to encourage the Chairman and Chief Executive Officer to take a long-term approach to his duties, but also to retain him and align his interests with those of Valeo and its shareholders. Under the performance share plans, performance criteria must be met over a period of three consecutive years. Valeo applies strict and ambitious financial and operating performance criteria considered as particularly representative of the Company's performance. The Board of Directors, acting on the recommendation of the Compensation Committee, decided to make some adjustments to the criteria used in previous years for the 2019 Compensation Policy for the Chairman and Chief Executive Officer. These adjustments were aimed at better reflecting, in the proposed criteria, the Group's strategy, current financial and operating performance objectives, value creation for Valeo's shareholders measured using the new external performance criterion, Total Shareholder Return (TSR), and performance measurement.

The final allocation of performance shares depends on performance, based on two internal performance criteria already used – namely the operating margin rate and the pre-tax rate of return on assets (ROA) – and Total Shareholder Return (TSR), which has replaced the ROCE rate criteria already used for short-term variable compensation. Valeo's TSR is measured against the CAC 40 index and a panel of European automotive companies. Internal performance criteria represents a maximum of 80% of allotted shares (40% for each criterion), while the external performance criterion represents no more than 20% of the allotment.

The table below summarizes the criteria and methods used to assess the performance shares as part of the 2019 Compensation Policy for the Chairman and Chief Executive Officer[1]:

Criterion	Weighting/Measurement
Internal performance criterion: ROA rate **Internal performance criterion: operating margin rate**	Performance measured by two criteria (ROA rate and operating margin rate) for each of the three financial years (Y, Y+1 and Y+2) of the vesting period. The criterion will be satisfied if, for each financial year covered under the allotment, the rate effectively achieved for each criterion is greater than or equal to the target rate established by the Board of Directors, it being understood that (i) the target rate cannot be lower than the guidance for the financial year of reference[(1)], (ii) the selected criterion cannot be changed by the Board of Directors at a later date and (iii) the target rates cannot be changed by the Board of Directors at a later date, except by a duly justified decision in the context of exceptional circumstances beyond the beneficiaries' control. ▪ If, for each financial year covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those three financial years: 100%. ▪ If, for only two of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those two financial years: 50%. ▪ If, for only one of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for that financial year: 20%. ▪ If the target rate for the corresponding criterion is not satisfied for any of the financial years covered by the scheme: 0%.
External performance criterion: TSR	TSR recorded over a period of three years from January 1 of the allotment year to December 31 of the year prior to delivery. ▪ If Valeo's TSR recorded over the reference period is greater than the CAC 40 index's TSR recorded over the reference period: 10% (0% if equal or lower). ▪ If Valeo's TSR recorded over the reference period is greater than the median TSR of the companies in the European Automotive Panel[(2)] over the reference period: 10% (0% if equal or lower).

(1) Guidance for 2019 was an ROA rate of 11% (taking into account share in net earnings of equity-accounted companies) and an operating margin rate (excluding share in net earnings of equity-accounted companies) of between 5.8% and 6.5%. When the third-quarter 2019 results were announced, Valeo adjusted its operating margin guidance to take into account the impact of the General Motors strike in North America, the cost of which has been estimated for Valeo at around 160 million euros in sales terms and around 50 million euros in operating margin terms. The guidance was therefore adjusted to 5.8%, excluding the impact of the General Motors strike and excluding the Top Column Module (TCM) business.

(2) The European Automotive Panel was amended by the Board of Directors at its meeting of October 24, 2019. GKN, a panel member, was acquired by a fund and then delisted. Its inclusion in the panel was no longer relevant and it was therefore replaced by Schaeffler, a German automotive equipment manufacturer.

In addition, a presence condition must be met at the time of the allotment. Thus, the performance shares allotted to the Chairman and Chief Executive Officer will vest only if his term of office[2] has not expired on the vesting date. Entitlement to the performance shares will be lost in the event of (i) dismissal due to gross negligence or misconduct or (ii) dismissal for reasons attributable to the Chairman and Chief Executive Officer's performance, before the end of the vesting period.

(1) The criteria and conditions for valuing performance shares are also described in the Board of Directors' report to the Shareholders' Meeting of May 23, 2019 (under the nineteenth resolution). The nineteenth resolution at that meeting was approved with a majority of 93.40%.

(2) Or, in the case where the roles of Chairman of the Board of Directors and Chief Executive Officer are separated before the final award date, until the end of his term as Chairman of the Board of Directors or as Chief Executive Officer. In the case where the functions of Chairman and Chief Executive Officer are separated and Jacques Aschenbroich remains Chairman of the Board of Directions until the end of the vesting period for the performance shares allotted in 2019 or any subsequent year, as indicated in a press release dated May 3, 2019, the number of performance shares that will be allotted to him definitively will be adjusted downwards to take into account the actual time he will have held the combined office of Chairman and Chief Executive Officer.

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.

Each time that it decides to allot performance shares, the Board of Directors ensures that performance share allotments, valued under IFRS, do not represent a disproportionate percentage of all compensation and performance shares allotted, that they have a limited impact in terms of dilution (i.e., for indicative purposes, a maximum of 250,000 under the nineteenth resolution of the Shareholders' Meeting of May 23, 2019) and that the allotments are made at the same times of the year. In accordance with applicable laws and Company practices, the Group's executive managers and employees are also entitled to performance shares.

The maximum amount of performance shares allotted to the Chairman and Chief Executive Officer, valued under IFRS, must not exceed 270% of his annual fixed compensation (i.e., 100% of maximum annual fixed and variable compensation). 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[(1)].

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Code of Conduct, the Chairman and Chief Executive Officer is not permitted to use hedging transactions to reduce his risk. He has made a formal commitment in this respect as required by the AFEP-MEDEF Code. At the end of the holding period set by the Board of Directors, the Chairman and Chief Executive Officer 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.

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[(2)].

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 Jacques Aschenbroich with the supplementary defined benefit pension plan for the Group's senior executives (*hors catégorie*) and referred to in Article L.137-11 of the French Social Security Code. This decision was implemented on October 20, 2009. 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.

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[(3)]). These caps were applied in the 2018 Compensation Policy for the Chairman and Chief Executive Officer and remained unchanged in the 2019 Compensation Policy for the Chairman and Chief Executive Officer.

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**. The vesting of supplementary pension rights is subject to a performance condition, which was also applied in the 2018 Compensation Policy for the Chairman and Chief Executive Officer. The performance condition is deemed to have been met if the variable portion of the Chairman and Chief Executive Officer's compensation, paid in year Y+1 in respect of year Y, reaches 100% of the fixed compensation due in respect of year Y. In the event that the variable portion does not reach 100% of the fixed compensation, the rights granted will be calculated on a pro rata 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 of June 3, 2010 in its twelfth resolution, and as a related party commitment pursuant to Article L.225-42-1 of the French Commercial Code (since repealed) by the Shareholders' Meeting of May 26, 2016 in its fifth resolution[(4)].

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(1) In 2019, in light of the difficult and volatile context of the automobile market which impacted the Valeo share price, in order to reflect the significant decline in the share price during the period preceding the allotment, the number of performance shares allotted to the Chairman and Chief Executive Officer (IFRS valuation) was calculated with a discount of 27% as compared to the maximum permitted under the compensation policy (270% of annual fixed compensation). This discount corresponds to the ratio between the share price for the last 20 days and the share price over the last 18 months prior to the allotment of the performance shares. Based on the share price on the date of the Board of Directors' meeting (average of 20 days, IFRS valuation), this corresponds to 87,122 shares, valued under IFRS at 2,093,541 euros, i.e., 73% as compared to the maximum permitted under the compensation policy.

(2) In accordance with French Ordinance No. 2019-697 of July 3, 2019, the defined benefit pension plan, which has been closed to new members since July 1, 2017, will no longer accrue rights as of January 1, 2020. As of January 1, 2020, the Chairman and Chief Executive Officer will be covered by a new defined benefit plan governed by Article L.137-11-2 of the French Social Security Code. The new plan is described in paragraph "Compensation policy for the Chairman and Chief Executive Officer for the year ending December 31, 2020" of this section.

(3) 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.

(4) In accordance with the applicable provisions, the renewal of this commitment to the executive corporate officer was approved by a majority of 97.41% at the Shareholders' Meeting of May 23, 2019 (fifth resolution), subject to Jacques Aschenbroich being reappointed as Chairman and Chief Executive Officer at the Board of Directors meeting held on May 23, 2019.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation

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 non-competition compensation 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 compensation will be paid 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 compensation 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' Meeting of May 26, 2015 in its fifth resolution pursuant to Article L.225-42-1 of the French Commercial Code (since repealed).

Given the recommendations of the AFEP-MEDEF Code on non-competition agreements, Jacques Aschenbroich announced his decision to waive his right to non-competition compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-competition agreement accordingly[(1)].

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, directors' compensation, 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. Given the recommendations of the AFEP-MEDEF Code on non-competition agreements, Jacques Aschenbroich announced his decision to waive his right to non-competition compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-competition agreement accordingly.

The Chairman and Chief Executive Officer does not receive compensation in his capacity as director. He is not entitled to any compensation or other benefits as a result of agreements entered into with the Company[(2)] or any Group company.

No stock purchase or subscription options or other long-term component of compensation other than performance shares were allotted to the Chairman and Chief Executive Officer in 2019.

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 2019 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 the 2019 financial year have been approved by the shareholders at an Ordinary Shareholders' Meeting (*ex post* vote). As indicated in the 2019 Compensation Policy for the Chairman and Chief Executive Officer, the principles and criteria described in the 2019 Compensation Policy for the Chairman and Chief Executive Officer will apply to the Chief Executive Officer if the offices of Chairman of the Board of Directors and Chief Executive Officer are separated.

(1) The amendment was approved at the Shareholders' Meeting of May 23, 2019 under the fourth resolution (with a majority of 98.88%).

(2) Except for the pension commitment referred to in paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan", page 157.

Compensation policy for the Chairman and Chief Executive Officer for the year ending December 31, 2020

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, 2020, constituting his compensation policy for 2020 (the "**2020 Compensation Policy for the Chairman and Chief Executive Officer**"). 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.

In determining the 2020 Compensation Policy for the Chairman and Chief Executive Officer, the Compensation Committee analyzed the structure of the Chairman and Chief Executive Officer's compensation based on a comparative review on the basis of four panels used by Valeo[1], with particular attention paid to the European car makers and OEMs panel (the "**2020 Comparative Study**"). The panels are available on the Company's website (www.valeo.com), under "Corporate Governance".

In general, the 2020 Comparative Study shows that the fixed compensation as well as the ceilings for variable and long-term compensation are in line with the market and will therefore remain unchanged in the 2020 Compensation Policy for the Chairman and Chief Executive Officer compared to those set in the 2019 Compensation Policy approved at a rate of 91.92% by the Shareholders' Meeting of May 23, 2019 under its tenth resolution.

After the 2020 Comparative Study, the Compensation Committee nevertheless suggested to the Board of Directors the following adjustments to the assessment of the qualitative criteria.

At its meeting held on March 24, 2020, the Board of Directors, on the recommendation of the Compensation Committee, established the 2020 Compensation Policy for the Chairman and Chief Executive Officer, as summarized below, with certain adjustments related to the elements used to assess the qualitative criteria determining the variable compensation, as compared to the 2019 Compensation Policy for the Chairman and Chief Executive Officer. In accordance with Article L.225-37-2 of the French Commercial Code, the Shareholders' Meeting of June 25, 2020 will be called upon to approve the elements of the 2020 Compensation Policy for the Chairman and Chief Executive Officer.

A policy that is in line with the corporate interest and contributes to the Company's strategy and long-term future

The Board of Directors considers that the compensation policy for the Chairman and Chief Executive Officer is in line with the corporate interest by contributing to the implementation of its strategy and long-term development and by taking into account the social and environmental impacts of its operations, thus assuring its long-term future.

The compensation policy for the Chairman and Chief Executive Officer includes financial criteria selected for their consistency with regard to the achievement of its objectives, thus tying the Chairman and Chief Executive Officer's compensation to the Group's performance and its short- and long-term value creation. More particularly, to foster the Company's long-term development, the compensation policy includes conditions related to order intake, strategic vision, risk management, in particular the quality of management of the Covid-19 crisis, and social and environmental responsibility.

In addition, in preparing, determining and reviewing the compensation policy, the Board of Directors takes into account the various indicators related to the Company's employees, thus supporting its development model. A portion of the variable compensation is therefore based on compliance with conditions relating to corporate social responsibility, including the presentation of a plan to increase the percentage of women on the various management committees by 2024 and 2030, the number of lost-time accidents and the reduction in the number of category 1 and 2 accidents.

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.

The Chairman and Chief Executive Officer's annual fixed compensation has been set at 1,100,000 euros since May 23, 2019.

There are no plans to change this amount until the end of Jacques Aschenbroich's current term of office as Chairman and Chief Executive Officer.

It is also specified that Jacques Aschenbroich has agreed to donate 25% of his fixed compensation for the duration of the shutdown to support Covid-19-related solidarity initiatives[2].

Variable compensation

The principles and criteria relating to variable compensation under the 2019 Compensation Policy for the Chairman and Chief Executive Officer approved in the tenth resolution passed by the Shareholders' Meeting of May 23, 2019 with a majority of 91.92% (see paragraph "Variable compensation" of this section, pages 153 to 155) remain unchanged in the 2020 Compensation Policy for the Chairman and Chief Executive Officer, subject to a number of amendments to the qualitative assessment criteria.

The principles and criteria for the 2020 annual variable compensation will therefore be as follows under the 2020 Compensation Policy for the Chairman and Chief Executive Officer:

(1) 1. CAC 40; 2. CAC 40 excluding finance and luxury sector companies; 3. European car makers and original equipment manufacturers; and 4. International original equipment manufacturers.

(2) All members of the Operations Committee have decided to follow this initiative.

Quantifiable criteria(1)(2)

Nature of the quantifiable criterion	Maximum amount of the variable portion as a % of annual fixed compensation
Operating margin rate(3)	25%
Free cash flow	25%
Net income	20%
ROCE rate(3)	20%
Group order intake(4)	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 *Strategic vision assessed against the following indicators:* ▪ *strategic and technological operations carried out by Valeo;* ▪ *development of technological platforms in line with the Investor Day communication;* ▪ *new evaluation of the presentation at the next strategy seminar of a technology roadmap, and its impact on R&D and human resources.*	20%
Risk management *This criterion is measured, in particular, by the following indicators:* ▪ *compliance: continued and intensified measures to reinforce the compliance policy;* ▪ *management of the Group's cash;* ▪ *the Company's transformation, organizational change, evolution of professions, implementation of industrial and human resources to make the transformation successful;* ▪ *quality of management and adaptability to the effects of the Covid-19 crisis.*	15%
Corporate social responsibility *Assessment of overall safety performance, in particular via the following key 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 major accident).* *Progress made by Valeo in terms of skills and diversity management:* ▪ *presentation of a plan to increase the number of women on management committees by 2024 and 2030 (quantitative objectives and accompanying measures).* *Build and present a vision of carbon neutrality for Valeo in 2020, including five-year objectives.*	20%
TOTAL QUALITATIVE CRITERIA	**55%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**

(1) Excluding tax and regulatory impacts.
(2) Concerning the quantifiable criteria, excluding the impact of the Covid-19 epidemic, whose impact on the Group cannot be predicted at the date of this Universal Registration Document. Thus, when assessing the degree of achievement of these quantifiable objectives, the Board of Directors may take this impact into account.
(3) Excluding the Top Column Module (TCM) business.
(4) Excluding the Top Column Module (TCM) business and Valeo Siemens eAutomotive (VSeA).

Long-term compensation policy – Allotment of performance shares

The Chairman and Chief Executive Officer's maximum long-term variable compensation, which in any event remains capped at 270% of annual fixed compensation, remains unchanged compared with the 2019 Compensation Policy for the Chairman and Chief Executive Officer, as the 2020 Comparative Study confirmed that this was an appropriate level.

As indicated in the 2019 Compensation Policy for the Chairman and Chief Executive Officer, the aim of allotting performance shares is not only to encourage the Chairman and Chief Executive Officer to take a long-term approach to his duties, but also to retain him and align his interests with those of Valeo and its shareholders. Under the performance share plans, performance criteria must be met over a period of three consecutive years. Valeo applies strict and ambitious financial and operating performance criteria considered as particularly representative of the Company's performance. The Board of Directors, acting on the recommendation of the Compensation Committee, decided to make some adjustments to the criteria used in previous years for the 2019 Compensation Policy for the Chairman and Chief Executive Officer. These adjustments are aimed at better reflecting, in the proposed criteria, the Group's strategy, current financial and operating performance objectives, value creation for Valeo's shareholders measured using the new external performance criterion, Total Shareholder Return (TSR), and performance measurement. These criteria remain in the 2020 Compensation Policy for the Chairman and Chief Executive Officer.

The final allocation of performance shares would depend on performance, based on two internal performance criteria already used – namely the operating margin rate and the pre-tax rate of return on assets (ROA) – as well as an external performance criterion, Total Shareholder Return (TSR). Valeo's TSR will be measured against the CAC 40 index and a panel of European automotive companies. Internal performance criteria will represent a maximum of 80% of allotted shares (40% for each criterion), while the external performance criterion will represent no more than 20% of the allotment.

The table below summarizes the criteria and methods used to assess the performance shares as part of the 2020 Compensation Policy for the Chairman and Chief Executive Officer:

Criterion	Weighting/Measurement
Internal performance criterion: ROA rate(1) (40%) **Internal performance criterion: operating margin rate(1) (40%)**	Performance measured by two criteria (ROA rate and operating margin rate) for each of the three financial years (Y, Y+1 and Y+2) of the vesting period. The criterion will be satisfied if, for each financial year covered under the allotment, the rate effectively achieved for each criterion is greater than or equal to the target rate established by the Board of Directors, it being understood that (i) the target rate cannot be lower than the guidance for the financial year of reference, (ii) the selected criterion cannot be changed by the Board of Directors at a later date and (iii) the target rates cannot be changed by the Board of Directors at a later date, except by a duly justified decision in the context of exceptional circumstances beyond the beneficiaries' control. ▪ If, for each financial year covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those three financial years: 100%. ▪ If, for only two of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those two financial years: 50%. ▪ If, for only one of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for that financial year: 20%. ▪ If the target rate for the corresponding criterion is not satisfied for any of the financial years covered by the scheme: 0%.
External performance criteria: TSR (20%)	TSR recorded over a period of three years from January 1 of the allotment year to December 31 of the year prior to delivery. ▪ If Valeo's TSR recorded over the reference period is greater than the CAC 40 index's TSR recorded over the reference period: 10% (0% if equal or lower). ▪ If Valeo's TSR recorded over the reference period is greater than the median TSR of the companies in the European Automotive Panel(2) over the reference period: 10% (0% if equal or lower).

(1) For 2020, the guidance is 10% for the ROA rate (taking into account share in net earnings of equity-accounted companies) and for the operating margin rate (excluding share in net earnings of equity-accounted companies), the guidance is 6%. It should be noted that the Group's guidance excludes the impact of the Covid-19 epidemic, whose impact on the Group cannot be predicted on the date of this document. The Board of Directors may take this possible impact into account.

(2) The European Automotive Panel was amended by the Board of Directors at its meeting of October 24, 2019. GKN, a panel member, was acquired by a fund and then delisted. Its inclusion in the panel was no longer relevant and it was therefore replaced by Schaeffler, a German automotive equipment manufacturer.

In addition, a presence condition must be met at the time of the allotment. Thus, the performance shares allotted to the Chairman and Chief Executive Officer will vest only if his term of office[1] has not expired on the vesting date. Entitlement to the performance shares will be lost in the event of (i) dismissal due to gross negligence or misconduct or (ii) dismissal 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.

Each time that it decides to allot performance shares, the Board of Directors ensures that performance share allotments, valued

(1) Or, if the roles of Chairman of the Board of Directors and Chief Executive Officer are separated before the final award date, the office of Chairman of the Board of Directors or Chief Executive Officer will be taken into account when assessing whether the condition is satisfied. For the purposes of the grant made in 2020, in the event that, following the separation of Chairman and Chief Executive Officer roles, Jacques Aschenbroich would remain Chairman of the Board of Directors until the end of the vesting period of the performance shares granted in 2020, it was agreed that the number of performance shares that would be definitively granted to him would be reduced to be adjusted on a pro rata basis for the period during which he was Chairman and Chief Executive Officer.

under IFRS, do not represent a disproportionate percentage of all compensation and performance shares allotted, that they have a limited impact in terms of dilution (i.e., for illustrative purposes, a maximum of 250,000 under the nineteenth resolution of the Shareholders' Meeting of May 23, 2019) and that the allotments are made at the same times of the year. In accordance with applicable laws and Company practices, the Group's executive managers and employees are also entitled to performance shares.

The maximum amount of performance shares allotted to the Chairman and Chief Executive Officer, valued under IFRS, must not exceed 270% of his annual fixed compensation (i.e., 100% of maximum annual fixed and variable compensation). 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.

Therefore, at its meeting on March 24, 2020, and after consulting the Compensation Committee, the Board of Directors decided to grant 130,000 performance shares to the Chairman and Chief Executive Officer for 2020. Due to the extreme volatility of the automobile market and the Covid-19 epidemic which affected Valeo's share price, in accordance with the approach retained exceptionally last year in similar market circumstances, and to take into account the significant fall in the share price, the number of performance shares allotted to the Chairman and Chief Executive Officer (IFRS valuation) was calculated with a discount of 39% as compared to the maximum permitted under the compensation policy (270% of annual fixed compensation). This discount corresponds to the ratio between the share price for the last 20 days and the share price over the last 18 months prior to the allotment of the performance shares. Based on the share price on the date of the Board of Directors' meeting (average of 20 days, IFRS valuation), this corresponds to 130,000 shares, valued under IFRS at 1,821,300 euros, i.e., 61% as compared to the maximum permitted under the compensation policy. This allotment is made subject to the approval of the 2020 Compensation Policy for the Chairman and Chief Executive Officer by the shareholders at the Shareholders' Meeting of June 25, 2020. It should also be noted that, due to the challenging performance criteria, none of the performance shares allotted to Jacques Aschenbroich under the 2016 and 2017 performance share plans definitively vested.

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Code of Conduct, the Chairman and Chief Executive Officer is not permitted to use hedging transactions to reduce his risk. He has made a formal commitment in this respect as required by the AFEP-MEDEF Code. At the end of the holding period set by the Board of Directors, the Chairman and Chief Executive Officer 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.

Defined benefit pension plan

Jacques Aschenbroich benefits from a defined benefit pension plan in accordance with Group and market practices.

In accordance with French Ordinance No. 2019-697 of July 3, 2019, the so-called "Article 39" defined benefit pension plan, which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from January 1, 2020 (the "**Closed Plan**"). Thus, in accordance with the new legal provisions, a new commitment has been made in favor of Jacques Aschenbroich. This new plan, effective as of January 1, 2020, in accordance with Article L.137-11-2 of the French Social Security Code, includes the same ceilings and performance conditions as the Closed Plan.

Its main characteristics are as follows:

- supplementary pension rights are equal to 1% of the reference salary per vesting year;
- the vesting of supplementary pension rights is subject to a performance condition, which is deemed to have been met if the variable portion of Jacques Aschenbroich's compensation, paid in year Y+1 in respect of year Y, reaches 100% of his fixed compensation due in respect of year Y. In the event that the variable portion does not reach 100% of the fixed compensation, the rights granted will be calculated on a pro rata basis;
- the reference salary is the base salary and the variable compensation received in each year of vesting;
- the cap due to the nature of the plan: a cap of 20% of the final reference salary as defined in the Closed Plan (cap which applies to the sum of the rights acquired under the Closed Plan and under the new plan);
- the cap on the base for determining entitlements: all plans combined are capped at 55% of the final reference salary.

Under this new plan, the rights of Jacques Aschenbroich will vest without condition of presence in the Company at the end of his career.

The rights under the Closed Plan crystallized at December 31, 2019 and remain conditional on the presence of Jacques Aschenbroich within Valeo at the time of his retirement.

Non-competition compensation

The Board of Directors may decide to make a non-competition commitment to the executive corporate officer in accordance with the recommendations of the AFEP-MEDEF Code.

Jacques Aschenbroich has had a non-competition agreement since February 24, 2010 (see paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation" of this section, page 158).

Given the recommendations of the AFEP-MEDEF Code on non-competition agreements, Jacques Aschenbroich announced his decision to waive his right to non-competition compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-competition agreement accordingly.

Other benefits

The principles and criteria relating to this component of compensation under the 2019 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Other benefits" of this section, page 158), remain unchanged in the 2020 Compensation Policy for the Chairman and Chief Executive Officer.

Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation, 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 2019 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation" of this section, page 158), remain unchanged in the 2020 Compensation Policy for the Chairman and Chief Executive Officer.

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. At its meeting on that date, the Board of Directors duly noted his decision.

The Chairman and Chief Executive Officer does not receive compensation in his capacity as director. He is not entitled to any compensation or other benefits as a result of agreements entered into with the Company or any Group company.

No stock purchase or subscription options or other long-term component of compensation other than performance shares will be allotted to the Chairman and Chief Executive Officer in 2020.

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 2020 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 the 2020 financial year have been approved by the shareholders at an Ordinary Shareholders' Meeting (*ex post* vote).

In accordance with Article L.225-37-2 III of the French Commercial Code, having consulted the Compensation Committee and, where appropriate, the other Specialized Committees, the Board of Directors will, in exceptional circumstances, temporarily have the discretionary power to adjust the provisions relating to the quantifiable variable components of the 2020 Compensation Policy for the Chairman and Chief Executive Officer, in particular where the changes made are in line with the corporate interest and necessary to guarantee Valeo's long-term future or viability. Events that may lead to the use of this option include events outside Valeo's control that could not have been reasonably foreseen or quantified when the compensation policy was drawn up, such as the impact of the Covid-19 epidemic.

Compensation policy for other directors (non-executive corporate officers) for the year ending December 31, 2020

Non-executive corporate officers receive compensation (previously known as attendance fees) for their presence at Board of Directors' and committee meetings.

In accordance with the French Commercial Code, the articles of association, the Board's Internal Procedures and the internal procedures of the Compensation Committee, the Board of Directors has powers to decide how this compensation should be allocated. The Compensation Committee makes recommendations to the Board of Directors on the rules for allocating directors' compensation and the individual amounts to be paid to each director, taking into account the actual number of Board and committee meetings attended. The variable portion linked to attendance must, other than in exceptional circumstances, have a heavier weighting than the fixed portion (see the exception in 2019, for which an explanation is provided in the table concerning the application of the AFEP-MEDEF Code in section 3.2.4 of this chapter, page 145).

When determining the rules for allocating directors' compensation, the Board of Directors considers the corporate interest and the Company's long-term future by taking into account market practices and encouraging director attendance at meetings. The weighting of the variable portion of directors' compensation, which is based on attendance at meetings, therefore contributes to the objectives of the compensation policy.

In accordance with the requirements of Article L.225-37-2 of the French Commercial Code, this compensation policy will be submitted for approval at the Shareholders' Meeting of June 25, 2020.

Following the Shareholders' Meeting of May 26, 2016 (eleventh resolution), the budget for directors' compensation 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 for 2014 and 2015 as approved at the Shareholders' Meeting of May 21, 2014. In 2018, and in January 2019, the Compensation Committee carried out a comparative study on the basis for allocating directors' compensation in CAC 40 companies. As this study confirmed that the amount paid by Valeo was appropriate, the Board of Directors, acting on the recommendation of the Compensation Committee, decided not to ask the shareholders to increase the current budget for directors' compensation.

The basis for allocating directors' compensation is 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 Chair(man)) of a Board committee also receives:
- fixed portion: 0 euros/year,
- variable portion: 3,000 euros/meeting attended;

(iii) the director who is also Chair(man) 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 Chair(man) 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, but if the budget is exceeded in any one year, the following formula is applied:

$$\frac{\text{Compensation allocated to an individual director}}{\text{Total compensation paid to all directors}} \times 1{,}100{,}000 \text{ euros}$$

Compensation is paid every six months, according to the following rules:

- payment of the fixed portion (where applicable, pro rata to the period of the year during which the director held office, as described below);
- payment of the variable portion based on the number of meetings that the director actually attended during the year.

For directors joining or leaving the Board during 2020, the fixed compensation will be calculated pro rata to the length of time the director holds office during the year. The variable portion is based on the number of Board and committee meetings attended during the period.

On February 12, 2009, acting on the recommendation of the Appointments, Compensation & Governance Committee, the Board of Directors decided that no directors' compensation would be paid to corporate officers in respect of any offices held in the Group (other than those within Valeo). The Chairman and Chief Executive Officer does not receive any directors' compensation for offices held in the Group. This principle is expressly included in the 2019 Compensation Policy for the Chairman and Chief Executive Officer and the 2020 Compensation Policy for the Chairman and Chief Executive Officer.

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 (i) paid any other compensation or benefits during the year other than directors' compensation, or (ii) allocated any stock subscription or purchase options or performance shares. Apart from Jacques Aschenbroich, no director holds any stock subscription or purchase options, free shares or performance shares. However, the director representing employees is a Group employee with an employment contract and thus receives a salary. Alongside the Group's other employees, he may also be entitled to allotments of free shares.

The directors have agreed to donate 25% of their compensation for the duration of the shutdown to support Covid-19-related solidarity initiatives.

3.3.2 Compensation of corporate officers in respect of the year ended December 31, 2019

Compensation of Jacques Aschenbroich, Chairman and Chief Executive Officer, for the year ended December 31, 2019 and prior years

The compensation paid or awarded by Valeo to Jacques Aschenbroich, Chief Executive Officer, in respect of the years ended December 31, 2018 and December 31, 2019, is presented below. An overview of certain components of compensation in prior years is also provided. Jacques Aschenbroich does not have an employment contract with the Valeo Group.

Compensation in respect of the year ended December 31, 2019

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 during or awarded to the Chairman and Chief Executive Officer in respect of 2019 under the 2019 Compensation Policy for the Chairman and Chief Executive Officer. Payment of his variable compensation for 2019 is subject to approval by the Shareholders' Meeting of June 25, 2020 of the components described in the 2019 Compensation Policy for the Chairman and Chief Executive Officer, which are described in detail below.

The compensation paid or awarded in respect of 2019, as described below, is in line with the 2019 Compensation Policy for the Chairman and Chief Executive Officer approved at the Shareholders' Meeting of May 23, 2019[1]. This policy includes conditions designed to encourage the Company's long-term development and performance. Those conditions reflect the ambitious objectives set by the Board of Directors, on the recommendation of the Compensation Committee, as regards achievement of the performance criteria, as well as the difficult market conditions.

Fixed compensation

In accordance with the 2019 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Fixed compensation" of this section, page 153), Jacques Aschenbroich received gross fixed compensation of 1,060,753 euros from Valeo in 2019. It represented 48% of the total compensation paid to Jacques Aschenbroich in 2019.

Variable compensation

At its meeting on March 24, 2020, the Board of Directors, acting on the recommendation of the Compensation Committee, measured the achievement rate for the quantifiable and qualitative criteria for Jacques Aschenbroich's annual variable compensation and set the amount in accordance with the method described in the 2019 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Variable Compensation" of this section, pages to 153 to 155). The review showed that the rate of achievement for the quantifiable criteria was 57.5% (of a maximum 115%) and that the achievement rate for the qualitative criteria was 47.5% (of a maximum 55%) of the annual fixed compensation due to Jacques Aschenbroich for 2019. The Board of Directors therefore set the total amount of variable compensation due to Jacques Aschenbroich for 2019 at 105% of his annual fixed compensation for 2019, i.e., 1,113,791 euros, compared with the potential maximum rate of 170%. The variable compensation therefore represented 51% of the total amount of compensation paid to Jacques Aschenbroich in 2019.

The achievement rate of the quantifiable criteria described in the table below, for which the targets were ambitious, was due to the challenging conditions of the Group's operating environment in 2019, caused by disruptions in the automotive industry during the year, such as the 6% fall in global automotive production compared with estimates at the beginning of the year, the 10% fall in the Chinese market, the highly unstable economic and geopolitical environment and continued high commodity prices.

The following table summarizes the quantifiable and qualitative criteria set, the achievement rate for each quantifiable criterion, 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, 2019. The specific, predetermined targets underlying the quantifiable criteria have not been publicly disclosed for reasons of confidentiality, as provided for in Article 26.2 of the AFEP-MEDEF Code:

Quantifiable criteria[1]

Nature of the quantifiable 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[3]	Percentage achievement of the criterion
Operating margin rate	25%	0%[4]	0%
Free cash flow	25%	25%[5]	100%
Net income	20%	0%[6]	0%
ROCE rate	20%	11%[7]	55%
Group order intake	25%	21.50%[8]	86%
TOTAL QUANTIFIABLE CRITERIA	**115%**	**57.50%**	**50%**

(1) *The compensation policy for the Chairman and Chief Executive Officer for the year ended December 31, 2019 was approved at the Shareholders' Meeting of May 23, 2019 with a majority of 91.92% (tenth resolution).*

Nature of the qualitative 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
Qualitative criteria		
Strategic vision *This criterion is assessed in the light of:* ▪ *financial analysts' assessments;* ▪ *strategic operations carried out by Valeo and integration of recent acquisitions;* ▪ *the increase in the share of "innovative" products(2) in the order intake for the financial year;* ▪ *the evaluation of the technology roadmap presented during the strategy seminar, and its impact in terms of R&D and human resources.*	20%	14.50%(9)
Risk management *This criterion is assessed, in particular, in the light of:* ▪ *the continued and intensified measures to reinforce the compliance policy;* ▪ *the management of risks related to new product launches and customer disputes;* ▪ *the transformation of the Company (industrial, human resources) to adjust to product and technology developments.*	15%	15%(10)
Corporate social responsibility *Progress achieved by Valeo, in particular via the following key indicators:* ▪ *number of disabled employees;* ▪ *diversity (gender and age).* *Assessment of overall safety performance, in particular via the following key indicators:* ▪ *number of lost-time workplace accidents;* ▪ *reduction in the number of category 1 accidents (death, amputation, major trauma, invalidity/incapacity) and category 2 accidents (substantial material damage and quasi-major accident).* *Evolution of Valeo original equipment sales resulting from products that reduce CO_2 emissions.*	20%	18%(11)
TOTAL QUALITATIVE CRITERIA	**55%**	**47.50%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**	**105%**

(1) Excluding tax and regulatory impacts.
(2) Products and technologies in series production for less than three years.
(3) It is understood that for each quantifiable criterion, the variable portion ranges from 0% to 100% of the maximum amount of annual fixed compensation that may be obtained for this criterion.
(4) 2019 operating margin rate in accordance with the Group's guidance, amounting to 5.80% of sales in 2019 excluding the Top Column Module (TCM) business and excluding the impact of the strike at General Motors.
(5) Generation of free cash flow in 2019 of 504 million euros.
(6) 2019 net income amounting to 313 million euros.
(7) 2019 ROCE rate of 13%.
(8) 2019 order intake worth 22.8 billion euros, including 0.8 billion euros of orders acquired by Valeo Siemens eAutomotive.
(9) Some of the factors considered include: financial analysts' assessments highlight medium-term objectives (excluding Valeo Siemens eAutomotive) communicated by Valeo in line with the consensus, and even higher in the case of the EBITDA objective. With regard to strategic operations, Valeo initiated in 2019 certain significant reorganizations, in particular the withdrawal from the Top Column Modules product line. For "innovative" products, the order intake rate is particularly high (47%), reflecting the success of Valeo's technological platform developments. Lastly, the technological roadmap presented at the strategic seminar led Valeo to prioritize the allocation of its resources to 12 key technological platforms, enabling it to consolidate its position as leader as regards powertrain electrification and driving assistance systems.
(10) Some of the factors considered include: Valeo's compliance policy evolved significantly in 2019 through various actions including: development of the anti-corruption program with the establishment of an even more robust "conflicts of interest" policy, the development of the personal data protection compliance program and the adjustment of export control procedures. The "Compliance 2019" campaign to raise awareness and train employees with respect to the compliance policy was a success, with 99.9% of the target population (30,000 engineers and managers) having participated in one month. Risk management in 2019 was characterized by the following: the strengthening of project governance, the reduction of provisions for customer disputes and the success of certain critical projects, notably Valeo Siemens eAutomotive and the Comfort & Driving Assistance Systems Business Group. In addition, the On Time Indicator (OTI) increased to reach 88%, representing a 34 point improvement compared to the end of 2018. Lastly, Valeo's transformation continued in 2019, both from an industrial and human resources point of view, notably through rigorous control of investments, the implementation of its automation plan and the launch of "My Learning", a "Learning Management System" to develop the training on offer for employees.
(11) Some of the factors considered include: in 2019, Valeo made significant progress in terms of corporate social responsibility. The percentage of women hired continued to rise thanks to the Group's diversity and recruitment initiatives. Valeo also further strengthened its commitment to gender equality by becoming the first French company to calculate the gender equal pay index worldwide, an initiative welcomed by the French Employment Minister. The gender equal pay index is high and rising for all employees in France and worldwide. 2019 was also marked by Valeo's best ever performance in terms of the number of lost-time accidents per million hours worked. The number of category 1 and category 2 accidents also decreased. Finally, Valeo pursued its ambition in terms of sustainable development with an increase in its total original equipment sales of products that reduce CO_2 emissions (57% of total sales in 2019 compared with 50.6% in 2018).

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 nineteenth resolution of the Shareholders' Meeting of May 23, 2019, which is effective for a period of 26 months, was 4,445,000 shares (i.e., 1.85% of the share capital at December 31, 2018), with a specific sub-limit of 250,000 shares (i.e., about 0.10% of the share capital at December 31, 2018) for the Chairman and Chief Executive Officer. The free shares outstanding at the year-end preceding the shareholder vote on the aforementioned resolution represented 1.32% of the Company's share capital.

In accordance with the 2019 Compensation Policy for the Chairman and Chief Executive Officer, at its meeting on May 23, 2019, the Board of Directors, acting on the recommendation of the Compensation Committee, decided to allot 87,122 performance shares to Jacques Aschenbroich, pursuant to the nineteenth resolution of the Shareholders' Meeting of May 23, 2019. In light of the difficult and volatile context of the automobile market which impacted the Valeo share price, in order to reflect the significant decline in the share price during the period preceding the allotment, the number of performance shares allotted to the Chairman and Chief Executive Officer (IFRS valuation) was calculated with a discount of 27% as compared to the maximum permitted under the compensation policy (270% of annual fixed compensation). This discount corresponds to the ratio between the share price for the last 20 days and the share price over the last 18 months prior to the allotment of the performance shares. Based on the share price on the date of the Board of Directors' meeting (average of 20 days, IFRS valuation), this corresponds to 87,122 shares, valued under IFRS at 2,093,541 euros, i.e., 73% of the maximum permitted under the compensation policy. The caps, criteria and conditions of allotment are described in the 2019 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Long-term compensation – Allotment of performance shares" of this section, pages 156 to 157).

Guidance for 2019 was an ROA rate of 11% (taking into account share in net earnings of equity-accounted companies) and an operating margin rate (excluding share in net earnings of equity-accounted companies) of between 5.8% and 6.5%. When the third-quarter 2019 results were announced, Valeo adjusted its operating margin guidance to take into account the impact of the General Motors strike in North America, the cost of which has been estimated for Valeo at around 160 million euros in sales terms and around 50 million euros in operating margin terms. This guidance was therefore adjusted to 5.8%, excluding the impact of the General Motors strike and excluding the Top Column Module (TCM) business.

The performance shares allotted to Jacques Aschenbroich during 2019 had a limited dilutive impact and represented 0.04% of the Company's share capital at December 31, 2019.

None of the performance shares allotted to Jacques Aschenbroich under the 2016 plan vested in 2019 due to the ambitious objectives set and the challenging conditions of the automotive market. For the same reasons, none of the performance shares allotted under the 2017 plan will vest in 2020.

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Code of Conduct, Jacques Aschenbroich is not permitted to use hedging transactions to reduce his risk and he has signed a formal commitment to that effect. No hedging instruments have been used with respect to his 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 allotted to him, nor sold any vested performance shares.

Defined benefit pension plan

In accordance with the 2019 Compensation Policy for the Chairman and Chief Executive Officer, Jacques Aschenbroich continued to benefit from a defined benefit pension plan in 2019. The plan was approved as a related party agreement pursuant to Article L.225-38 of the French Commercial Code by the Shareholders' Meeting of June 3, 2010 (since repealed) in its twelfth resolution, and as a related party commitment pursuant to Article L.225-42-1 of the French Commercial Code by the Shareholders' Meeting of May 26, 2016 in its fifth resolution. In accordance with the applicable provisions, the renewal of this commitment to the executive corporate officer was approved at the Shareholders' Meeting of May 23, 2019[1].

The method and performance conditions applicable to the defined benefit pension plan are described in the 2019 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan" of this section, page 157). At its meeting on March 24, 2020, the Board of Directors, acting on the recommendation of the Compensation Committee, reviewed and determined the performance condition rate of achievement for 2019. The performance condition is deemed to have been achieved if the variable portion of the Chairman and Chief Executive Officer's compensation, which will be paid in 2020 in respect of 2019, is more than 100% of the fixed compensation payable for 2019. If the variable portion is less than 100% of the fixed portion, rights accrue on a pro rata basis. As the annual variable compensation amounted to 105% of the fixed compensation due for 2019, the Board duly noted that this condition was fully met in 2019.

At December 31, 2019, Jacques Aschenbroich's entitlements under this plan represented a total amount of 6,761,000 euros, i.e., a yearly pension allowance of 262,606 euros (it being specified that social security contributions at a rate of 32% are payable on annuities paid).

As the Chairman and Chief Executive Officer did not claim his pension entitlements in 2019, no amount was paid to him for 2019.

(1) The fifth resolution at that meeting regarding the defined pension plan was approved with a majority of 97.41%.

To be applicable, this plan requires the Chairman and Chief Executive Officer to end his professional career within the Group. In addition, all of the Chairman and Chief Executive Officer's[1] statutory pensions must have been settled. The Chairman and Chief Executive Officer's supplementary pension plan is financed annually through the payment of premiums to the service provider in charge of administering the annuities.

Non-competition compensation

For information purposes, given the recommendations of the AFEP-MEDEF Code on non-competition agreements, Jacques Aschenbroich announced his decision to waive his right to non-competition compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-competition agreement accordingly.

Under the 2019 Compensation Policy for the Chairman and Chief Executive Officer, Jacques Aschenbroich may be subject to a non-competition clause (see paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation" of this section, page 158). 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 non-competition commitment was then modified and approved as a related party commitment pursuant to Article L.225-42-1 of the French Commercial Code at the Shareholders' Meeting of May 26, 2015 in its fifth resolution. The principles and criteria relating to the non-competition commitment are described in the 2018 Compensation Policy for the Chairman and Chief Executive Officer.

Other benefits

In accordance with the 2019 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Other benefits" of this section, page 158), Jacques Aschenbroich benefited, in the year ended December 31, 2019, 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 24,791 euros. This compensation component represented 1% of the total compensation paid to Jacques Aschenbroich in 2019.

Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation, 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 2019 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation" of this section, page 158), Jacques Aschenbroich did not receive any multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation or benefits of any kind under agreements with the Company or any Group company in 2019. Nor did he receive any stock purchase or subscription options or any other form of long-term compensation 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. At its meeting on that date, the Board of Directors duly noted his decision.

(1) *In accordance with French Ordinance No. 2019-697 of July 3, 2019, the so-called "Article 39" defined benefit pension plan, which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from January 1, 2020. However, the rights under this plan crystallized at December 31, 2019 and remain conditional on the presence of the Chairman and Chief Executive Officer within Valeo at the time of his retirement.*

Compensation ratios and annual changes in compensation, Valeo's performance and five-year ratios

The presentation below complies with the provisions of French Ordinance No. 2019-1234 of November 27, 2019 on the compensation of corporate officers in listed companies. The ratios shown below have been calculated based on the fixed and variable short-term compensation paid in the stated years and the performance shares allotted in those years, valued on an IFRS basis. The scope includes all of the Group's French companies.

	2015	2016[1]	2017	2018	2019
Compensation of the Chairman and Chief Executive Officer *Year-on-year change*	-	4,920,233[2]	5,352,676 +8.79%	4,904,128 -8.38%	3,709,299 -24.36%
Compensation of the Chairman of the Board of Directors[3] *Year-on-year change*	300,000	50,000 -83.33%	-	-	-
Compensation of the Chief Executive Officer[4] *Year-on-year change*	3,346,884	-	-	-	-
Average compensation of employees *Year-on-year change*	49,259	50,290 +2.09%	52,099 +3.60%	52,622 +1.01%	52,532 -0.17%
Median compensation of employees *Year-on-year change*	37,254	37,524 +0.72%	38,586 +2.83%	39,094 +1.32%	39,744 +1.66%
RATIO TO AVERAGE COMPENSATION					
Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*	67.94				
Chairman of the Board of Directors (Pascal Colombani) *Year-on-year change*	6.09	0.99 -83.74%			
Chairman and Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*		97.84	102.74 +5.01%	93.20 -9.29%	70.61 -24.23%
RATIO TO MEDIAN COMPENSATION					
Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*	89.84				
Chairman of the Board of Directors (Pascal Colombani) *Year-on-year change*	8.05	1.33 -83.48%			
Chairman and Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*		131.12	138.72 +5.80%	125.45 -9.57%	93.33 -25.60%
Group performance[5] *Year-on-year change*	+6 percentage points	+8 percentage points	+5 percentage points	+1.5 percentage points	+6 percentage points

(1) *The offices of Chairman of the Board of Directors and Chief Executive Officer have been combined since February 18, 2016.*
(2) *This compensation corresponds to the sum of the compensation received by Jacques Aschenbroich as Chief Executive Officer and as Chairman and Chief Executive Officer for the entire year.*
(3) *From March 20, 2009 to February 18, 2016, the offices of Chairman of the Board of Directors and Chief Executive Officer were split. During that period, Pascal Colombani was Chairman of the Board of Directors and Jacques Aschenbroich was Chief Executive Officer.*
(4) *From March 20, 2009 to February 18, 2016, the offices of Chairman of the Board of Directors and Chief Executive Officer were split. During that period, Pascal Colombani was Chairman of the Board of Directors and Jacques Aschenbroich was Chief Executive Officer.*
(5) *The Group's performance is measured by comparing OE sales growth on a like-for-like basis and at constant exchange rates with global automotive production.*

Explanations for the changes in the ratios for the Chairman and Chief Executive Officer's compensation are given below:

- 2016: Jacques Aschenbroich took up office on February 18, 2016. His fixed compensation comprises one month and 17 days of salary as Chief Executive Officer and 10 months and 12 days of fixed compensation as Chairman and Chief Executive Officer, whereas short-term variable compensation paid and performance shares allotted were in respect of his office as Chairman and Chief Executive Officer;
- 2017: first full year of compensation as Chairman and Chief Executive Officer.

The ratios presented were calculated based on performance shares allotted and valued on an IFRS basis, in accordance with French Ordinance No. 2019-1234 of November 27, 2019. It should also be noted that, due to the challenging performance criteria, none of the performance shares allotted to Jacques Aschenbroich under the 2016 and 2017 performance share plans definitively vested. The table below shows the ratios calculated based on the fixed and variable short-term compensation paid in the stated years and the performance shares that vested or are expected to vest in the same periods.

	2015	2016(1)	2017(2)	2018(3)	2019(4)
RATIO TO AVERAGE COMPENSATION					
Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*	62.85				
Chairman of the Board of Directors (Pascal Colombani) *Year-on-year change*	6.09	0.99 -83.74%			
Chairman and Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*		44.15	50.92 +15.33%	43.79 -14%	-
RATIO TO MEDIAN COMPENSATION					
Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*	83.11				
Chairman of the Board of Directors (Pascal Colombani) *Year-on-year change*	8.05	1.33 -83.48%			
Chairman and Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*		59.17	68.75 +16.19%	58.94 -14.27%	-

(1) The offices of Chairman of the Board of Directors and Chief Executive Officer have been combined since February 18, 2016. None of the performance shares allotted to Jacques Aschenbroich in respect of shares allotted during the 2016 financial year vested.

(2) None of the performance shares allotted to Jacques Aschenbroich in respect of shares allotted during the 2017 financial year vested.

(3) This ratio was calculated taking into account the very high probability that none of the performance shares allotted to Jacques Aschenbroich in respect of shares allotted during the 2018 financial year will vest.

(4) This ratio cannot be calculated as it is impossible to estimate how many of the performance shares allotted to Jacques Aschenbroich in respect of 2019 will vest.

Compensation in respect of the year ended December 31, 2018

The compensation components paid or awarded in respect of 2018, as described below, are in line with the 2018 Compensation Policy and were approved at the Shareholders' Meeting of May 23, 2019[1].

Fixed compensation

In accordance with the 2018 Compensation Policy for the Chairman and Chief Executive Officer, Jacques Aschenbroich received gross fixed compensation of 1,000,000 euros from Valeo in 2018.

Variable compensation

In accordance with the 2018 Compensation Policy for the Chairman and Chief Executive Officer, at its meeting on March 21, 2019, the Board of Directors, acting on the recommendation of the Compensation Committee, decided that the variable compensation to be paid to Jacques Aschenbroich for his role as Chairman and Chief Executive Officer for 2018 would be subject to the same cap of 170% of annual fixed compensation as in 2017.

Under the review of the 2018 Compensation Policy for the Chairman and Chief Executive Officer, at its meeting of February 22, 2018, the Board of Directors, acting on the recommendation of the Compensation Committee, decided to make some adjustments to the quantifiable and qualitative criteria previously used. These adjustments were 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 is therefore 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 on next page). The quantifiable and qualitative criteria used for the 2018 Compensation Policy for the Chairman and Chief Executive Officer are therefore as follows:

- **five quantifiable criteria:** (i) operating margin rate, (ii) free cash flow, (iii) net income, (iv) return on capital employed rate (ROCE rate), and (v) Group order intake;
- **three qualitative criteria:** (i) strategic vision, (ii) risk management, and (iii) corporate social responsibility. Sub-criteria are regularly added to strengthen the stringency and the degree of achievement of the objectives.

The performance criteria and related targets are not changed during a given year.

At its meeting on February 21, 2019, the Board of Directors, acting on the recommendation of the Compensation Committee, reviewed the rate of achievement for the quantifiable and qualitative criteria for Jacques Aschenbroich's annual variable compensation and set the amount in accordance with the method set out in the 2018 Compensation Policy for the Chairman and Chief Executive Officer. The review showed that none of the quantifiable criteria were met (0% of a maximum 115%) and that the rate of achievement for the qualitative criteria was 53% (compared with a maximum of 55%) of the annual fixed compensation due to Jacques Aschenbroich for 2018. The Board of Directors therefore set the total amount of variable compensation due to Jacques Aschenbroich for 2018 at 53% of his annual fixed compensation for 2018, i.e., 530,000 euros (versus 1,279,000 euros in 2017, representing a decrease of 59%), compared with the potential maximum rate of 170%.

Failure to achieve the quantifiable criteria described in the table below, for which the targets were ambitious, was due to the challenging conditions of the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of the WLTP in Europe, a slowdown in the Chinese market and a rise in commodity prices.

(1) The ninth resolution presenting the compensation components paid or awarded to the Chairman and Chief Executive Officer in respect of the year ended December 31, 2018 was passed with a majority of 93.79%.

The following table summarizes the quantifiable and qualitative criteria set, the achievement rate for each quantifiable criterion, 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, 2018. The specific, predetermined targets underlying the quantifiable criteria have not been publicly disclosed for reasons of confidentiality, as provided for in Article 26.2 of the AFEP-MEDEF Code:

Quantifiable criteria(1)

Nature of the quantifiable 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(2)	Percentage achievement of the criterion
Operating margin rate	25%	0%(6)	0%
Free cash flow(3)	25%	0%(7)	0%
Net income(4)	20%	0%(8)	0%
ROCE rate	20%	0%(9)	0%
Group order intake	25%	0%(10)	0%
TOTAL QUANTIFIABLE CRITERIA	**115%**	**0%**	**0%**

Qualitative criteria

Nature of the qualitative 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
Strategic vision *This criterion is assessed in the light of:* ▪ financial analysts' assessments; ▪ strategic operations carried out by Valeo and integration of recent acquisitions; ▪ the increase in the share of "innovative" products(5) in the order intake for the financial year; ▪ the evaluation of the technology roadmap presented during the strategy seminar, and its impact in terms of R&D and human resources.	20%	20%(11)
Risk management *This criterion is assessed, in particular, in the light of:* ▪ the continued and intensified measures to reinforce the compliance policy; ▪ the management of risks related to new product launches and customer disputes; ▪ the transformation of the Company (industrial, human resources) to adjust to product and technology developments.	15%	15%(12)
Corporate social responsibility *Progress achieved by Valeo, in particular via the following key indicators:* ▪ number of disabled employees; ▪ diversity (gender and age). *Assessment of overall safety performance, in particular via the following key indicators:* ▪ number of lost-time workplace accidents; ▪ reduction in the number of category 1 accidents (death, amputation, major trauma, invalidity/incapacity) and category 2 accidents (substantial material damage and quasi-major accident). *Evolution of Valeo original equipment sales resulting from products that reduce CO_2 emissions.*	20%	18%(13)
TOTAL QUALITATIVE CRITERIA	**55%**	**53%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**	**53%**

(1) *Excluding tax and regulatory impacts.*
(2) *It is understood that, for each quantifiable criterion, the variable portion ranges from 0% to 100% of the maximum amount of annual fixed compensation that may be obtained for this criterion.*
(3) *Assuming that the investment budget is respected.*
(4) *Assuming a 20% tax rate for the Group.*
(5) *Products and technologies in series production for less than three years.*
(6) *2018 operating margin rate amounting to 5.70% of 2018 sales.*
(7) *Generation of free cash flow in 2018 amounting to 161 million euros.*
(8) *2018 net income amounting to 546 million euros.*
(9) *2018 ROCE rate of 19%.*
(10) *2018 order intake amounting to 24.2 billion euros.*
(11) *Some of the factors considered include: Valeo's positioning on market segments of the automotive industry undergoing a complete transformation, its strategy, innovations and order intake are factors recognized by financial analysts that enable the Group to continue growing profitably in the medium and long term. The three major acquisitions in 2017 (control of Ichikoh, FTE and creation of the JV Valeo-Kapec) were successfully integrated in 2018. Share of innovative products in the 2018 order intake: 60% (including Valeo Siemens eAutomotive).*
(12) *Some of the factors considered include: the Group continued to pursue and develop its compliance activities in 2018. Key documents (Ethics Code, Country Ethics and Compliance policies) were updated to include regulatory developments. Key risk management indicators improved over 2017. In 2018, the Group rolled out the "Usine Valeo du Futur Proche" (Valeo Plant of the Near Future) to improve its industrial performance and rolled out "Talent Acquisition Centers" in countries where it is established, through which the Valeo recruited over 7,000 managerial employees while reducing recruitment costs and time frames. Training efforts were made in 2018, with each employee receiving an average of 24.9 hours of training annually, a record level for the Group.*
(13) *Some of the factors considered include: the creation of a disability coordination team, resulting in better recruitment follow-up and talent development focused on disabled workers. This had immediate positive effects, since in 2018 the number of disabled employees on Valeo's staff increased by 19% over the previous year. On diversity, Valeo surveyed its employees for engagement and satisfaction. The percentage of women amongst new hires is up 33% from last year and is already equal to the Group's objective set for 2020. The proportion of employees aged 50 and over has also improved. Valeo original equipment sales resulting from products that reduce CO_2 emissions were 52.6% in 2018, showing growth compared to 2017. Lastly, the Group continued its efforts to prevent workplace accidents.*

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 the year-end preceding the shareholder vote on the aforementioned resolution represented 1.43% of the Company's share capital.

In accordance with the 2018 Compensation Policy for the Chairman and Chief Executive Officer, at its meeting on March 22, 2018, the Board of Directors, acting on the recommendation of the Compensation Committee, decided to allot 55,026 performance shares to Jacques Aschenbroich, pursuant to the twentieth resolution of the Shareholders' Meeting of May 26, 2016. The 55,026 performance shares allotted to Jacques Aschenbroich in 2018, valued at 47.25 euros each under IFRS, amounted to 2,599,978.5 euros (versus 2,699,997 euros in 2017), representing 260% of his annual fixed compensation for that year (which is below the 270% cap).

The caps, criteria and conditions of allotment are described in the 2018 Compensation Policy for the Chairman and Chief Executive Officer. This information is summarized below.

All the performance shares allotted to Jacques Aschenbroich are contingent on the achievement of performance criteria measured over the 2018, 2019 and 2020 fiscal years. These criteria are ROA rate, operating margin rate and ROCE rate. 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. For 2018, the guidance, as published, was 25% for the ROCE rate (after acquisitions and taking into account the Valeo Siemens joint venture), (ii) 16% for the ROA rate (after acquisitions and taking into account the Valeo Siemens joint venture) and (iii) around 7.8% for the operating margin rate (after acquisitions, excluding earnings of equity-accounted companies), i.e., about the same amount as that recorded in 2017 (after acquisitions, excluding earnings of equity-accounted companies).

A percentage of the initial share allotments will vest according to the number of performance criteria achieved over the reference period (2018, 2019 and 2020): 100% for three criteria, 60% for two criteria, 30% for one criterion and 0% for no criteria.

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.

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 2018 had a limited dilutive impact and represented 0.02% of the Company's share capital at December 31, 2018.

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the 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.

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, nor sold any vested 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 paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan" of this section, page 157.

At December 31, 2018, Jacques Aschenbroich's entitlements under this plan represented a total amount of 9,953,192 euros, i.e., a yearly pension allowance of 246,705 euros (it being specified that social security contributions at a rate of 32% are payable on annuities paid).

As the Chairman and Chief Executive Officer did not claim his pension entitlements in 2018, no amount was paid to him for 2018.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation

For information purposes, given the recommendations of the AFEP-MEDEF Code on non-competition agreements, Jacques Aschenbroich announced his decision to waive his right to non-competition compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-competition agreement accordingly.

The non-competition compensation is described in paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation" of this section, page 168.

As Jacques Aschenbroich's term of office did not end in 2018, no non-competition compensation was owed to him for 2018.

Other benefits

Other benefits are described in paragraph "Other benefits" of this section, page 168.

In 2018, Jacques Aschenbroich received benefits worth 24,637 euros.

Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

In 2018, 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, directors' compensation, 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. At its meeting on that date, the Board of Directors duly noted his decision.

Historical information

Annual variable compensation

Summary of annual variable compensation paid to Jacques Aschenbroich over the last five years

(% of fixed compensation)	2015		2016		2017		2018		2019	
	Achieved	Capped	Achieved	Capped	Achieved	Capped	Achieved	Capped	Achieved	Capped
Quantifiable criteria	85.0%	85.0%	115.0%	115.0%	80.4%	115.0%	0%	115.0%	57.5%	115.0%
Qualitative criteria	50.0%	50.0%	50.0%	55.0%	47.5%	55.0%	53.0%	55.0%	47.5%	55%
VARIABLE COMPENSATION	**135.0%**	**135.0%**	**165.0%**	**170.0%**	**127.9%**	**170.0%**	**53.0%**	**170.0%**	**105.0%**	**170.0%**

Long-term compensation

The history of stock purchase options and performance shares allotted, including those to Jacques Aschenbroich, is summarized in the tables presented in paragraph "Compensation paid to the Chairman and Chief Executive Officer over the last two years" of this section, pages 175 to 179.

The Code of Conduct states that 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 purchase options, or his performance shares. There are also restrictions on trading in the Company's shares (including selling free shares and exercising stock purchase options) during black-out periods (see section 3.2.2 of this chapter, paragraph "Directors' rights and duties", pages 132 to 133).

At the end of the holding period set by the Board of Directors, the Chairman and Chief Executive Officer 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.

No stock purchase options have been allocated since March 27, 2012. As regards the stock purchase 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.

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, nor sold any vested performance shares.

Compensation paid to the Chairman and Chief Executive Officer over the last two years

The following tables show the compensation paid and awarded and the performance shares allotted to Jacques Aschenbroich over the last two years.

Summary of compensation paid and stock purchase options and performance shares allotted to Jacques Aschenbroich (AMF Table no. 1)

(in euros)	2018	2019(1)
Compensation due for the year	1,554,637	2,199,335
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)	2,599,978.5	2,093,541.66
TOTAL	**4,154,615.5**	**4,292,876.66**

(1) *The total compensation and benefits package paid or awarded to the Chairman and Chief Executive Officer under the 2019 Compensation Policy for the Chairman and Chief Executive Officer is submitted to the vote of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2019 (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 in 2018 and 2019 are described in paragraphs "Long-term compensation – Allotment of performance shares" of this section, pages 167 and 173.*

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Summary of compensation paid to Jacques Aschenbroich (AMF Table no. 2)

	2018		2019	
(in euros)	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	1,000,000	1,000,000	1,060,753	1,060,753
Annual variable compensation	530,000	1,279,000(2)	1,113,791(1)	530,000(2)
Multi-annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Directors' compensation	-	-	-	-
Benefits in kind(3)	24,637	24,637	24,791	24,791
TOTAL	**1,554,637**	**2,303,637**	**2,199,335**	**1,615,544**

(1) *The total compensation and benefits package paid or awarded to the Chairman and Chief Executive Officer under the 2019 Compensation Policy for the Chairman and Chief Executive Officer will be submitted to the vote of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2019 (ex post vote). Payment of the variable compensation is contingent on its approval by the shareholders.*

(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 the health, death and disability insurance plans.*

Stock purchase options allotted to Jacques Aschenbroich during the year by Valeo or any Group company (AMF Table no. 4)

Plan no. and date	Type of option (purchase)	Value of options according to the method used for consolidated financial statements	Number of options allotted during the year	Exercise price	Exercise period	Performance criteria
None	-	-	-	-	-	-

Stock purchase 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 by Valeo or any Group company (AMF Table no. 6)

Plan no. and date	Number of shares allotted during the year	Value of shares according to the method used for consolidated financial statements	Vesting date	Shares available as at	Performance criteria
05/23/2019	87,122	2,093,541.66[(1)]	05/23/2022	05/23/2024[(2)]	[(3)]

(1) One share valued at 24.03 euros under IFRS. This amount is 27% lower than Jacques Aschenbroich's maximum potential long-term compensation, which is capped at 270% of his annual fixed compensation. This level of allotment takes into account the difficult context of the automobile market and its impact on the stock market valuation of the industry.
(2) Obligation to hold at least 50% of the vested shares as registered shares until the end of his term of office.
(3) All performance shares allotted to the Chairman and Chief Executive Officer are subject to 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 2019 are described in paragraph "Long-term compensation – Allotment of performance shares" of this section, page 167.

Performance share allotments that became available for trading for Jacques Aschenbroich during the year (AMF Table no. 7)

Plan no. and date	Number of shares that became available for trading during the year	Vesting requirements
05/26/2016	0	-

History of allotments of stock purchase options including to Jacques Aschenbroich – Information concerning stock purchase options (at December 31, 2019) (AMF Table no. 8)

The table below shows a history of stock purchase option allotments, including those to Jacques Aschenbroich[(1)]: for information purposes, it is specified that the authorizations granted to the Company, which were implemented under the conditions described in the table below, exclusively concerned the allotment of stock purchase options (and excluded stock subscription options).

	2010 plan	2011 plan	2012 plan	-	-
Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011	06/04/2012	06/04/2012
Date of Board of Directors' meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013[(4)]	03/27/2014[(5)]
Total number of shares that can be purchased	3,000,000	878,520	1,101,480	-	-
Number of options conditionally allotted to Jacques Aschenbroich[(2)]	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		
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[(3)]	€8.02	€14.13	€13.59	-	-
Total number of shares purchased	2,477,789	484,800	900,680	-	-
Of which total number of shares purchased by Jacques Aschenbroich	*300,000*	*54,540*	*105,900*		
Number of stock purchase options canceled or forfeited (cumulative)	522,211	393,720	118,650	-	-
Stock purchase options remaining at year-end	0	0	82,150	-	-

(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) All stock purchase options allotted to the Chairman and Chief Executive Officer are contingent on the achievement of performance criteria (average operating margin rate, ROCE rate and ROA rate over the reference period).
(3) 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.
(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 purposes, 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, 2019) (AMF Table no. 10)

The table below shows a history of free share allotments, including those to Jacques Aschenbroich[1]:

	2010 plan	2011 plan	2012 plan	2013 plan	2014 plan	2015 plan	2016 plan	2017 plan	2018 plan	2019 plan
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**	**05/26/2016**	**05/23/2019**
Date of Board of Directors' 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	03/22/2018	05/23/2019
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	1,234,623	1,699,281
Number of shares conditionally allotted to Jacques Aschenbroich[2]	150,000	46,800	34,200	76,902	31,515	30,696	70,974	51,030	55,026	87,122
Performance criteria – rate of achievement	100%	60%	100%	100%	100%	100%	0%[3]	0%[4]		
Vesting date of shares										
▪ Chairman and Chief Executive Officer, Operations Committee	France: 06/24/2012 Other countries: 06/24/2014	France: 06/08/2014 Other countries: 06/08/2016	France: 03/27/2015 Other countries: 03/27/2017	France: 03/27/2016 Other countries: 03/27/2018	France: 03/27/2017 Other countries: 03/27/2019	France: 03/26/2018 Other countries: 03/26/2020	France: 06/08/2019 Other countries: 06/08/2021	France: 03/22/2020[5] 03/22/2021[6] Other countries: 03/22/2021	France: 03/22/2021[5] 03/22/2022[7] Other countries: 03/22/2022	France and other countries: 05/23/2022
▪ Liaison Committee and main direct reports of the Liaison Committee members	France: 06/24/2012 Other countries: 06/24/2014	France: 06/08/2014 Other countries: 06/08/2016	France: 03/27/2015 Other countries: 03/27/2017	France: 03/27/2016 Other countries: 03/27/2018	France: 03/27/2017 Other countries: 03/27/2019	France: 03/26/2018 Other countries: 03/26/2020	France: 06/08/2019 Other countries: 06/08/2021	France: 03/22/2021[6] Other countries: 03/22/2021[6]	France: 03/22/2022[7] Other countries: 03/22/2022[7]	France and other countries: 05/23/2022
▪ High-potential managers	-	-	-	-	-	France: 03/26/2018 Other countries: 03/26/2020	France: 06/08/2019 Other countries: 05/08/2021	France: 03/22/2020 Other countries: 03/22/2022	France: 03/22/2021 Other countries: 03/22/2023	France and other countries: 05/23/2022
▪ All employees	France: 06/24/2012 Italy/Spain: 06/24/2012 Other countries: 06/24/2014	France: 06/08/2014 Italy/Spain 06/08/2014 Other countries: 06/08/2016	France: 03/27/2015	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: 03/26/2018 Other countries: 03/26/2020	France: 06/08/2019 Other countries: 06/08/2021	France: 03/22/2020 Other countries: 03/22/2022	France: 03/22/2021 Other countries: 03/22/2023	France and other countries: 05/23/2022
▪ Employee share ownership plans	-	-	-	-	-	-	Spain/Italy: 11/15/2019 Belgium: 11/15/2021 Other countries: 06/30/2021	Spain/Italy: 07/27/2020 Belgium/ Ireland: 07/27/2022 Other countries: 06/30/2022	Italy/Spain: 06/30/2021 Other countries: 06/30/2023	Italy/Spain: 06/27/2022 Other countries: 06/30/2024
Shares available as at										
▪ Chairman and Chief Executive Officer, Operations Committee	06/24/2014	06/08/2016	03/27/2017	03/27/2018	03/27/2019	03/27/2020	06/08/2021	03/22/2022[5] [8]	03/22/2023[5] [8]	05/23/2024[5] [8]
▪ Liaison Committee and main direct reports of the Liaison Committee members	06/24/2014	06/08/2016	03/27/2017	03/27/2018	03/27/2019	03/27/2020	06/08/2021	[8]	[8]	[8]
▪ High-potential managers	-	-	-	-	-	03/27/2020	06/08/2021	03/22/2022	03/22/2023	[8]

(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 (including performance shares) allotted but not yet vested by three.*

(2) *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 2018 and 2019 are described in paragraphs "Long-term compensation – Allotment of performance shares" of this section, pages 167 and 173.*

(3) *Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to achieve these criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of the WLTP, a slowdown in the Chinese market, a rise in commodities prices and, more generally, the current turbulence in the financial markets.*

(4) *Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to achieve these criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of the WLTP, a slowdown in the Chinese market, a rise in commodities prices and, more generally, the current turbulence in the financial markets.*

(5) *Chairman and Chief Executive Officer.*

(6) *For members of the Operations Committee as well as members of the Liaison Committee and the main direct reports of the Liaison Committee members only, removal of 2018 and deferral of the performance measurement period by one year (i.e., 2017, 2019 and 2020 instead of 2017, 2018 and 2019). The vesting period is four years instead of three. No holding period.*

(7) *For members of the Operations Committee as well as members of the Liaison Committee and the main direct reports of the Liaison Committee members only, removal of 2018 and deferral of the performance measurement period by one year (i.e., 2019, 2020 and 2021 instead of 2018, 2019 and 2020).
The vesting period is four years instead of three. No holding period.*

(8) *No holding period.*

	2010 plan	2011 plan	2012 plan	2013 plan	2014 plan	2015 plan	2016 plan	2017 plan	2018 plan	2019 plan
▪ All employees	France: 06/24/2014 Italy/Spain: 06/24/2015	France: 06/08/2016 Italy/Spain 06/08/2017	France: 03/27/2017	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: 06/08/2021	France/Other countries: 03/22/2022	France/Other countries: 03/22/2023	(8)
▪ Employee share ownership plans	-	-	-	-	-	-	Italy/Spain: 11/15/2022 Belgium: 11/15/2021 Other countries: 06/30/2021	Italy/Spain: 07/27/2023 Belgium/ Ireland: 07/27/2022 Other countries: 06/30/2022	Italy/Spain: 06/30/2024 Other countries: 06/30/2023	Italy/Spain: 06/27/2025 Other countries: 06/30/2024
Total number of shares vested	992,304	628,584	560,883	1,210,350	719,364	380,607	80,885	1,838	1,443	586
Of which total number of shares vested for Jacques Aschenbroich	*150,000*	*28,080*	*34,200*	*76,902*	*31,515*	*30,696*	*0*	*0*		
Total number of shares canceled or forfeited (cumulative)	207,696	351,996	78,537	211,092	248,076	197,160	618,840	91,215	70,765	25,286
Free shares allotted remaining at year-end	0	0	0	0	3,000	379,260	216,676	679,519	890,785	1,581,661

(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 (including performance shares) allotted but not yet vested by three.

(2) 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 2018 and 2019 are described in paragraphs "Long-term compensation – Allotment of performance shares" of this section, pages 167 and 173.

(3) Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to achieve these criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of the WLTP, a slowdown in the Chinese market, a rise in commodities prices and, more generally, the current turbulence in the financial markets.

(4) Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to achieve these criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of the WLTP, a slowdown in the Chinese market, a rise in commodities prices and, more generally, the current turbulence in the financial markets.

(5) Chairman and Chief Executive Officer.

(6) For members of the Operations Committee as well as members of the Liaison Committee and the main direct reports of the Liaison Committee members only, removal of 2018 and deferral of the performance measurement period by one year (i.e., 2017, 2019 and 2020 instead of 2017, 2018 and 2019). The vesting period is four years instead of three. No holding period.

*(7) For members of the Operations Committee as well as members of the Liaison Committee and the main direct reports of the Liaison Committee members only, removal of 2018 and deferral of the performance measurement period by one year (i.e., 2019, 2020 and 2021 instead of 2018, 2019 and 2020).
The vesting period is four years instead of three. No holding period.*

(8) No holding period.

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	Compensation relating to a non-competition clause
	No	Yes	No(1)	No(2)
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 Date of most recent reappointment: 05/23/2019 End of current term of office (director and Chairman and Chief Executive Officer): Shareholders' Meeting called to approve the 2022 financial statements		The pension plan to which Jacques Aschenbroich is entitled is described in paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan" of this section, pages 167 to 168. At December 31, 2019, Jacques Aschenbroich's supplementary pension benefits represented 19.53% of his reference income(3) and 5.53% of his reference variable compensation(4), i.e., a yearly pension allowance of 262,606 euros (it being specified that social security contributions at a rate of 32% are payable on annuities paid(5)).		The non-competition compensation is described in paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation" of this section, page 168.

(1) Following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors by decision 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 notified the Board of Directors of his decision to waive, as from his appointment on February 18, 2016, his right to termination benefits. This decision was duly noted by the Board of Directors.

(2) Given the recommendations of the AFEP-MEDEF Code on non-competition agreements, Jacques Aschenbroich announced his decision to waive his right to non-competition compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-competition agreement accordingly.

(3) Jacques Aschenbroich's reference income, which is the average of the last 36 months of compensation and excludes the variable component and exceptional compensation, amounted to 1,020,251 euros at December 31, 2019.

(4) Jacques Aschenbroich's reference variable compensation, which is the average variable compensation received in the last 36 months, amounted to 1,145,579 euros at December 31, 2019.

(5) In accordance with French Ordinance No. 2019-697 of July 3, 2019, the so-called "Article 39" defined benefit pension plan, which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from January 1, 2020 (the "Closed Plan"). Thus, in accordance with the new legal provisions, a new commitment has been made in favor of Jacques Aschenbroich. This new plan, effective as of January 1, 2020, in accordance with Article L.137-11-2 of the French Social Security Code, includes the same ceilings and performance conditions as the Closed Plan.

Directors' compensation in respect of the year ended December 31, 2019

The amount of compensation paid to each director in 2019 is outlined in the table below.

Compensation paid to Board members amounted to 949,072.75 euros in 2019, compared with 919,375.68 euros in 2018. The compensation was distributed as follows:

Summary of directors' compensation provided for in Article L.225-45 of the French Commercial Code and other compensation received by the corporate officers (AMF Table no. 3)

	Compensation				Other compensation (fixed, variable or exceptional compensation, benefits in kind)	
(in euros)	2018	Fixed portion 2019	Variable portion 2019	Ratio between the fixed and variable portions	2018	2019
Executive corporate officers						
Jacques Aschenbroich	-	-			2,303,637	2,199,335
Non-executive corporate officers						
Bruno Bézard[(1)]	49,000	25,000	36,000	▪ fixed portion: 41% ▪ variable portion: 59%	-	-
Daniel Camus[(2)]	36,801.10	-	-	-	-	-
Pascal Colombani[(3)]	76,000	9,875.69	33,000	▪ fixed portion: 23% ▪ variable portion: 77%	-	-
Éric Chauvirey[(4)]	64,000	25,000	45,000	▪ fixed portion: 36% ▪ variable portion: 64%	-	-
Caroline Maury Devine	64,000	25,000	39,000	▪ fixed portion: 39% ▪ variable portion: 61%	-	-
Michel de Fabiani[(5)]	85,000	9,875.69	33,000	▪ fixed portion: 23% ▪ variable portion: 77%	-	-
Mari-Noëlle Jégo-Laveissière	67,000	25,000	39,000	▪ fixed portion: 39% ▪ variable portion: 61%	-	-
Noëlle Lenoir[(6)]	67,000	11,325.95	27,000	▪ fixed portion: 30% ▪ variable portion: 70%	-	-
Stéphanie Frachet[(7)]	-	12,500	18,000	▪ fixed portion: 41% ▪ variable portion: 59%		
Gilles Michel[(8)]	27,500	35,163.04	39,000	▪ fixed portion: 47% ▪ variable portion: 53%	-	-
Thierry Moulonguet	88,074.58	40,000	54,000	▪ fixed portion: 43% ▪ variable portion: 57%	-	-
Georges Pauget	140,000	79,945.64	51,000	▪ fixed portion: 61% ▪ variable portion: 39%	-	-
Olivier Piou[(9)]	-	15,193.37	27,000	▪ fixed portion: 36% ▪ variable portion: 64%		
Patrick Sayer[(10)]	-	15,193.37	21,000	▪ fixed portion: 42% ▪ variable portion: 58%		
Ulrike Steinhorst	88,000	37,000	48,000	▪ fixed portion: 44% ▪ variable portion: 56%	-	-
Véronique Weill	67,000	25,000	48,000	▪ fixed portion: 34% ▪ variable portion: 66%	-	-
TOTAL	**919,375.68**	**391,072.75**	**558,000**		**2,303,637**	**2,199,335**

(1) Bruno Bézard was co-opted on October 24, 2017. His co-optation was ratified and his term of office subsequently renewed at the Shareholders' Meeting of May 23, 2018.
(2) Daniel Camus' term of office ended on May 23, 2018.
(3) Pascal Colombani's term of office ended at the Shareholders' Meeting of May 23, 2019.
(4) Appointed by the Group Works Council on June 30, 2017.
(5) Michel de Fabiani's term of office ended at the Shareholders' Meeting of May 23, 2019.
(6) Resigned with effect from June 14, 2019.
(7) Co-optation of Bpifrance Participations by the Board of Directors on June 21, 2019.
(8) Appointed by the Shareholders' Meeting of May 23, 2018. Gilles Michel replaced Georges Pauget as Lead Director on October 24, 2019.
(9) Appointed by the Shareholders' Meeting of May 23, 2019.
(10) Appointed by the Shareholders' Meeting of May 23, 2019.

3.3.3 Overall compensation of other Group executive managers

The other executive managers are members of the Operations Committee, which at December 31, 2019 was made up of 14 members and the Chairman and Chief Executive Officer. The total gross amount paid directly and indirectly to the members of the Operations Committee (excluding the Chairman and Chief Executive Officer) came to 10,142,824 euros in 2019 (compared with 12,542,890 euros in 2018), of which a fixed portion of 7,749,138 euros, a variable portion of 2,300,863 euros, benefits in kind of 92,034 euros, and profit-sharing and incentive bonuses of 789 euros.

At its meeting on May 23, 2019, the Board of Directors, acting on the recommendation of the Compensation Committee, decided to allot free shares or performance shares to employees and corporate officers under the conditions provided for in the applicable legal provisions and pursuant to the nineteenth resolution of the Shareholders' Meeting of May 23, 2019, including:

- 282,606 performance shares to the Operations Committee members (excluding Jacques Aschenbroich);
- 139,883 performance shares to the Liaison Committee members (other than the Operations Committee members);
- 539,770 performance shares to the main direct reports of the Liaison Committee members;
- 649,900 free shares (maximum), not subject to performance criteria, including (i) 530,000 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, under the terms and conditions of allotment set out in the various plan regulations, and (ii) 119,900 free shares to high-potential managers.

The main characteristics of the performance shares allotted to the members of the Operations Committee and the Liaison Committee, as well as the main direct reports of the Liaison Committee members, are as follows:

- the performance shares allotted to Operations Committee members (excluding Jacques Aschenbroich) are subject to the same performance criteria, target returns and performance assessment criteria as the performance shares allotted to the Chairman and Chief Executive Officer by the Board of Directors on the same date (see section 3.3.1 of this chapter, paragraph "Compensation policy for the Chairman and Chief Executive Officer", pages 152 to 158);
- 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 are contingent on the achievement of the two performance criteria: operating margin rate and ROA rate. The target returns and performance assessment criteria are the same as those applicable to the performance shares allotted to the Chairman and Chief Executive Officer on the same date (see section 3.3.1 of this chapter, paragraph "Compensation policy for the Chairman and Chief Executive Officer", pages 152 to 158), subject to the percentage of shares obtained based on the performance criterion or criteria achieved (100% if the criterion is achieved for all three years covered by the plan, 50% if the criterion is achieved for two of the three years, 20% if the criterion is achieved for one of the three years and 0% if the criterion is not achieved in any of the three years);
- the performance shares will vest after a three-year vesting period; there is no minimum holding period for the shares obtained;
- all performance shares will be allotted 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). Furthermore, the Board of Directors reserves the right to maintain the entitlement to the performance shares in specific cases determined by it;
- in accordance with the Group's Code of Conduct, the members of the Operations Committee and the Liaison Committee are not permitted to engage in hedging transactions over Valeo securities (including performance and/or free shares).

The free shares or performance shares allotted to employees and corporate officers (including Jacques Aschenbroich) during 2019 had a limited dilutive impact and represented 0.70% of the Company's share capital at December 31, 2019. 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 2.07% and 4.72% of the Company's share capital at December 31, 2019.

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 senior 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%;
- cap on the basis for determining entitlements: total pension entitlements, all plans combined, are capped at 55% of the reference salary;
- the reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation – itself equal to the average variable compensation received over the last 36 months – received for working full time within the Group;

- payment of benefits to the surviving beneficiary in the event of the death of an active contributor if the event occurs after the legal voluntary retirement age.

In order to be eligible for the supplementary pension plan, Valeo, or one of its subsidiaries, must be the beneficiary's last employer before settlement of the pension entitlements, but the beneficiary does not need to be present in the Group at the time of the settlement of the entitlements at the statutory retirement age under the general social security regime.

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 was introduced on January 1, 2019 and is open to all employees in France whose compensation is more than four times the social security ceiling, with the exception of Jacques Aschenbroich, who continues to benefit from the defined benefit pension plan. In accordance with French Ordinance No. 2019-697 of July 3, 2019, the defined benefit pension plan, which has been closed to new members since July 1, 2017, will no longer accrue rights as of January 1, 2020. As of January 1, 2020, the Chairman and Chief Executive Officer and other beneficiaries of the previous defined benefit pension plan will be covered by a new defined benefit plan governed by Article L.137-11-2 of the French Social Security Code.

3.3.4 Information about stock purchase options and performance shares

The stock purchase option and performance share allotment policy for the Chairman and Chief Executive Officer and other executive managers is described, respectively, in section 3.3.1 of this chapter, paragraph "Compensation policy for the Chairman and Chief Executive Officer", pages 152 to 158, and section 3.3.3 of this chapter, "Overall compensation of other Group executive managers", pages 181 to 182.

Stock 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", pages 435 to 437.

Stock purchase options allotted and exercised during the year (AMF Table no. 9)

Stock 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 of Directors' meeting
Options allotted during the year 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	66,774	13.81	06/07/2019 03/26/2020	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 of Directors' 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)]	255,488	05/23/2019

(1) Valued at 25.79 euros under IFRS.

Pensions and other post-employment benefits and related provisions

At December 31, 2019, 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 11 million euros, as opposed to 16 million euros at December 31, 2018.

At December 31, 2019, the total amount of provisions set aside and the total amounts paid by Valeo or its subsidiaries for these benefits to former Board members or other executive managers of the Group came to, respectively, 3 million euros (versus 2 million euros at December 31, 2018) and 273,281 euros (versus 273,452 euros at December 31, 2018).

4

SUSTAINABLE DEVELOPMENT

Interview with Jacques Aschenbroich

"FOR 2020 [...], I HAVE SET THREE PRIORITIES [...]: HEALTH AND SAFETY AT WORK, GENDER DIVERSITY AND REDUCTION OF OUR CARBON FOOTPRINT."
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.

Mobility is in the midst of a threefold revolution spanning electrification, autonomous and connected vehicles, and digital solutions. Providing a range of safer electric mobility solutions that keep up with the quickening pace of these three aspects is Valeo's way of capturing its share of sustainable value creation in today's paradigm shift in mobility.

Valeo's strategic decision to contribute to the transition toward sustainable mobility has been validated by our customers. In 2019, innovative products accounted for 47% of order intake (including Valeo Siemens eAutomotive). In addition, products that directly or indirectly contribute to reducing CO_2 emissions accounted for more than 57% of Valeo's original equipment sales in 2019. Products contributing to smarter mobility accounted for 36% of sales.

Other than this goal of contributing to the fight against climate change through our products and solutions, Valeo bases its commitment to sustainable development and corporate social responsibility on the ten principles of the United Nations Global Compact, which we signed in 2005. Our support for this initiative remains whole, and we have now also formalized our contribution to the United Nations Sustainable Development Goals.

Our permanent commitment to results and transparency, a driving force of our sustainable development approach, has made Valeo one of the best automotive suppliers in terms of non-financial performance. In 2019, the MSCI rating agency ranked Valeo the best among its automotive supplier peers, as did the RobecoSAM and ISS-oekom rating agencies (excluding tire manufacturers).

In 2019, Valeo was once again the leading automotive company in the new edition of the Corporate Knights annual global ranking of the 100 most sustainable corporations, published in January 2019 at the Davos Summit in Switzerland, replicating the performance achieved in 2018 and recognized in January 2019.

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, Valeo has had a function and department dedicated to sustainable development. Its role within the Group is to define the sustainable development policy and coordinate its implementation. Outside the Group, it is tasked with liaising with external stakeholders, be they our customers, our shareholders or analysts monitoring our performance in this area, all of which are becoming increasingly discerning. Other Group departments, including Research and Development, Risk Insurance, Health, Safety and Environment, Ethics and Compliance, Human Resources and Purchasing, Quality and Industrial also contribute directly to sustainable development in their respective fields, and have developed their own tools for taking action and assessing performance.

Since 2017, the Governance, Appointments & Corporate Social Responsibility Committee of the Valeo Board of Directors has carried out an annual assessment of the year's sustainable development policies and outcomes, based on a performance review with the operational directors leading the relevant initiatives.

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

What were the highlights of 2019?

J. A. On-site sustainable development is first and foremost the commitment of each Valeo employee to embrace our ambition of sustainable mobility and play a part in rolling out CSR policies on the various sites.

In sustainable mobility, Valeo now has a comprehensive offer of low-, medium- and high-voltage electrification solutions, backed by the joint venture with Siemens at the high-voltage end. This will allow us to offer solutions for all types of electric mobility going forward. It is a strategic choice informed by the gradual diversification of the various types of mobility we are witnessing in the automotive sector. 2019 was marked by the first-time application of medium-power electrification technology, known as 48V, particularly suited to small light vehicles in urban settings (three or four wheels). This outcome is backed up by our efforts and investments in Research and Development to develop new products and solutions.

In terms of our environmental commitment, Valeo pursued its strategy and objectives in terms of reducing natural resource consumption and restricting CO_2 emissions. Since 2008, Valeo has significantly reduced consumption (as a proportion of sales) of water (by 46%), energy (by 29%) and packaging (by 32%). Direct and indirect scope 1 and 2 CO_2 emissions (as a proportion of sales) have been cut by 3.5% compared with 2009. This result should be seen in the light of the tremendous expansion of our industrial footprint, particularly in high-growth countries.

For our employees, health and safety at work remain a priority. I decided last year that Valeo should set an ambitious goal of reducing lost-time workplace accidents by 2020, bringing the frequency rate to below two accidents per million hours worked. That goal was achieved in 2019, with a frequency rate of 1.9.

As regards the Group's commitment to corporate citizenship, the Plants' Initiatives program, which has been in place in each of our sites since 2008, covers a wide range of social initiatives targeting both our employees and the neighboring local communities. In 2019, each site organized at least one such initiative, with priority going to activities for schools, technology institutes and universities. Initiatives in this area are monitored closely by the Group, and are improving and flourishing.

In 2019, Valeo continued its in-depth assessment of its suppliers' work in the sustainable development field, with a particular focus on the rollout of its program in India through the organization of dedicated training sessions and supplier audits. India is a vital part of our global footprint and a key link in our supplier chain.

Lastly, the non-financial risk approach is now an integral part of the Group's sustainable development strategy. Our approach increases transparency in terms of risk, which guides our vision of sustainable development.

What are the challenges for the coming years?

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

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

For 2020, I have set three sustainable development priorities to guide the commitment of our teams at our sites: health and safety at work, gender diversity and reduction of our carbon footprint. I expect to see improved outcomes on those three priorities across all of our activities in the years to come. In 2020, Valeo will communicate on its goal of reducing CO_2 emissions in line with the 2°C objective of the Paris Agreement (COP21), and how it aims to achieve that goal. These three priorities will structure Valeo's sustainable development initiatives over the coming year.

Moreover, Valeo is keen to play its part in fostering the commitment of its ecosystem in favor of sustainable development, and can act as a structuring partner in its host countries in that regard, by adding to local Research and Development efforts, by forging partnerships with local players and through open innovation.

Valeo has continued its commitment to stakeholder dialog in the French automotive industry, the first automotive sector to have begun such a vast undertaking, as well as in other national automotive sectors, where we are often a major player.

In general terms, this dialog, which openly addresses all issues concerning automotive mobility with representatives from civil society and environmental organizations, allows our sector to engage with external stakeholders and to adapt technological solutions to new mobility challenges. Fresh developments in our sector will push us to continue our efforts in this area in the coming years.

April 27, 2020

Climate change: Valeo's resilient business model and risk management system

Aware of climate change and its consequences on human and economic activity, and faced with high levels of local pollution, local and national governments are tightening their environmental regulations. These factors, as well as the quickening pace of social and technological change, have prompted profound technological renewal and change in business models across the automotive sector.

In response to this transformation and as an industrial and technological player in the electric mobility market, Valeo has established a business model and risk management system that are consistent with the long-term objectives of progressive carbon neutrality for the mobility and transportation sector. Its business model and risk management are also in line with international methodology guidelines for addressing climate change risks(1), in particular the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)(2). The use of this framework for the publication of financial and non-financial information is expected to increase in the coming years, in line with changes in the TCFD recommendations(3).

1. **Governance:** an integral part of its governance, General Management and the Board of Directors are responsible for the Group's strategic positioning and risk management. Both strategy and risk analysis are reviewed by the Board of Directors and form part of the criteria for awarding the Chairman and Chief Executive Officer's compensation (see Chapter 3, "Corporate governance", page 101).
2. **Strategy:** anticipating these transformations in the automotive sector, Valeo has built a strategy in step with the gradual electrification of mobility, which incorporates transition risks and opportunities. Valeo has also adapted its production facilities to meet the requirements of reducing its carbon footprint and in response to the consequences of climate change (physical risks):
   - Valeo's strategic decision of contributing to the transition to sustainable mobility has resulted in the progressive creation of a comprehensive technological portfolio of electrification solutions for all types of vehicles – from small urban vehicles to trucks, buses and other large vehicles. This choice, validated by automaker customers, is consistent with environmental regulations for vehicles worldwide (see section 4.3.3 "Risk of non-compliance with environmental product regulations", pages 210 to 215). In 2019, products that directly or indirectly contribute to reducing CO_2 emissions accounted for 57% of Valeo's original equipment sales.
   - The potential consequences of climate change are taken into account in the management of risks relating to industrial operations and processes (see section 2.1.1 "Environmental or technological risks", page 89).

Valeo's strategic options and the diversity of its technological offer make its business model resilient to the varying pace of transition to low-carbon mobility. Valeo estimates that the automotive and new mobility markets will represent an addressable market of more than 130 billion euros in 2030 (see Integrated Report, "An environment in (r)evolution", page 20).

3. **Risk management:** The management of risks linked to the consequences of climate change is based on an analysis of financial, operational and non-financial risks, which are reviewed and reassessed regularly. The internal risk management actions and tools are described annually (see Chapter 2, "Risks and Risk Management", page 79; Chapter 4, "Non-financial Information Statement", page 209), and reviewed and validated by the Risks Committee and the appropriate committee of the Board of Directors.
4. **Objectives and indicators:** the risk management and business model resilience indicators (mainly the proportion of sales derived from products contributing to the reduction of CO_2 emissions) and CO_2 emissions are presented annually (see section 4.2, "Non-Financial performance objectives and indicators", page 202). They form part of a five-year environmental plan ending in 2020, which in the coming year will be renewed in order to set a target for reducing CO_2 emissions in the medium to long term, in line with the 2°C and carbon neutrality objectives.

The renewal and extension of methodological tools in terms of modeling CO_2 emissions linked to the use of products, which have been reported in the Registration Document for the past two years (see section 4.3.3 "CO_2 emissions related to the use of Valeo products (scope 3)", page 211), also commits Valeo to continue and expand on this work.

(1) The TCFD is an international working group bringing together experts from major business sectors, banks and rating agencies, which 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. 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 and government at the 2009 London Summit. Its main purpose is to strengthen the international coordination of financial regulatory reform. To that end, the FSB monitors the implementation of reforms, notably through mutual assessments, by promoting cooperation between authorities and assessing financial sector vulnerabilities, including vulnerabilities to climate change.

(2) In particular, CDP questionnaire on climate change, assessing the transparency and sustainable development performance of enterprises, organizations and other bodies, which has developed one of the leading methodologies for monitoring risks and opportunities related to climate change.

(3) The TCFD regularly updates and extends the use of its initial guidelines (https://www.fsb-tcfd.org/wp-content/uploads/2019/06/2019-TCFD-Status-Report-FINAL-053119.pdf)

4.1 Valeo and sustainable development: governance, challenges and policies

Following changes in the French and European legal framework[1], and in order to increase the transparency and clarity of the non-financial information published annually, Valeo has opted to maintain an overview of its sustainable development policy in its 2019 Universal Registration Document.

In accordance with French regulatory requirements[1], Valeo also presents its circular economy achievements (see boxed text "Valeo's commitment to the circular economy", page 241).

Lastly, in accordance with French legal requirements, Valeo reports on the progress of its duty of care plan (see section 4.4 of this chapter, pages 233 to 235).

4.1.1 Sustainable development governance

Sustainable development organization

The sustainable development policy spans all of the Group's functions and networks, and is designed to dovetail with Valeo's business objectives and policies.

The Sustainable Development and External Affairs 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.

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

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

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

- reviewing the thrusts relating to the Group's corporate social responsibility policy;
- identifying corporate social responsibility objectives and challenges;
- verifying the achievement of previously defined objectives;
- overseeing the gradual and increasing implementation of the corporate social responsibility policy, and assessing the Group's contribution to sustainable development;
- 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.

The Governance, Appointments & Corporate Social Responsibility Committee issued a progress report on relations with the unions in 2019. It focused largely on Valeo's employee relations strategy. The Committee also examined the Group's CSR and safety policy, as well as the non-discrimination and diversity policy.

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

These discussions were an opportunity to:

- validate the main lines of action regarding:
  - product life cycle management and consideration of eco-responsible products obtained thanks to an eco-efficient industrial footprint,
  - health and safety at work, development of human capital, labor relations and corporate social responsibility, development of a healthy work environment, ethics, diversity and respect for individual and collective rights;
- review achievements during the year relating to:
  - selection and monitoring of non-financial risks,
  - the Group's response to customer demands concerning sustainable development,
  - the deployment of sustainable development principles in the purchasing policy,
  - prevention initiatives in the fight against fraud and corruption, and the establishment and roll out of the whistleblowing line,
  - integration and solidarity initiatives with the communities of the cities and regions where Valeo operates,
  - Valeo's sustainable development practices and performance assessments by non-financial analysis agencies;
- assess the short- and medium-term priority actions on all of the issues reviewed.

The key figures relating to corporate social responsibility and sustainable development objectives and outcomes are summarized in the performance chart provided in section 4.2 of this chapter "Non-financial performance objectives and indicators", paragraph "Performance chart showing the key objectives and performance indicators of the Group's sustainable development policy", page 203.

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

4.1.2 Sustainable development challenges and non-financial risks

In 2016, Valeo formalized a materiality analysis allowing it to identify its main sustainable development challenges and to strengthen its action with its stakeholders (see section 4.5.1 "A commitment to sustainable development based on strong relationships with stakeholders", pages 236 to 237).

Additionally, in compliance with the French and European legal framework, Valeo mapped its non-financial risks in 2018. Non-financial risk mapping, revised in 2019, now forms the basis for the management of sustainable development policies across four axes (Innovation, Environmental eco-efficiency, Employees and Commitment to corporate citizenship), helping to prioritize initiatives.

Materiality matrix plotting the sustainable development challenges

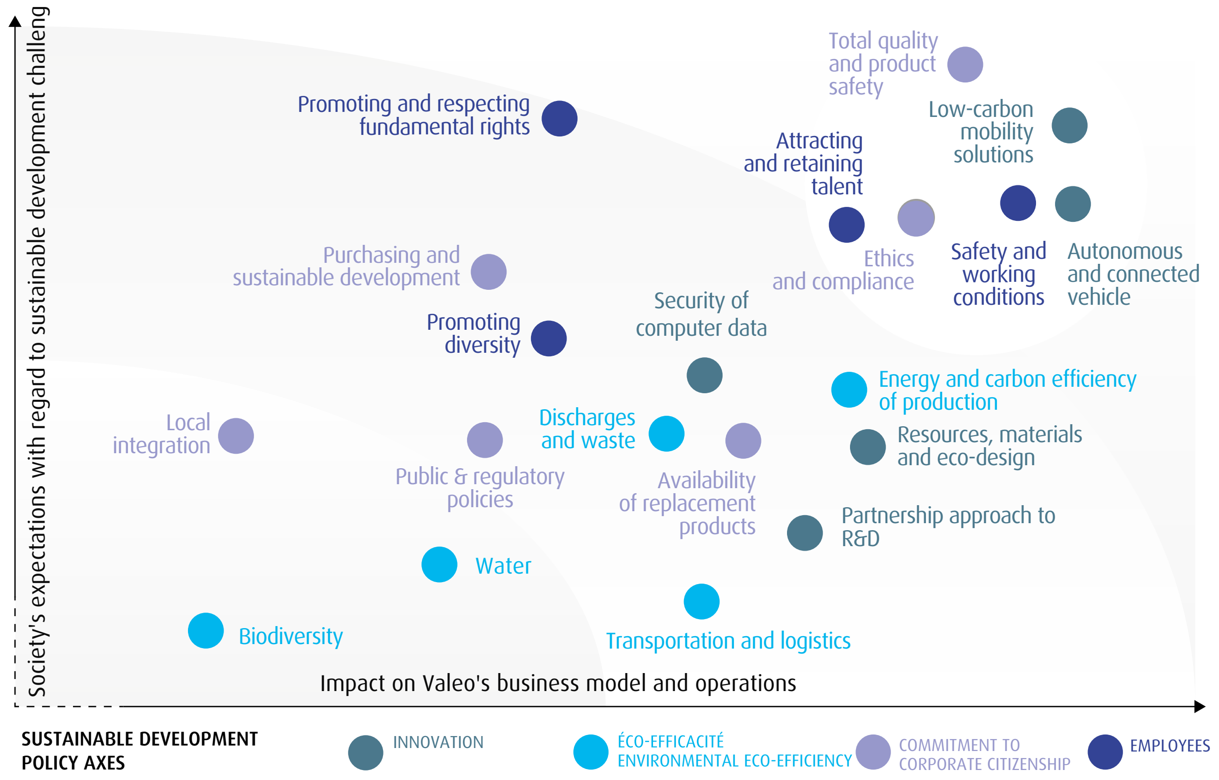
The materiality analysis served to compare Valeo's internal ambitions in respect of sustainable development with its stakeholders' expectations. The analysis is based on:

- a series of interviews with Valeo's various departments (Purchasing, Health, Safety and Environment (HSE), Research and Development, Human Resources, Sales and Business Development) and country management teams;
- a documentary review (non-financial questionnaires, survey results, etc.);
- specific requests from the Group's stakeholders in respect of sustainable development (automakers, civil society, specialist press, non-financial analysts, etc.) and interviews with them.

The materiality matrix is built on the following four axes: **innovation, environmental eco-efficiency, employees and commitment to corporate citizenship.** A total of 20 challenges have been identified (see below).

Following its first year, three challenges were updated in 2017 ("Promoting and respecting fundamental rights", "Attracting and retaining talent" and "Promoting diversity"). The challenges in the matrix remained unchanged in 2018 and 2019.

MATERIALITY MATRIX PLOTTING THE SUSTAINABLE DEVELOPMENT CHALLENGES



The matrix serves to compare, for the challenges identified, the expectations of stakeholders and their impact on the Group's activity, in order 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.

Non-financial risks

Valeo has carried out an analysis of its non-financial risks, in compliance with the French legal framework, to improve the transparency of its non-financial reporting. The analysis of non-financial risks begun by Valeo in 2018 resulted from the joint work of the Risk Management and Sustainable Development and External Affairs departments.

For 2019, Valeo has identified the following seven main risks (classified in accordance with Valeo's four sustainable development axes).

Sustainable development axes	Risks	
Innovation	Risk of non-compliance with environmental product regulations	Pages 210 to 215
Environmental eco-efficiency	Risk associated with accidental pollution of water and/or soil	Pages 216 to 218
Employees	Health and safety risk	Pages 219 to 221
	Risk related to attracting talent	Pages 221 to 223
	Risk related to developing and retaining talent	Pages 223 to 226
Commitment to corporate citizenship	Risk of individual corruption	Pages 227 to 228
	Risk related to suppliers' sustainable development practices	Pages 228 to 232

Management of these risks is described in section 4.3.3 "Valeo's non-financial risks", pages 210 to 232.

Recognition of Valeo's commitment to sustainable development

Valeo saw its non-financial performance acknowledged by various rating agencies and analysts in 2019, reflecting the successful cross-functional deployment of sustainable development and communication that respects the principles of transparency, discipline and relevance.

Organization	Rating
Carbon Disclosure Project (CDP)	B Management[1]
MSCI ESG Rating	AAA Ranked no. 1 among automotive suppliers[1]
ISS-oekom[3]	B-, prime Industry leader[1] (ranked no. 1 among automotive suppliers, excluding tire manufacturers)[1]
RobecoSAM (DJSI)	77/100 Ranked no. 1 among automotive suppliers (excluding tire manufacturers)[1]
Sustainalytics	86/100 Leader[2] (ranked no. 2 among automotive suppliers)

(1) Status conferred by the rating agency in 2019.
(2) Status conferred by the rating agency in 2018.
(3) Oekom became ISS-oekom in 2018.

In 2019, the MSCI analyst awarded Valeo the highest score possible (AAA) under the agency's evaluation system. This positions Valeo at the very top of the ranking in the group of automotive equipment manufacturers. The score reflects an excellent assessment of the transparency of information and clear positioning in terms of work to control the risks identified in the sector.

RobecoSAM assessed Valeo's sustainable development initiatives (governance, risks, R&D, environment, labor issues, corporate citizenship, etc.), placing **the Group at the forefront of the automotive suppliers sector for the fourth consecutive year** (excluding tire manufacturers), with a score of 77 out of 100 in 2019[1]. Valeo is also part of the DJSI (Dow Jones Sustainability Index) World index. Its continued presence in this index and its results in recent years confirm the Group's cross-cutting approach to sustainable development and the existence of clear policies and goals in the main issues covered by this analysis (governance, environmental performance, social performance, etc.).

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

ISS-oekom assigned a rating of B- in 2019, giving **Valeo the best ranking in the group of automotive equipment manufacturers**[1]. This backs up Valeo's action in terms of sustainable development, and in particular its focus on the governance of the various challenges in this area (environmental, employee and social issues, including the impact of Valeo's products), as well as the strong commitment to the transparency of the information provided to the public.

In 2020, Valeo was once again the **leading automotive company in the new edition of the Corporate Knights ranking of the 100 largest global public companies** in terms of sustainable development, published at the Davos Summit in Switzerland in January each year, replicating the performance achieved in 2019.

In addition to these ratings assigned by rating agencies, Valeo featured in several non-financial indices, in particular:

- Dow Jones Sustainability Index (DJSI) World index;
- Ethibel Sustainability Index (ESI) Excellence Europe;
- Euronext Vigeo Europe 120;
- Euronext Vigeo Eurozone 120;
- Euronext Vigeo World 120 Index;
- Euronext Vigeo Eurozone 120 Index;
- Euronext Vigeo Europe 120 Index;
- Euronext Vigeo France 20 Index;
- FTSE4Good Index Series.

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 in which Valeo operates, the Group undertakes to contribute to the following SDGs and targets:

SDG 4 "QUALITY EDUCATION"

4 QUALITY EDUCATION

- **Target 4.3 "By 2030, ensure equal access for all women and men to affordable quality technical, vocational or tertiary education, including university".**
  - Valeo pays particular attention to training its teams at all levels of the organization (see section 4.3.3 "Risk related to attracting talent", page 221).
  - Key outcome: in 2019, 109,000 employees took part in at least one training course during the year, representing 95.1% of the total headcount.
- **Target 4.4 "By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship".**
  - Valeo places great importance on continuous education and access to quality technical training for all, allowing it to support the professional ambitions of each Valeo employee (see section 4.3.3 "Risk related to attracting talent", page 221).
  - Key outcome: in 2019, more than 370,000 hours of technical and scientific training were provided at Valeo.

SDG 5 "GENDER EQUALITY"

5 GENDER EQUALITY

- **Target 5.1 "End all forms of discrimination against women and girls everywhere".**
  - Valeo has implemented an extensive program to promote gender diversity, dating back to 2011. Each year, Valeo's sites implement awareness-raising and support initiatives for women at work, notably by encouraging the use of adapted work schedules and workstations (see section 4.5.4 "Employee-related commitments", p 253).
  - Key outcome: in 2019, women made up 32.7% of the total workforce.
- **Target 5.5 "Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life".**
  - Valeo has implemented an extensive program to promote gender diversity, dating back to 2011, with the aim of promoting the place of women among managers and professionals, as well as among operational and management positions (see section 4.5.4 "Employee-related commitments", page 253).
  - Key outcome: in 2019, there were two women on the Operations Committee.

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

SDG 8 "DECENT WORK AND ECONOMIC GROWTH"

- **Target 8.7 "Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms".**
  - Valeo has a comprehensive program to promote respect for fundamental rights, protect against forced labor, and prohibit child labor, based notably on the Valeo Code of Ethics, which prohibits such practices and behaviors. The program is being extended to Valeo's direct suppliers (see section 4.5.4 "Employee-related commitments", page 253).
  - Key outcome: in 2019, 78.3% of the registered headcount operated under a collective agreement (see section 4.5.4 "Employee-related commitments", page 253).

SDG 9 "INDUSTRY, INNOVATION AND INFRASTRUCTURE"

- **Target 9.5 "Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending".**
  - Valeo is a major industrial and technological player in the automotive and mobility sectors. Thanks to its global footprint, the Group is continuing its development efforts in the area of production, technology and training in various countries (see section 4.5.2 "A technological commitment", page 238).
  - Key outcome: in 2019, Valeo filed more than 1,698 patents and invested 12.6% of its original equipment sales in Research and Development.

SDG 11 "SUSTAINABLE CITIES AND COMMUNITIES"

- **Target 11.2 "By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons".**
  - Valeo aims to develop solutions for "safe, affordable, accessible and viable transport systems" (see Integrated Report, page 27).
  - Key outcome: in 2019, 57% of Valeo's sales contributed directly or indirectly to reducing CO_2 emissions, and 36% to safer mobility.

4

SDG 12 "RESPONSIBLE CONSUMPTION AND PRODUCTION"

- **Target 12.2 "By 2030, achieve sustainable management and efficient use of natural resources".**
  - Valeo has implemented an eco-design approach for its products and reduced its production-related consumption of water and energy (see section 4.5.3 "Environmental commitments", page 241). This approach is aimed at reducing the consumption of raw materials (metal, plastic, etc.) and replacing materials impacting the carbon footprint of the end-product (vehicle) with greener substitutes (see section 4.3.3 "Risk of non-compliance with environmental product regulations", page 210).
  - Key outcome: in 2019, Valeo reduced its consumption of water (as a proportion of sales) by 6.2% compared with 2018.
- **Target 12.5 "By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse".**
  - As part of a structured environmental plan, Valeo aims to reduce its waste generation (see section 4.5.3 "Environmental commitments", page 241).
  - Key outcome: in 2019, waste production as a proportion of sales was stable compared with 2015.

SDG 13 "CLIMATE ACTION"

- **Target 13.1 "Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries".**
  - Valeo has been closely monitoring its environmental initiatives for many years, particularly in terms of reducing the carbon footprint and water consumption of its sites. In 2020, the Group aims to reduce its direct and indirect CO_2 emissions as a proportion of sales by 8% compared with 2015, and to have 20% of its sites certified for energy management (ISO 50001).
  - Key outcome: in 2019, Valeo reduced its emissions by 3% compared with 2018 and 18% of its sites had ISO 50001 certification.

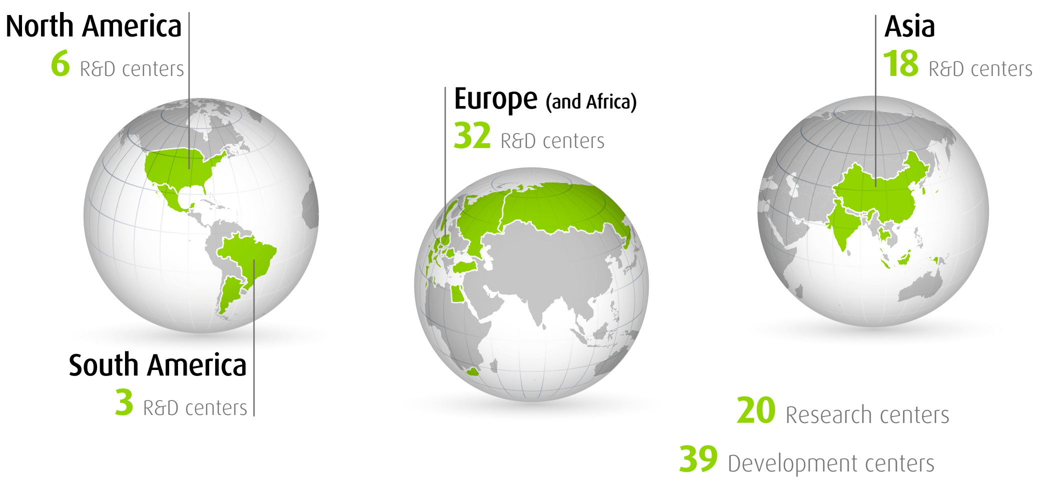
4.1.3 Sustainable development policies

At Valeo, sustainable development is built on four key axes – innovation, environmental eco-efficiency, employees and commitment to corporate citizenship – plus a range of associated policies.

Research and Development policy

Research and Development structure with a global dimension

GLOBAL RESEARCH AND DEVELOPMENT MAPPING IN 2019



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 39 development centers adapt standards in line with customer requirements and coordinate the work of launch and support teams, together with front office personnel;
- project launch teams are tasked with managing the shift of new products to the manufacturing phase, while Research and Development teams can provide support in response to specific needs throughout the production phase;
- front office personnel work alongside customers, assisting with product definition and providing back-up for project teams;
- technical service centers possess specific cross-disciplinary competences, particularly in the development of software and electronics.

At its December 10, 2019 Investor Day in Paris, Valeo put 12 new technological "platforms" in the spotlight. They allow products to be developed very quickly using a range of technological building blocks, including hardware and software. The resulting solutions are manufactured on a very large scale, which helps reduce their cost, but with the flexibility necessary to adapt them to the wide range of needs of vehicle manufacturers. The result is that a single product, like a 48V motor for instance, can take several forms for multiple uses. The aim is to be able to serve several customers with the same platform, based on a high level of standardization – up to 85% for certain technologies.

The 12 new "platforms" break down as follows:

- five relating to vehicle electrification (48V machines, 48/12V converters, battery cooling systems, cabin thermal management, heat pumps);
- three from the Valeo Siemens eAutomotive joint venture for high-voltage (over 60V) electrical products (machine, inverter and chargers);
- four in the field of driving assistance (front cameras, driver monitoring systems, new generation Valeo SCALA® LiDARs and autonomous PODs combining sensors with their cooling and cleaning systems).

Valeo estimates that the technological "platforms" will generate 2.6 billion euros in sales by 2022, excluding Valeo Siemens eAutomotive.

In terms of open innovation, Valeo has implemented integration and innovation strategies through advanced studies, collaborative projects and partnerships. To that end, the Group opened an artificial intelligence center in Paris in 2017. It combines academic research with industrial development. Since 2016, the Group has also had a Mobility Tech Center in San Mateo, California.

In 2019, Valeo's Research and Development teams managed 3,270 projects – a direct result of the steep rise in Valeo's order intake and the Group's strong presence in all automotive markets worldwide.

Valeo maintains a high level of effort in Research and Development in order to offer its customers, year after year, the best technological innovations to meet identified needs. In 2019, the Group's gross Research and Development expenditure totaled 2,054 million euros, representing 12.6% of its original equipment sales.

Globally, the number of researchers working in Research and Development increased by more than 0.5%, from 19,800 in 2018 to 19,900 in 2019. The Group's longstanding presence in France, where a significant portion of its research centers are located, meant that there were 4,085 employees dedicated to Research and Development in France in 2019.

Its global reach also builds on its own network of experts, which has three levels: Expert, Senior Expert and Master Expert. It has a total of 1,261 Experts (products and production processes), an increase of 51% compared with the 835 registered when the network was created in 2014. It issues them with "research warrants" for periods of three years. They are tasked with defining best practices that will be incorporated into design standards and explaining them to newcomers. They are a driving force within the team, and are expected to spread their expertise throughout the network (see section 4.3.3 of this chapter, "Valeo's non-financial risks", paragraph "Risk related to developing and retaining talent", pages 223 to 226).

Solutions for low-carbon and safer mobility

Both the automotive world and mobility more broadly are undergoing a paradigm shift (see Integrated Report, "Environment in (r)evolution", page 20).

Responding to major disruptions to mobility

Valeo's aim through this all-encompassing strategy is to be a genuine catalyst fostering the emergence of innovative technological solutions across its value chain, enabling it to develop technologies related to the transformations in the industry, namely:

- **electrification of the powertrain,** based in particular on 48V low-voltage powertrain solutions, all-electric high-voltage powertrains (over 60V), as part of the joint venture with Siemens, and comprehensive electrical powertrain systems for all architectures;
- **autonomous, connected and intuitive driving,** based on vehicle automation priorities (low and high speed), increasing connectivity between vehicles and their environment (vehicles, infrastructure) and a simple and seamless interface between driver and vehicle;
- **new services around digital mobility,** resulting in the development of digital platforms to meet growing needs for mobility and the development, especially in urban areas, of new forms of mobility, both in the way transportation is used (on-demand mobility, mobility services, etc.), but also in the combination of types of transportation (public transportation, individual vehicles, bicycles, etc.).

A clear technological positioning in favor of low-carbon and safer mobility

On the strength of this technological positioning, Valeo aims to meet the great demands placed on automotive mobility by positioning its products in line with the two major challenges of mobility in today's world:

- CO_2 emissions reduction, where Valeo relies on its large portfolio of products and solutions for electrification, enabling it to cover all types of vehicles;
- road safety and accident reduction, a notion often referred to as "zero vision", where Valeo draws on its unique expertise in ADAS (advanced driver-assistance systems) and autonomous systems to increase the autonomy of the vehicle while providing safety to the driver and third-party road users.

Valeo is also positioning itself as an actor in the transformation of many uses of mobility, in particular urban mobility:

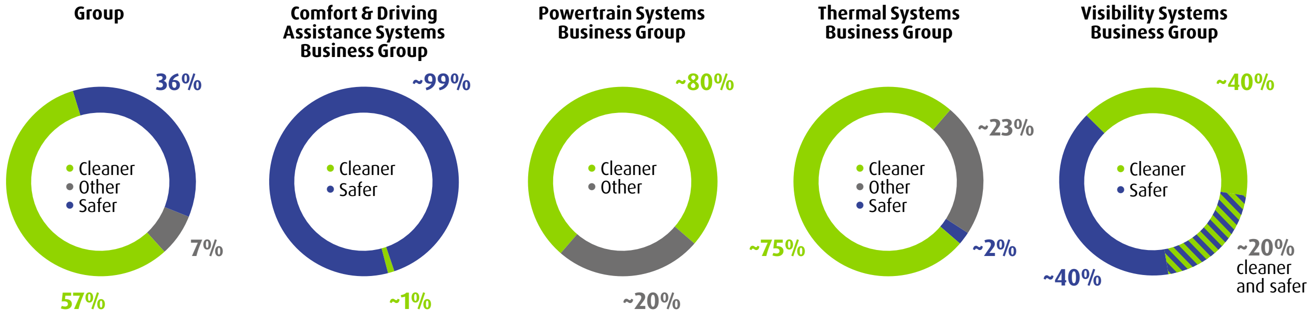
- in public transportation, where Valeo offers multiple solutions for air conditioning systems for buses and coaches. Valeo's innovations provide practical, efficient solutions, regardless of the weather, the size of the vehicle, its powertrain type, or the nature (whether urban, peri-urban or long-haul) and duration of its journey. Valeo has developed emission-free heating and air conditioning solutions, as well as roof air conditioning systems (especially electric), using a heat pump, for hybrid and electric buses;
- in last-mile delivery, with the joint development of electric and autonomous delivery vehicles (droids) in partnership with Meituan Dianping, Chinese leader in e-commerce service platforms. The vehicle is powered by an all-electric 48V system, and can find its way all by itself thanks to its Valeo perception systems. It is perfectly suited to zero emission urban areas.

Developments of this nature have also been carried out in partnership with start-up TwinswHeel for the creation of small autonomous droids (presented at CES in Las Vegas in January 2020).

Value creation and CO_2 emissions reduction

Valeo has long specialized in designing systems that help reduce CO_2 emissions. In 2019, products that directly or indirectly contribute to reducing CO_2 emissions (see below for a breakdown by Business Group) accounted for more than 57% of Valeo's original equipment sales (products sold directly to manufacturers for new vehicles, representing 84% of sales).

GREENER AND SAFER MOBILITY IS CENTRAL TO OUR STRATEGY



In general, it is estimated that one in three cars worldwide is fitted with a Valeo product that helps reduce CO_2 emissions. This proportion is set to continue growing.

It is also estimated that nearly four in every ten new vehicles produced worldwide in 2030 will be fitted with mild hybrid electrical systems (up to 48V).

Electrical systems of this type to date account for 40% of Valeo's global order intake. Their share is growing on the back of sales of electrification technologies, which will help the Group further cement its position as a leader in electrification:

- low voltage (12V and 48V), where sales continue to grow. At the end of 2019, order intake for 48V and mild-hybrid solutions amounted to 7.5 billion euros, in a total market expected to reach 15 billion euros by 2030. Valeo believes it can take more than 40% of that market by 2022, with its projected sales of 1.1 billion euros in 48V systems in 2022 implying a growth rate of 59%;
- high voltage (greater than 60V), in which the Valeo Siemens eAutomotive joint venture is a global leader. Its order intake positions Valeo Siemens eAutomotive in a high-voltage market projected to grow to 72 billion euros by 2030. Valeo is targeting sales of 1.4 billion euros in 2022, a growth rate of 67%.

More details on the contribution of Valeo's products to the threefold revolution can be found in Chapter 1 (section 1.3.1 "Comfort & Driving Assistance Systems", pages 53 to 56; section 1.3.2 "Powertrain Systems", pages 57 to 59; section 1.3.4 "Thermal Systems", pages 60 to 63; section 1.3.4 "Visibility Systems", pages 64 to 67).

Environmental policy

For nearly 30 years, Valeo has demonstrated its commitment to limiting the impact of its activities on the environment. The Group sets out its commitments in its Environmental Charter, drawn up by the Health, Safety and Environment (HSE) Department. These commitments also appear, as follows, in the Valeo Sustainable Development Charter:

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

Industrial mapping of Valeo sites

In 2019, Valeo saw the number of its production sites increase from 186 to 191, mainly due to the consolidation of the FTE automotive and Valeo-Kapec sites by the Powertrain Systems Business Group. The increase in the number of sites also reflects the opening of new sites in Johannesburg (South Africa) and San Luis Potosi (Mexico) in the Thermal Systems Business Group, and the consolidation of the legacy Ichikoh site in Foshan (China) by the Visibility Systems Business Group.

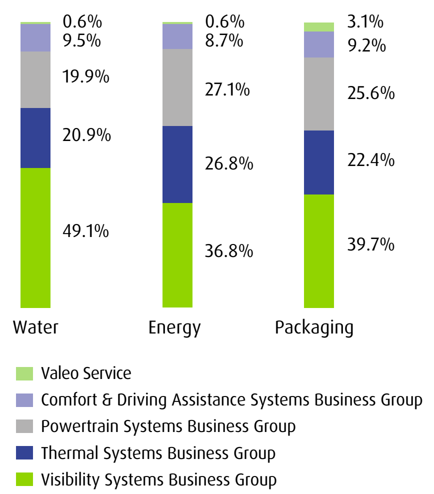
The map of the Group's 153 industrial sites included in the indicator reporting scope (see section 4.6.1 "Sustainable development reporting methodology", page 266) has been updated in the table below.

	Number of sites	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Valeo Service
Manufacturing	153	20	39	41	43	10
Assembly/installation	135	20	35	39	39	2
Processing	93	11	32	26	22	2
Injection molding	68	12	9	16	31	0
Heat treatment (ovens, furnaces)	92	12	29	22	29	0
Painting/varnishing	67	10	13	12	32	0
Welding	80	10	26	24	20	0
Use of vanishing oils (VOC-emitting*)	33	2	9	18	4	0
Degreasing (surface cleaning)	61	5	20	18	18	0
Surface treatment (altering the surface properties of a part)	46	4	12	8	22	0

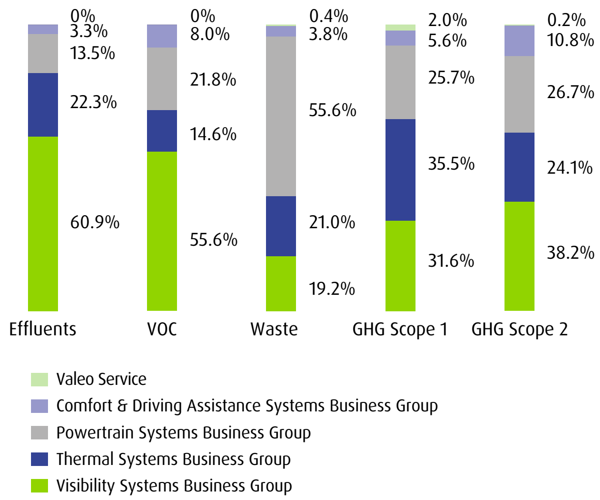
* *See sustainable development glossary, page 274.*

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

Breakdown of resource consumption



Breakdown of emissions, discharges and waste

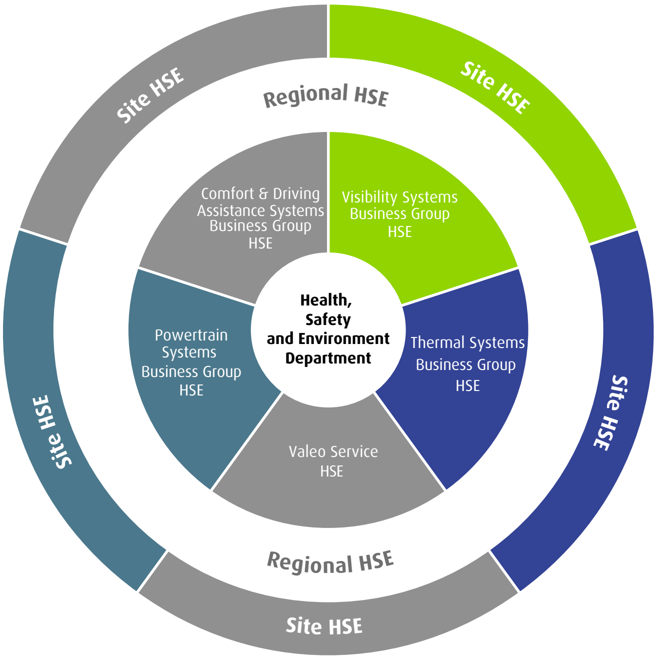


The charts above show that the Visibility Systems Business Group has since 2018 housed the Group's most resource-intensive activities (water, energy, packaging) and those most liable to generate effluents and volatile organic compounds. They also show that the Powertrain Systems Business Group is the biggest producer of waste by weight. The Health, Safety and Environment (HSE) Department is working to improve the environmental performance of the sites recently brought into the reporting scope.

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.

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

The **Health, Safety and Environment (HSE) Department**, which reports to the Industrial Department, develops policies for the health and safety of people. Its policies also cover environmental aspects as well as the security and safety of buildings and facilities, drawing on standards and tools to carry out its work. The rollout of these tools and standards is in turn based on **an organization broken down by Business Groups, Regions and Sites:** nearly 350 people are therefore responsible for meeting the commitments of the Group's environmental policy and achieving its goals, and are involved in the daily management of the Group's HSE challenges.



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

Since 2018, the network's organization has been strengthened by the appointment of **HSE managers** in several **Regions**. They each supervise a maximum of 15 sites to allow them to effectively relay the messages and give them scope to regularly provide expertise, assistance and training in the Group's tools regularly, wherever possible in the local language.

Lastly, a **Site HSE manager** is tasked with implementing Group standards in respect of workplace health and safety, environmental aspects, and the security and safety of buildings and facilities. HSE managers lead and coordinate existing management systems and train staff on compliance with internal and external requirements.

A **Country HSE coordinator** may be appointed from among the Site HSE managers to promote exchange and organize cross-audits at the national level.

Demanding risk-control standards

The **Risk Management Manual** contains all of Valeo's standards (known as operational directives) with respect to the environment, workplace health and safety, and the safety and security of facilities.

The Risk Management Manual includes a specific chapter on **crisis prevention and emergency response plans**. Several years ago, Valeo established the Valeo Emergency and Recovery Management (VERM) system to assist in the design and implementation of emergency response, crisis management and business recovery plans. The tool establishes mandatory drills for on-site events such as fire, explosions and accidental pollution, leaving each site scope to identify other relevant scenarios such as earthquakes or floods. Each site is then required to implement procedures, response sheets or lists of contacts to use in the event of a crisis, for each phase from triggering the alert to business recovery, including intervention and securing people and the site.

Environmental expenditure and investment

Operating expenses relating to the environment amounted to 22.8 million euros in 2019. They include the cost of waste treatment, analysis of effluents, operation of internal treatment plants and environmental studies. In addition to these expenses, 1.4 million euros was spent to clean up active sites.

In 2019, Valeo invested 6.5 million euros in environmental protection at its active sites. This includes the cost of installing air treatment systems, implementing retention systems for better management of hazardous materials and developing waste storage areas.

Employee policy

Valeo owes its success to the men and women who work for it. The challenge of Human Resources is therefore to build a common corporate culture that is rooted in sound values and geared towards the Group's industrial and commercial objectives.

This year, the Group's employee policy had several successes, particularly in terms of accidents, with the significant drop in frequency rate 1 (FR1) to less than 2, as well as progress made on gender diversity issues with the extension of the international gender equality index (see section 4.5.4 "Employee-related commitments", paragraph "Respecting and promoting diversity", pages 254 to 258).

The Human Resources Department's priorities are shown in the materiality matrix (see section 4.1.2 of this chapter "Sustainable development challenges and non-financial risks", pages 188 to 191). They form the foundations of the Group's actions in respect of:

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

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

- health and safety (see section 4.3.3 "Valeo's non-financial risks", paragraph "Health and safety risk", pages 219 to 221);
- attracting talent (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk related to attracting talent", pages 221 to 223);
- developing and retaining talent (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk related to developing and retaining talent", pages 223 to 226);

and **three forms of commitment:**

- quality of life at work (see section 4.5.4 "Employee-related commitments", paragraph "Quality of life at work", page 253);
- promoting diversity (see section 4.5.4 "Employee-related commitments", paragraph "Respecting and promoting diversity", pages 254 to 258);
- respecting and promoting fundamental rights (see section 4.5.4 "Employee-related commitments", paragraph "Promoting and respecting fundamental rights", pages 258 to 260).

Change in Valeo's headcount

CHANGE IN THE TOTAL HEADCOUNT OVER THREE YEARS

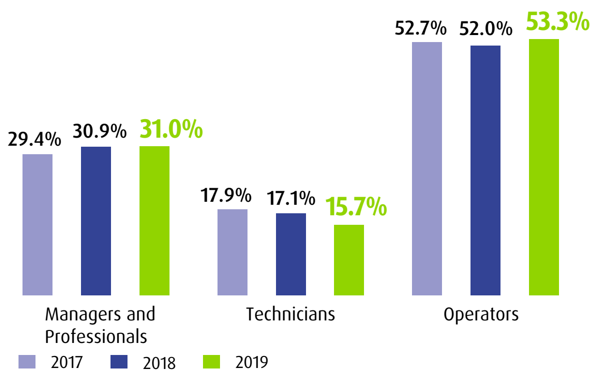
Headcount at December 31	2017	2018	2019	Change (2019/2018)
Managers and Professionals	29,365	31,683	32,013	1.0%
Technicians[(1)]	17,852	17,542	16,203	-7.6%
Operators	52,686	53,211	55,202	3.7%
Registered headcount[(2)]	**99,903**	**102,436**	**103,418**	**1.0%**
Interim staff	11,697	11,164	11,282	1.1%
TOTAL HEADCOUNT	**111,600**	**113,600**	**114,700**	**1.0%**
of which:				
▪ Permanent staff	80,788	84,200	86,000	2.1%
▪ Non-permanent staff (fixed-term and interim)	30,812	29,400	28,700	-2.4%
Average headcount[(3)]	**105,350**	**114,125**	**114,525**	**0.3%**

(1) Employees on internships, Volontariat International en Entreprise (VIE) programs and combined work-study arrangements (apprenticeship or professional training contracts) are counted as technicians.
(2) The registered headcount corresponds to permanent and fixed-term employees.
(3) The average headcount is the sum of the Group's total headcount in each quarter divided by 4.

4

At December 31, 2019, Valeo had 114,700 employees, 1% more than in 2018.

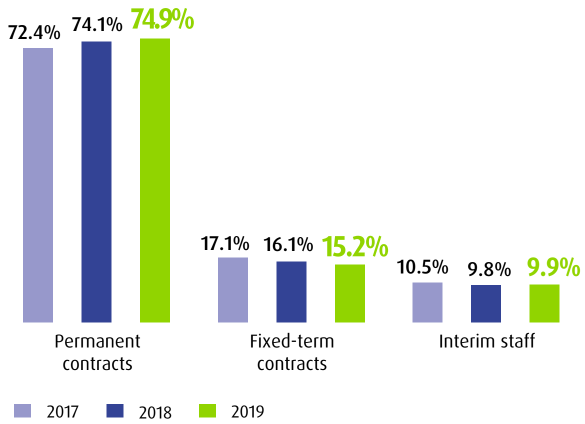
BREAKDOWN OF REGISTERED HEADCOUNT BY SOCIO-PROFESSIONAL CATEGORY



One of the major challenges for Valeo in 2019 was to recruit a variety of profiles with the high level of skills necessary for the development and production of its products and systems. The electrification, automation and digitalization of cars call on specialized and constantly evolving skills.

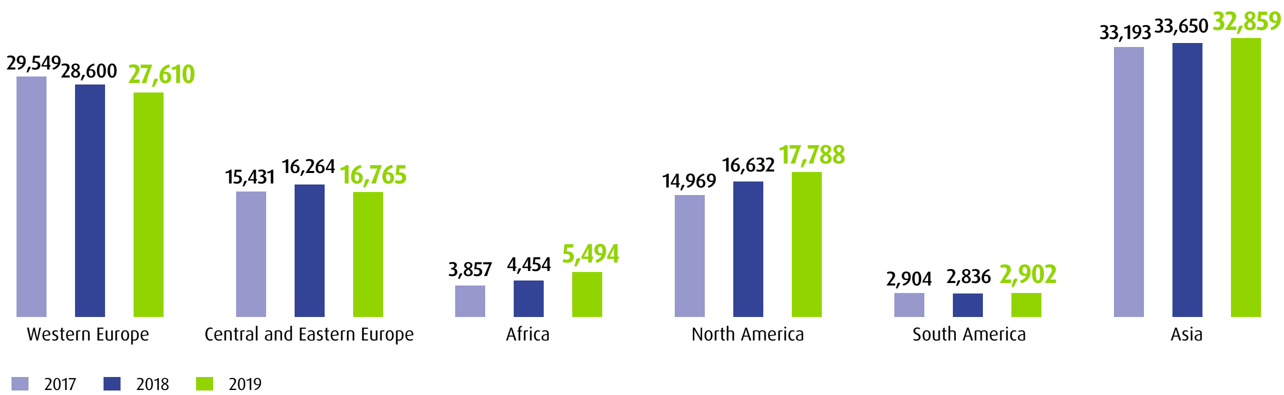
The increase in the proportion of Managers and Professionals in the Group's workforce at December 31, 2019 (a gain of 9 points between 2017 and 2019) reflects Valeo's innovation efforts aimed at bringing new products and innovative solutions to market. This population, which represented 29,365 employees in 2017, totaled 32,013 employees at the end of 2019. The slower increase in the proportion of Managers and Professionals between 2018 and 2019 (+1.0%) reflects the savings plan implemented by Valeo in response to the falloff in activity.

Breakdown of registered headcount by contract type



The automotive market is cyclical, and considerable flexibility is required to constantly adapt production capacity to fluctuating demand from customers around the world. That is why Valeo employed interim staff (fixed-term and interim contracts) representing 25.1% of its total workforce in 2019.

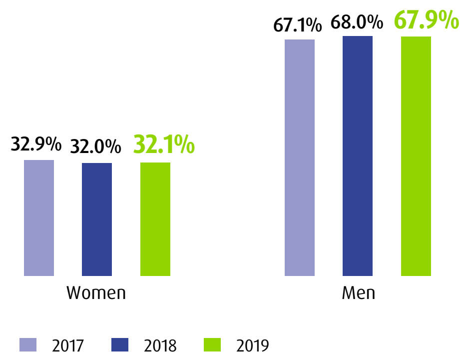
Breakdown of registered headcount by geographic area



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 2017 and 2019, Africa gained momentum with the creation of a site in Tangier (Visibility Systems, Morocco), while in North America the increase reflects the region's numerous product launches. Western Europe and Asia (mainly China) saw reductions in their headcounts in line with the current decline in activity in the sector.

Breakdown of registered headcount by gender



The proportion of women within the Group was broadly stable between 2017 and 2019, with a slight increase of 0.1 points between 2018 and 2019. However, the recruitment of women continues to progress, thanks to the diversity and recruitment initiatives taken by the Group (see section 4.5.4 "Employee-related commitments", paragraph "Respecting and promoting diversity", pages 254 to 258);

Policy and procedures

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

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

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

Social policy

Valeo's social policy is structured around three key challenges:

- anti-corruption and compliance policies;
- sustainable development requirements with regard to suppliers;
- a commitment to ecosystems and local populations.

Compliance policies and the fight against fraud

Due to the Group's global footprint and its growing number of employees, the Ethics and Compliance Department devoted 2019 to extending and strengthening its various programs to fight corruption and anti-competitive practices, and to promote compliance with economic sanctions and export controls, and the protection of personal data (the Compliance Programs).

Run by General Management and the Ethics and Compliance Office, endorsed by all management teams and relayed worldwide by Compliance Champions and Data Protection Champions, the Group's Compliance Programs are designed to prevent a number of risks associated with inappropriate behavior.

Built to the highest international standards, including France's Sapin II law, the Foreign Corrupt Practices Act (FCPA) and the General Data Protection Regulation (GDPR), the Programs break down into different principles, policies, instructions, recommendations, tools and training modules.

They are based on a Code of Ethics and a set of internal rules that:

- concretely and operationally reflect Valeo's determination to comply with regulations;
- describe prohibited practices and lay down conditions and prerequisites governing certain business relationships and cooperative arrangements;
- establish procedures for implementing and monitoring the effectiveness of the Compliance Program in preventing and detecting risks, and implementing corrective action plans as appropriate.

The Compliance Programs come with a range of awareness and training campaigns aimed at newcomers, as well as Managers and Professionals, and those people identified as the most exposed.

Training courses, whether generic or targeted in light of a particular need or activity, are subject to rigorous and systematic monitoring by Group's Human Resources Department and the Ethics and Compliance Office, with mandatory catch-up sessions. Awareness-raising involves recurrent and regular communication campaigns.

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

This systematic and rigorous approach applies to the risks that Valeo, as an international group, is liable to encounter in the course of its operations.

In 2019, particular emphasis was placed on international economic sanctions, the fight against corruption, and the protection of personal data.

International economic sanctions were carefully monitored, and the relevant compliance programs were adjusted as necessary. Updates were rolled out with the support of the Operations Committee and the Compliance Champions as part of a regular communication and awareness campaign.

In this context, the possibility of developing business relationships with potential partners (customers, suppliers, etc.) located in or having links with countries targeted by international sanctions programs has been subject to express authorization after detailed analysis of the transactions envisaged.

The Anti-Corruption Program has been further developed in light of the recommendations of the French Anti-Corruption Agency. As such, the mapping of corruption risks broken down by country, function, and Business Group or Activity is regularly updated to take into account the risks identified in the Group's various operations, and by means of the whistleblowing system and the various controls carried out by Internal Audit and Internal Control.

Furthermore, as fair trade practices, mutual respect and integrity between partners, customers, suppliers and other stakeholders are the foundations of long-term, successful and mutually beneficial relationships, the rules are reflected in the Valeo Business Partner Code of Conduct. A free training program is also available to Valeo business partners. Valeo is rigorous in its selection of third parties liable to represent it, with a view to forming honest and lasting partnerships, and meeting its obligations as regards both the fight against corruption and respect for international economic sanctions.

A personal data protection program

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

The Group has appointed:

- a Data Protection Officer (DPO);
- a Data Protection Program Director;
- Data Protection Officers (DPO) in countries that require it;
- a team comprising Data Protection Champions representing countries, networks and the Business Groups.

Valeo has chosen France's CNIL as the Group's reference regulatory authority, and has also adopted clear rules:

- a general personal data protection policy based on the GDPR and the main internationally recognized data protection principles;
- an Employee Policy;
- Privacy Statements accessible on the website at www.valeo.com;
- a comprehensive contractual system compliant with the GDPR for the outsourcing of data processing (DPA and International Transfer Clauses).

The program calls on the following tools:

- a multilingual register, to centralize processing in English and in the local language;
- a multilingual tool for collecting requests and complaints, both internal and external;
- two external and internal addresses for simple questions. The address for third parties is dpo.ext@valeo.com;
- an e-learning module offered to the most relevant 30,000 employees in 2019;
- tools to raise awareness of the fundamentals of data protection;
- targeted training (HR, Purchasing, R&D);
- a manual for HR.

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

Sustainability requirements for Valeo's suppliers

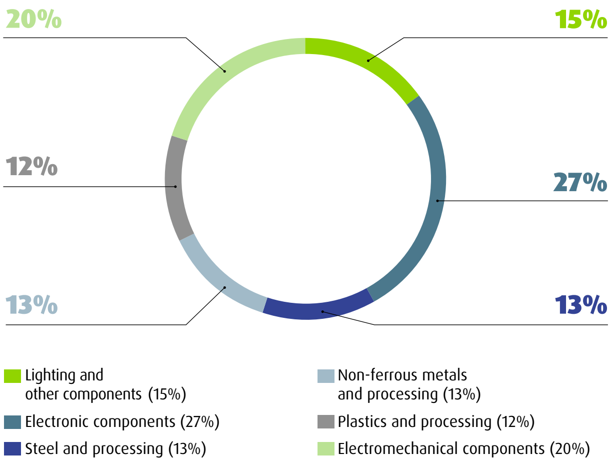
The Valeo Group's main suppliers and purchases

KEY FIGURES IN 2019

- 1,202 suppliers account for 95% of the amount of direct purchases (manufacturing purchases);
- 568 suppliers are French;
- 50 suppliers account for 27% of the amount of indirect purchases (maintenance, subcontracting, travel, supplies, etc.).

Typology of Valeo's purchases

BREAKDOWN OF PURCHASES BY COMMODITY IN 2019



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

Directives for sustainability in the purchasing policy

Valeo's purchasing policy is built on three directives:

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

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

- facilitating an understanding of the risks of a breakdown in the supply chain by taking into account a wider range of risk factors, known as sustainability factors (integrating the governance, social, environmental and fundamental rights dimensions, etc.);
- boosting suppliers' competitiveness by guiding them towards continuous improvement practices in terms of optimizing logistics and environmental costs, reducing energy costs, etc.;
- putting down deep roots in local ecosystems, applying a purchasing location policy at a regional level.

The first two aspects of the goal of promoting sustainability among Valeo's suppliers are discussed in section 4.3.3 of this chapter, "Valeo's non-financial risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 228 to 232. Purchasing location policy is discussed below:

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.

Key initiatives in 2019

As in previous years, Valeo continued its in-depth assessment of its suppliers' work in the field of sustainable development, based on its annual self-assessment questionnaire on sustainable development choices, with a representative sample of suppliers covering 80% of the Group's production purchases in 2019.

This annual self-assessment is rounded out by a campaign of audits of suppliers' sustainable development practices. For 2019, a second specific campaign focusing on suppliers in India and Southeast Asian countries covered 25 suppliers selected by the Group.

A commitment to local ecosystems and their populations

Valeo sites, actors in their regions

Valeo's sites contribute to the economic and social fabric of the regions where the Group operates. Its sites have multiple impacts: they are consumers, employers, spending centers, local economic agents, and actors in the development of human capital, and participate in creating and enhancing the appeal of businesses through transfers of competences.

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

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

For two years, Valeo has encouraged the Group's sites to establish academic partnerships at all levels. In 2019, 79% of sites established partnerships with local universities and engineering schools, and 59% with primary and secondary schools.

Promote the commitment of Valeo's sites worldwide

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

At the end of each year, Valeo takes stock of the actions undertaken at its sites. The most effective and useful initiatives are showcased via internal and external communication channels to encourage other sites to support the same sort of actions. For example, articles from the ValeOnline Newscenter, emailed to Group employees, discuss some of the outstanding site initiatives. Valeo also highlights local plant engagement in publications, such as the Management Report, by explaining and developing the purpose and results of their initiatives. For the fourth year running, all sites organized at least one corporate citizenship initiative. These various initiatives seek to improve working conditions for Valeo employees while also having a positive impact on the region's local development.

4.2 Non-financial performance objectives and indicators

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

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

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

These objectives are backed by tools for measuring performance in terms of labor-related, environmental and social responsibility, as well as compliance with competition law and the fight against corporate corruption.

Measuring progress involves identifying a major challenge for each theme, and evaluating the achievement of the associated targets through one or more key performance indicators. The following performance chart sets out the Group's main objectives and key performance indicators.

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

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

AXES	CHALLENGES	KEY INDICATORS	2015 RESULTS	2016 RESULTS	2017 RESULTS	2018 RESULTS	2019 RESULTS	TARGETS (2020)	REFERENCE SECTIONS
INNOVATION	Low-carbon mobility solutions/ Autonomous and connected vehicle	▪ Share of innovative products in order intake *(% of order intake)*	37%	50%	50%	53%	47%(1)	> 40%	5.1.1 Page 280
		▪ Share of products contributing to the reduction of CO_2 emissions *(as a % of sales)*	N/A	50%	50%	50%	57%	-	4.1.3 Page 194
ENVIRONMENTAL ECO-EFFICIENCY	Energy and carbon efficiency of production	▪ Energy consumption as a proportion of sales *(MWh/€m)*	143	137 (-4% (2))	134 (-6%(2))	140 (-1%(2))	142 (1.1%)	132 (-8%(2))	4.5.3 Page 248
		▪ Direct (*scope* 1) and indirect (*scope* 2) emissions as a proportion of sales *(tCO_2/€m)*	56.3	56.6 (+0.5%(2))	55.6 (-1%(2))	59.2 (+5%(2))	57.55 (-3%)	51.8 (-8%(2))	4.5.3 Page 249
		▪ ISO 50001 energy management certification *(% of sites)*	8%	12%	13%	17%	18%	20%	4.5.3 Page 242
	Discharges and waste	▪ Production of hazardous and non-hazardous waste as a proportion of sales *(t/€m)*	16.4	17 (+4%(2))	16.6 (+1%(2))	16.2 (-1%(2))	16.4 (1%)	15.6 (-5%)(2)	4.3.3 Page 218
	Water	▪ Water consumption as a proportion of sales *(cu.m/€m)*	198	184 (-7%(2))	175 (-12%(2))	210 (+6%(2))	197 (-6%)	186 (-6%(2))	4.5.3 Page 244
EMPLOYEES	Safety and working conditions	▪ FR1: frequency rate of occupational accidents with lost time (accidents with lost time/ million hours worked)	2.4	2.3	2	2.1	1.9	<2	4.3.3 Page 220
	Attracting and retaining talent	▪ Voluntary turnover of Managers and Professionals *(% of M&P workforce)*	6.70%	7.00%	7.30%	8.50%	8.00%	≤7%	4.3.3 Page 226
	Promoting and respecting fundamental rights	▪ Share of employees who signed a declaration acknowledging receipt of the Code of Ethics and training in its content *(% of the registered headcount)*	N/A	95%	95%	99%	99.80%	100%	4.3.3 Page 227
	Promoting diversity	▪ Share of women in new hires during the year *(% of hires during the year)*	32.40%	31.20%	32.00%	33.00%	34.90%	35.00%(3)	4.5.4 Page 255
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 total purchases)	60%	63%	67%	77%	80%	80%	4.3.3 Page 230
	Local integration	▪ Organization of initiatives and events by the Valeo sites with educational and vocational training institutions *(% of sites)*	N/A	N/A	48%	61%	68%	80%	4.5.5 Page 260

(1) From 2019, the calculation takes into account Valeo Siemens eAutomotive.
(2) Change compared with 2015.
(3) In 2018, Valeo achieved its 2020 objective, set in 2017, of >=33%. The Group has accordingly decided to raise its "Promoting diversity" target with a more ambitious goal for 2020.

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, where reducing CO_2 emissions is not a decisive factor.

A progress report on the targets set for 2020 will be included in the 2020 Universal Registration Document to be published in 2021.

Non-financial performance indicators

Technological indicators

	Section	Unit	2017	2018	2019
KEY RESEARCH AND DEVELOPMENT INDICATORS					
Gross Research and Development expenditure *(as a % of original equipment sales)*[1]	4.1.3		11.8%	13.0%	12.6%
Net Research and Development expenditure *(as a % of sales)*[1]	4.1.3		6.1%	8.2%	7.9%
Research and Development headcount	4.1.3		17,900	19,800	19,900
Number of customer projects managed	4.2		2,800	3,000	
Number of collaborative projects funded	4.5.2		>50	>50	>50
Number of patents filed	4.5.2		2,053	2,144	1,698
Proportion of innovative products[2] in the order intake	4.2		50%	53%	47%
RESOURCE AND ECO-DESIGN INDICATORS[3]					
Sales (reference)		€k	16.750	17.661	18.749
Consumption of heavy metals	4.3.3	t	7.7	9.8	11.5
Consumption of heavy metals/Sales	4.3.3	kg/€m	0.46	0.55	0.61
Consumption of chlorinated solvents	4.5.3	t	0	114	1.04
Consumption of chlorinated solvents/Sales	4.5.3	kg/€m	0	6	0.05
Consumption of CMR substances[4]	4.3.3	t	121.2	130	140.6
Consumption of CMR substances[4]/Sales	4.3.3	kg/€m	7.2	736	7.5
Consumption of recycled plastics	4.5.3	kt	10.9	12.3	9

(1) Excluding the Top Column Module business, from which Valeo has withdrawn.
(2) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.
(3) Sales calculated for the period from October 1, 2018 to September 30, 2019, as specified in the methodological note on pages 266 to 268.
(4) See sustainable development glossary, page 274.

Environmental indicators

	Section	Unit	2017	2018	2019
INDUSTRIAL MAPPING OF VALEO SITES[1]					
Total sales across all sites in reporting scope[2]	4.1.3	€m	16,750	17,661	18,749
Number of sites in reporting scope	4.1.3	-	132	140	153
GENERAL POLICY ON ENVIRONMENTAL ISSUES					
Number of sites able to obtain ISO 14001 and OHSAS 18001 certification	4.5.3	-	128	140	153
ISO 14001-certified sites	4.5.3	%	95	92	87
OHSAS 18001-certified sites	4.5.3	%	95	91	84.5
ISO 50001-certified sites	4.5.3	%	13	17	18
Functional expenditure allocated to environment	4.1.3	€k	19,028	21,022	22,756
Cleanup costs, sites in operation	4.1.3	€k	1,086	1,717	1,434
Amount of investments for the protection of the environment (excluding cleanup costs)	4.1.3	€k	5,731	5,843	6,469
Number of fines and compensation awards	4.2	-	1	1	1
Amount of fines and compensation awards	4.2	€k	6	63	44[3]
Total provisions allocated to environmental risks	4.2	€m	16	15	14[4]
Number of environmental complaints	4.2	-	8	12	4

(1) Data may vary slightly depending on the rate of site response on specific indicators (see section 4.6 "Methodology and international guidelines", pages 266 to 273).
(2) Sales calculated for the period from October 1, 2018 to September 30, 2019, as specified in the methodological note on pages 266 to 268.
(3) The Veszprem site (Comfort & Driving Assistance Systems Business Group, Hungary) was fined 44,000 euros for not paying taxes and penalties related to insufficient documentation in the waste transport process in due time.
(4) Total provisions set aside for site remediation or for the environment at December 31, 2019.

	Section	Unit	2017	2018	2019
ACCIDENTAL POLLUTION OF WATER AND/OR SOIL					
Volume of industrial effluents treated	4.3.3	k cu.m	794	916	869
Heavy metal content in these effluents	4.3.3	kg	20	53	56
Number of significant spills	4.3.3	-	0	0	1
Total waste generated	4.3.3	kt	277.6	275.8	306.1
▪ Of which hazardous waste	4.3.3	%	9	9	10
▪ Of which non-hazardous waste	4.3.3	%	91	91	90
Total waste generated/Sales	4.3.3	t/€m	16.6	16.2	16.4
Waste recovery rate	4.3.3	%	89	91	89
Total waste exported	4.3.3	t	1,613	2,464	2,207
Ratio of total waste exported/Total waste generated	4.3.3	%	0.6	0.9	0.7
WATER MANAGEMENT					
Total water consumption	4.5.3	k cu.m	2,926	3,711	3,698
Total water consumption/Sales	4.5.3	cu.m/€m	175	210	197
Water outages and restrictions	4.5.3	-	6	1	3
ATMOSPHERIC EMISSIONS AND DISCHARGES					
Atmospheric lead emissions	4.5.3	kg	40	36	224
Atmospheric lead emissions/Sales	4.5.3	g/€m	2.38	2.04	11.94
Atmospheric TCE emissions	4.5.3	t	0	1.8	0.7
Atmospheric TCE emissions/Sales	4.5.3	kg/€m	0	0.1	0.03
Quantity of ozone-depleting substances used	4.5.3	kg	30,819	27,793	18,092
Emissions of ozone-depleting substances	4.5.3	kg CFC-11eq.	513	469	136
Atmospheric VOC emissions(5)	4.5.3	t	1,596	2,174	1,905
Atmospheric VOC emissions/Sales	4.5.3	kg/€m	95	123	103
Atmospheric NO_x emissions	4.5.3	t	136	139	146
Atmospheric NO_x emissions/Sales	4.5.3	kg/€m	8.1	7.85	7.81
REDUCE ENERGY CONSUMPTION AND GREENHOUSE GAS EMISSIONS					
Total energy consumption	4.5.3	GWh	2,250	2,476	2,657
▪ Proportion of electricity	4.5.3	%	75.3	76.6	76.8
▪ Proportion of natural gas	4.5.3	%	22.6	20.3	21.2
▪ Proportion of fuel oil	4.5.3	%	1.5	1.8	1.1
▪ Proportion of other energy sources	4.5.3	%	0.6	1.4	0.9
Total energy consumption/Sales	4.5.3	MWh/€m	134	140	142
Direct energy consumption/Sales	4.5.3	MWh/€m	32	32	32
Indirect energy consumption/Sales	4.5.3	MWh/€m	102	108	110
Energy efficiency: expected gain	4.5.3	MWh	53,893	27,031	23,833
Direct greenhouse gas (GHG) emissions	4.5.3	kt CO_2eq.	166.9	175.3	186.9
Indirect GHG emissions	4.5.3	kt CO_2eq.	763.9	870.5	954.5(6)
Indirect GHG emissions (including the purchase of green energy certificates)	4.5.3	kt CO_2eq.	763.9	870.5	892.2(7)
Other relevant indirect GHG emissions	4.5.3	kt CO_2eq.	8,261	9,329	9,696
PACKAGING					
Packaging materials consumption		kt	92.5	100.6	94.2
▪ Proportion of plastic packaging	4.5.3	%	9.9	12.5	14.3
▪ Proportion of cardboard packaging	4.5.3	%	59.4	56	54.1
▪ Proportion of wood packaging	4.5.3	%	29.1	29.6	30
▪ Proportion of other types of packaging		%	1.6	1.9	1.7
Packaging materials consumption/Sales		t/€m	5.5	5.7	5.1

(5) See sustainable development glossary, page 274.
(6) Data on indirect greenhouse gas emissions: this calculation does not take into account purchases of green energy for Poland.
(7) Data on indirect greenhouse gas emissions: this calculation includes the adjustment of the energy mix for purchases of green energy in Poland.

Employee-related indicators

	Section	2017	2018	2019
CHANGE IN VALEO'S HEADCOUNT				
Managers and Professionals	4.1.3	29,365	31,683	32,013
Technicians(1)	4.1.3	17,852	17,542	16,203
Operators	4.1.3	52,686	53,211	55,202
Registered headcount(2)	4.1.3	**99,903**	**102,436**	**103,418**
Interim staff		11,697	11,164	11,282
Total headcount	4.1.3	**111,600**	**113,600**	**114,700**
Permanent staff		80,788	84,200	86,000
Non-permanent staff		30,812	29,400	28,700
Average headcount(3)	4.1.3	**105,350**	**114,125**	**114,525**
Breakdown of registered headcount by socio-professional category *(%)*	4.1.3			
■ Managers and Professionals		29.4%	30.9%	31.0%
■ Technicians(1)		17.9%	17.1%	15.7%
■ Operators		52.7%	52.0%	53.3%
Breakdown of registered headcount by contract type *(%)*	4.1.3			
■ Permanent contracts		72.4%	74.1%	74.9%
■ Fixed-term contracts		17.1%	16.1%	15.2%
■ Interim staff		10.5%	9.8%	9.9%
Breakdown of registered headcount by geographic area	4.1.3			
■ Western Europe		29,549	28,600	27,610
■ Central and Eastern Europe		15,431	16,264	16,765
■ Africa		3,857	4,454	5,494
■ North America		14,969	16,632	17,788
■ South America		2,904	2,836	2,902
■ Asia		33,193	33,650	32,859
Breakdown of registered headcount by gender *(%)*	4.1.3			
■ Women		32.9%	32.0%	32.1%
■ Men		67.1%	68.0%	67.9%
HEALTH AND SAFETY				
Number of lost-time occupational accidents per million hours worked, Group (FR1)	4.3.3	2.0	2.1	1.9
Number of occupational accidents, with or without lost time, per million hours worked, Group (FR2)	4.3.3	10.6	12.1	8.3
Number of days lost owing to an occupational accident per thousand hours worked, Group (SR1)	4.3.3	0.06	0.06	0.07
Number of category 1 accidents	4.3.3	5	5	4
Absenteeism rate	4.3.3	2.11%	2.36%	2.50%
ATTRACTING TALENT				
Breakdown of new hires by contract type *(%)*	4.3.3			
■ Permanent contracts		53.9%	49.2%	51.4%
■ Fixed-term contracts		46.1%	50.8%	48.6%
Breakdown of new hires by geographic area(4) *(%)*	4.3.3			
■ Western Europe		22.7%	27.1%	19.1%
■ Central and Eastern Europe		13.7%	11.8%	12.5%
■ Africa		3.0%	4.5%	10.0%

(1) Employees on internships, Volontariat International en Entreprise (VIE) programs and combined work-study arrangements (apprenticeship or professional training contracts) are counted as technicians.
(2) The registered headcount corresponds to permanent and fixed-term employees.
(3) The average headcount is the sum of the Group's total headcount in each quarter divided by 4.
(4) Hires resulting from external growth operations are not included in this calculation.

	Section	2017	2018	2019
▪ North America		22.3%	27.4%	36.4%
▪ South America		2.2%	2.0%	2.1%
▪ Asia		36.1%	27.2%	19.9%
Change in the number of LinkedIn followers		379,411	504,497	631,000
DEVELOPING AND RETAINING TALENT				
Percentage of employees trained	4.3.3	98.1%	98.5%	95.1%
Number of training hours provided	4.3.3	2,270,563	2,403,014	2,424,533
Average hours of training per employee	4.3.3	23.6	24.6	23.4
Percentage of training hours devoted to safety	4.3.3	15%	15%	15%
Percentage of employee shareholders at Valeo	4.3.3	40%	45%	50%
Breakdown of departures by cause	4.3.3			
▪ Resignations		7,723	9,190	9,412
▪ Expiration of fixed-term contracts		9,284	10,550	10,452
▪ Dismissals and contract terminations		3,610	4,191	5,126
▪ Retirement, early retirement and death		565	692	589
▪ Layoffs		418	697	535
Turnover of Managers and Professionals		7.3%	8.5%	8.0%
RESPECTING AND PROMOTING DIVERSITY				
Percentage of women among new hires *(%)*	4.5.4			
▪ Managers and Professionals		23.7%	26.0%	26.0%
▪ Technicians		26.0%	32.8%	32.8%
▪ Operators		38.1%	36.2%	38.1%
Percentage of women among new hires		32.0%	33.0%	34.9%
Breakdown of women by socio-professional category *(%)*	4.5.4			
▪ Managers and Professionals		23.1%	22.7%	23.1%
▪ Technicians		25.2%	24.5%	24.6%
▪ Operators		40.4%	38.5%	40.2%
Number of employees with disabilities		1,759	2,376	2,177
Breakdown of sites run by local directors *(%)*	4.5.4			
▪ Western Europe		86%	77%	78%
▪ Central and Eastern Europe		57%	76%	71%
▪ Africa		0%	75%	67%
▪ North America		60%	71%	64%
▪ South America		80%	67%	80%
▪ Asia		71%	83%	77%
Breakdown of registered headcount by age group *(%)*	4.5.4			
▪ < 20 years		1.2%	1.1%	1.1%
▪ 20-29 years		31.2%	29.2%	27.6%
▪ 30-39 years		33.1%	34.0%	34.3%
▪ 40-49 years		21.3%	21.5%	22.2%
▪ 50-59 years		11.6%	12.1%	12.6%
▪ > 60 years		1.7%	2.0%	2.2%
Number of interns		1,959	1,651	1,793
Number of apprentices		1,195	1,223	1,017
Number of VIE (*Volontariat international en entreprise*) applicants		135	108	76

(1) Employees on internships, Volontariat International en Entreprise (VIE) programs and combined work-study arrangements (apprenticeship or professional training contracts) are counted as technicians.
(2) The registered headcount corresponds to permanent and fixed-term employees.
(3) The average headcount is the sum of the Group's total headcount in each quarter divided by 4.
(4) Hires resulting from external growth operations are not included in this calculation.

Social indicators

Indicators	Section	2017	2018	2019
Percentage of sites that organized open days		23%	26%	32%
Percentage of sites that organized initiatives for primary schools (nearby)	4.5.5	48%	61%	58%
Percentage of sites that organized initiatives for higher education institutions (nearby)	4.5.5	82%	82%	79%
Share of production purchases for which the suppliers' sustainable development practices were assessed during the year *(% of total purchases)*	4.5.5	67%	77%	80%

4.3 Non-financial information statement

4.3.1 Analysis of non-financial risks

Valeo has analyzed its non-financial risks, in compliance with the French legal framework, to improve the transparency of its non-financial reporting. The Group was keen to blend the methodologies developed internally to evaluate its operations and its supply chain with new duty-of-care and measurement tools developed by non-financial stakeholders. These include mechanisms resulting from sector-based initiatives for the evaluation of the supply chain (for conflict minerals for instance).

Valeo's analysis of non-financial risks, performed for the first time in 2018, resulted from the joint work of the Risk Management and Sustainable Development and External Affairs departments. The work followed the methodological approach and included the following key steps:

- **Step 1:** by comparing the Group's risk map (the details of which are presented in Chapter 2, section 2.1 "Risk factors", pages 80 to 92) with the materiality matrix, Valeo sought to identify and analyze the potential risks associated with the challenges in the matrix. The analysis took into account changes in the French legal framework and the risks associated with corruption[(1)], serious violations of human rights and fundamental freedoms, personal health and safety, and the environment[(2)] (see section 4.4 "The duty of care plan", pages 233 to 235).
  - It was considered that the risk analysis had already been performed for challenges in the matrix covered by the Group's risk mapping, which correspond to risk factors;
  - The challenges not covered by the risk mapping were analyzed in detail, based largely on in-depth interviews with the various contributors to their management, as well as on sector comparisons. The results gave rise to the formalization of non-financial risks, their evaluation in accordance with the Group's risk assessment scale (i.e., that used for the risk factors presented in Chapter 2) and the establishment of specific mapping of non-financial risks;
- **Step 2:** the mapping of the non-financial risks and its associated analysis for 2018 were presented to the Risks Committee in early 2019, which approved the findings;
- **Step 3:** the risk factors resulting from this non-financial risk mapping were published in the Registration Document for 2018 (at the end of March 2019).

The process was reiterated for this 2019 Universal Registration Document. The risk analysis and associated mapping were presented to the Risks Committee, which validated the assessments of the non-financial risks identified for 2019.

Through this process, Valeo identified the following seven main non-financial risks (classified in accordance with Valeo's four sustainable development axes):

Sustainable development axes	Risks	
Innovation	Risk of non-compliance with environmental product regulations	Pages 210 to 215
Environmental eco-efficiency	Risk associated with accidental pollution of water and/or soil	Pages 216 to 218
Employees	Health and safety risk	Pages 219 to 221
	Risk related to attracting talent	Pages 221 to 223
	Risk related to developing and retaining talent	Pages 223 to 226
Commitment to corporate citizenship	Risk of individual corruption	Pages 227 to 228
	Risk of non-compliance with sustainable development requirements by Valeo's suppliers	Pages 228 to 232

Of the non-financial risks identified, Valeo considers that the "risk of non-compliance with environmental product regulations" best reflects the Group's exposure to the effects of climate change on its product portfolio[(3)]. The characterization of the risks weighing on its industrial activity as regards the effects of climate change bear chiefly on the unavailability of production facilities following weather events or major natural disasters (see Chapter 2, section 2.1.1 "Operational and strategic risks", pages 81 to 89).

The means of controlling these risks are presented in the following section (section 4.3.3 "Valeo's non-financial risks", pages 210 to 232).

These risks were analyzed and dealt with in a low-carbon scenario approach, in connection with the new legal provisions on the disclosure of financial risks related to the effects of climate change[(4)].

Further clarification on the reporting of risks and opportunities related to climate change is provided in the box entitled "Climate change: Valeo's resilient business model and risk management system", page 186. It was designed based on the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD).

(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) Energy transition law for green growth, application guide of Article 173-VI.

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

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

- the fight against food waste;
- the fight against food insecurity;
- respect for animal welfare;
- responsible, fair and sustainable food[(1)].

Measures taken by Valeo to combat tax evasion are described in Chapter 1, section 1.2.3 "Valeo's tax policy" (page 51).

Although this information is not part of the framework of the non-financial information statement[(2)], certain employee, environmental and social data have been kept in this chapter to ensure the continuity and transparency of information. They are presented, for each sustainable development priority, in the sections entitled "Valeo's commitments" (section 4.5.2 "Technological commitments", section 4.5.3 "Environmental commitments", section 4.5.4 "Employee-related commitments", section 4.5.5 "Social commitments").

4.3.2 Business model

Valeo's business model is presented in the Integrated Report (see section "Valeo's value creation model", pages 46 and 47).

4.3.3 Valeo's non-financial risks

Risk of non-compliance with environmental product regulations

Description of the risk

In light of changing and increasingly stringent laws worldwide on the reduction of polluting emissions from vehicles and the introduction of electromobility in Europe and other parts of the world (in Europe, emissions capped at 95 g of CO_2/km in 2021 and 59 g of CO_2/km in 2030), and given market trends in favor of the penetration of hybrid and electric vehicles, Valeo has identified a non-financial risk of non-compliance by these products with environmental regulations.

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

- caps on CO_2 emissions and gaseous pollutants from vehicles[(3)];
- compliance with the regulatory framework for eco-design[(4)(5)] and the use of hazardous and regulated substances in the product composition and manufacturing process[(6)].

Risk management policy

Since 2009, the design, development and production of products contributing to the reduction of CO_2 emissions have been constants in the Group's strategy. This risk is accordingly monitored by the Research and Development and Strategy departments.

Valeo's policy has two focuses:

- innovation for the reduction of CO_2 emissions of products during their use phase, with contributions from the following three Valeo activities:
  - products contributing to the hybridization and electrification of powertrains, especially those dedicated to medium-power (48V) hybridization,
  - high-power (over 60V) electrification for electric vehicles and plug-in hybrids, offering a significant reduction in CO_2 emissions and the option of driving in low-emissions mode, especially in urban areas,
  - thermal solutions for both engine and cabin, now integrating all battery thermal management solutions for electric vehicles,

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

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

(3) *Regulation (EC) No. 715/2007 of the European Parliament and of the Council of June 20, 2007 on type approval of motor vehicles with respect to emissions from light passenger and commercial vehicles (Euro 5 and Euro 6) and on access to vehicle repair and maintenance information; Regulation (EU) 2019/631 of the European Parliament and of the Council of April 17, 2019 setting CO_2 emission performance standards for new passenger cars and for new light commercial vehicles, and repealing Regulations (EC) No. 443/2009 and (EU) No. 510/2011 (recast).*

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

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

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

- exterior and interior lighting solutions (vehicle projectors, etc.) with reduced energy consumption and mass to help limit the vehicle's carbon impact. In wiper systems, Valeo also develops systems that consume less energy;
- roll out of a product eco-design strategy geared towards reducing their carbon impact well beyond the simple use phase, with the following priorities:
  - limiting the consumption of raw materials and chemicals,
  - using recyclable and recycled materials,
  - eliminating hazardous materials in anticipation of the applicable legal and regulatory framework.

Measures taken to reduce the risk

Reducing CO_2 emissions

The key products contributing to the hybridization and electrification of powertrains are presented in Chapter 1, section 1.3.2 "Powertrain Systems", pages 57 to 59. Similarly, the latest innovations in thermal systems and lighting and wiper systems are presented in Chapter 1, section 1.3.4, "Visibility Systems", pages 64 to 67, and section 1.3.3 "Thermal Systems", Pages 60 to 63.

To reinforce tools for measuring the impact of its products, Valeo has undertaken a pilot project to measure the carbon impact of its product families during their use phase and their life cycle (an average life of 20 years was assumed for the analysis). The study is intended to provide an internal tool for modeling the consolidated impact of the Group's products (see box below, "CO_2 emissions related to the use of Valeo products (scope 3)", page 211).

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

CO_2 emissions related to the use of Valeo products (scope 3)[1]

In accordance with the recommendations on identifying and reporting the volumes of indirect CO_2 emissions related to Valeo's operations[2], the Group undertook vast work in 2017 to lay down a methodology for calculating emissions relating to the use of its products, in the absence of existing methodology in the industry:

- in view of the wide range of uses offered by Valeo products, varying depending on the choices made by automakers, on which Valeo only has a certain amount of information, this work drew on the modeling of its products' carbon impacts and was based on the parameters set out below;
- the work benefited from scientific and technical advice from EMISIA SA, an offshoot of the Applied Thermodynamics Laboratory of the University of Thessaloniki (Greece) and a recognized expert in modeling transportation-related CO_2 impacts from the European Commission[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 vehicles (rolling, product life);
- the penetration of Valeo technologies in the market and within the specific segments reviewed;
- the characteristics of the global market.

This work was continued and intensified in 2019. The study covered a representative sample of the Group's main product families (powertrain systems, thermal, lighting and wiper systems and autonomous and connected vehicles), which accounted for more than half the Group's sales in 2019.

Valeo estimates the CO_2 impact of the selected products sold in 2019, in their phase of use over their entire life cycle, at 88,184 kt CO_2eq. The year-on-year change in this estimate (down 16.5%) is attributable to changes in both world automobile production and market share for some of the Group's businesses in 2019.

(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 4.5.3, "Environmental commitments", paragraph "Reducing our carbon impact", pages 248 to 250).

(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").

Product eco-design

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

- reduce CO_2 emissions;
- increase the recyclability of materials and systems;
- ensure that materials are safe.

The upstream phase represents 90% of a product's total impacts.

Valeo's eco-design approach is based on internal standards, which guide the project teams in their life cycle analyses in the upstream research phase. They are included in internal documents, in particular the EcoDesign Standard[(1)] and eco-design guidelines by Product Line. These documents enable engineers to assess the major environmental impacts of products at all stages of their life cycle during project development:

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

They make it possible to incorporate sustainable development constraints during the use of the product.

Life Cycle Assessments at Valeo

In the automotive industry, the automaker or order-giver is responsible for performing the Life Cycle Assessment (LCA). Consolidated data on components and modules are available through the LCAs performed by automakers. Based on the information listed and monitored in its EcoDesign Checklist database, the Group estimates that it has now identified and made available nearly 80% of the data required for a product LCA. This information is used to create and develop products with less impact on the environment.

Compilation and use of the information is managed in the Product Life Cycle Management (PLM) system, which lists the components of products and systems used in their design, and requires compliance with clearly defined standards. Any departure from the standards (in particular when using non-documented materials) must be justified. By systematically referring to the standards, Valeo demonstrates its determination to embed eco-design (including CO_2 impact analysis) as far upstream as possible in the product development phase.

A Life Cycle Assessment (LCA) has been carried out on LED fog lights. The aim was to assess their environmental impacts throughout their life cycle: production phase (LEDs and electronic controls), use phase (fuel consumption, CO_2 emissions) and end-of-life or recycling/reuse phase. The Group has gained considerable expertise in performing this analysis.

The extent of Valeo's portfolio rules out performing LCAs on the entire product range.

To ensure the directive's circulation and implementation, Valeo has published an EcoDesign Checklist designed to monitor the application of the criteria in new projects. This easy-to-use tool ensures that eco-design criteria are observed from the upstream phase. This means that products are consistently engineered from the outset with an eye to sustainable development criteria.

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

It also responds to changes in the European End-of-Life Vehicle (ELV) Directive[(2)], which since January 1, 2015 has required automakers to achieve a minimum rate of reuse and recycling of 85% by weight of the ELV, or 95% when disposing by incineration. As a result, automakers have established increasingly higher standards with their suppliers to gradually raise the recycling rate of their products. The R&D and Projects teams work closely with automakers to anticipate and design products and systems that take into account recyclability and the best circuits in the industrial value chain.

As well as working closely with automakers, Valeo has for many years been committed to identifying second life solutions for some of the Group's key products (see section 4.5.2 "Technological commitments", page 238).

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

(2) See sustainable development glossary, page 274.

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

Examples of recyclability of two Valeo products

The new generation Valeo *i-StARS* starter-alternator has a recyclability rate of 98.2% and a recovery rate of 99.5%(1) (based on an internal evaluation).

The Valeo e-supercharger has a recyclability rate of 94.8% and a recovery rate of 97.6%(2) (based on an internal evaluation).

Compliance of products with standards

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

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

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

- set standards that are easy to identify, understand, learn, implement and verify. This is essential for ensuring that they are properly applied in a group like Valeo, whose employees speak a variety of languages and come from multiple 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 Life Cycle Management database), and providing training provided at the Valeo Technical Institutes;
- verify that standards are implemented. To this end, the RAISE teams regularly visit sites and review project design. They do this to ensure that standards are applied correctly and to obtain any feedback that can be used to improve them.

More than 8,000 product and process standards are in place and maintained in the various Product Groups. They are applied day-to-day in designing new products and manufacturing processes.

Special training programs (core RAISE training courses on design reviews, risk analysis and reliability) are continuously provided for Research and Development and Industrialization teams to extend their reach even further.

Reduction and elimination of hazardous chemical substances

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

The European Union regulation commonly known as REACH(2) has established a single system for the Registration, Evaluation, Authorization and restriction of Chemicals. REACH is aimed at increasing knowledge of the properties of chemical substances manufactured or marketed in the European Union so as to contain the risks related to them and, where necessary, restrict or ban their use.

It covers nearly 30,000 substances out of the 100,000 currently on the European market. Of them, 1,500 are deemed particularly hazardous. Their use is controlled by the European authorities. As such, at the end of December 2019, 204 SVHCs (Substances of Very High Concern) had been identified by the competent European authorities and their use has been progressively subject to authorization. Among other substances, they include solvents, primarily used during procedures involving plasticizers to soften polymers, flame retardants used in electrical and electronic products to provide effective protection against the propagation of fire, and certain surface treatments. Moreover, due to the increasing integration of electronic components requiring the use of nanomaterials in its products, Valeo is closely following work by the European Commission in this area, especially via the REACH regulation, in order to anticipate possible substitutions of nanomaterials, or modifications to their supply processes and their use in manufacturing.

For REACH purposes, Valeo is generally considered to be a downstream user of chemicals. This means that it must list the substances used in manufacturing its products and those required to operate its industrial facilities to ensure the safety of its supply chain and its operations.

Valeo has introduced a special structure to comply with REACH regulations.

It works under the REACH manager and a team including a representative in each division. They set the list of hazardous substances and decide on whether to eliminate them from Valeo's products and processes. REACH representatives are in place within each entity affected by REACH regulations and at every Valeo

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

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

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 again in 2019. It summarizes the regulations applicable in the different countries where Valeo operates, and the requirements of its automaker customers concerning the substances used in the composition of parts, and in manufacturing and repair processes.

Valeo has long conducted in-depth research into the potential presence of SVHCs in its products, and has begun to replace them with substances with less environmental impact. It has set the ambitious target of eliminating from its products any substance requiring authorization in any of its markets. It will work with its suppliers to systematically find alternatives to using SVHCs. In particular, a plan to replace products containing certain phthalates, including DEHP[1] and certain nonylphenols, including nonoxinol, widely used as a plasticizer, was continued.

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

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

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

Valeo has asked suppliers from which the Group purchases between 1 and 100 metric tons of substances to comply with the latest REACH disclosure requirements (in line with the methodology advocated by ACEA and CLEPA[2]). The audits carried out by Valeo showed that the Group was compliant with all mandatory requirements.

Materials consumption

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

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

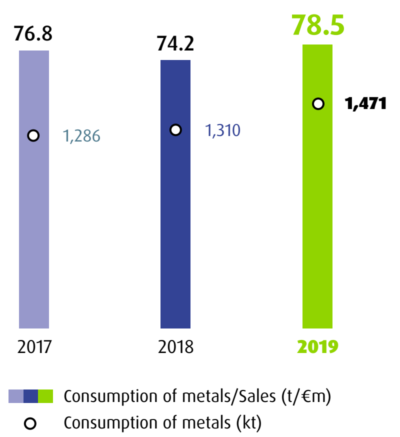
Results and performance

Sales derived from products contributing to the reduction of CO_2 emissions

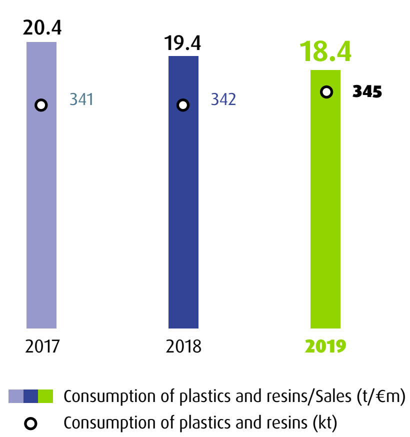
In 2019, products that directly or indirectly contribute to reducing CO_2 emissions accounted for 57% of Valeo's original equipment sales.

Consumption of raw materials

Consumption of metals



Consumption of plastics and resins



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

(2) *Joint ACEA-CLEPA position paper of June 28, 2016: REACH registration – 2018 Deadline.*

In 2019, total consumption of metals as a proportion of sales increased by nearly 5% compared with 2018. This stemmed from a change in the mix in favor of products using more metal, particularly in the powertrain systems business, and from growth in overall sales.

This result does not call into question the eco-design tools deployed by Valeo, which has gradually begun replacing metal with lighter materials such as plastics and resins. Consumption of such materials increased by 3 points (in absolute terms) in 2019 compared with 2018. The pace of changes in raw materials consumption reflects the reality of growth in the Group's various business lines. The use of these materials has a significant impact on the weight of components and the vehicle.

Consumption of heavy metals

In the automotive industry, consumption of heavy metals stems solely from the presence of lead in welding materials used for certain specific activities. Determined to phase out the use of lead in the development of its products, Valeo is working to optimize its industrial welding process in order to reduce the consumption of materials used for this purpose. Its medium-term objective, depending on change in industrial processes and their acceptance within the industry, is to completely replace the lead used in welding with tin.

Over recent years, Valeo has gradually replaced lead with tin in the soldering processes used in the Group's various activities (Powertrain Systems and Comfort & Driving Assistance Systems Business Groups).

In 2019, only the Ebern site (Germany), recently brought into the Group's scope (following the acquisition of FTE), continued to use lead. Its consumption totaled 9 metric tons. The site has been working on phasing out lead since its integration into the Valeo Group. The process is expected to be completed by the end of the first half of 2020.

Consumption of chemicals

In 2019, the residual consumption of 1.04 metric tons was linked mainly to the use of trichlorethylene (TCE) by the sites of Perai-Penang in Malaysia with 700 kg (Comfort & Driving Assistance Systems Business Group) and Sainte-Florine in France (Powertrain Systems Business Group) with 321 kg of perchlorethylene to power a machine operating in a closed circuit. The Perai-Penang site plans to definitively replace trichlorethylene with a glycol by the end of the first half of 2020.

Consumption of carcinogenic, mutagenic and reprotoxic (CMR)[1] substances has been declining in recent years. It decreased by 70% as a proportion of sales from 25.7 kg/million euros in 2015 to 7.5 kg/million euros in 2019, and from 361 to 140 metric tons in absolute terms.

At the end of 2019, seven Group sites alone consumed more than 90% of the CMR used, including 56% for the San Luis Potosi site (Powertrain Systems Business Group) with 78.5 metric tons.

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 9,000 metric tons in 2019.

Commitment on recycled plastics

Valeo actively participated in the PFA (*Plateforme Française de l'Automobile*) working group on recycled materials in 2019, thereby playing its part in the transition to a circular economy.

Alongside its automaker customers and the public authorities, Valeo is working to gradually increase the share of recycled materials in the global supply of polymers, as part of an action plan that was drawn up jointly by the government and automakers in 2019[2]. Due to its widespread use, polypropylene has been prioritized.

Among the actions identified by the government and the automotive industry, Valeo will contribute to:

- establishing generic specifications for recycled materials in collaboration with its customers;
- working with communities to develop standards. To that end, Valeo will participate in voluntary work for the development of grades of recycled materials. Its aim will be to test them on its own automotive component applications.

Lastly, via CLEPA, Valeo is a member of the Circular Plastic Alliance launched by the European Commission in 2018, which brings together public and private players in the plastics value chains. Its aim is to promote voluntary initiatives and commitments for more recycled materials.

(1) *See sustainable development glossary, page 274.*

(2) *100% recycled plastics objective: commitments for a sustainable plastics value chain.*

Risk associated with accidental pollution of water and/or soil

Description of the risk

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

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

The main causes to be averted are:

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

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

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

Risk management policy

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

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

These directives are an integral part of the Risk Management Manual (see section 4.1.3 "Sustainable development policies", paragraph "Environmental policy", pages 194 to 196), and are drafted and updated by the HSE Department. The correct application of these requirements is ensured by the network (see section 4.1.3 "Valeo's environmental policy", paragraph "Organization of the Health, Safety and Environment (HSE) network", page 196) and external audits (see section 4.5.3 "Environmental commitments", paragraph "External audits worldwide" page 242). These directives are presented to the Governance, Appointments & Corporate Social Responsibility Committee along with all environmental policy tools.

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

- effluents whose composition exceeds the regulatory thresholds must go through treatment plants located directly on Valeo sites so as to limit their impact on the receiving environment;
- as far as possible, effluent networks should be connected to the public network;
- sites' rain-fed networks must receive only rainwater;
- the direct discharge of industrial effluents into groundwater is strictly prohibited;
- firewater must be separated and analyzed prior to proper disposal.

As an indication, the total volume of industrial effluents discharged by the Group's sites was 839.2 thousand cu.m in 2019, compared with 915.9 thousand cu.m in 2018, despite a growing number of sites reporting these indicators. Valeo discharged 96 kg of heavy metals from internal water treatment plants.

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

Measures taken to reduce the risk

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

- **prior to the purchase** or lease of land or buildings, an assessment of the risk of legacy soil and groundwater pollution is performed. On sites where groundwater is sensitive and vulnerable, groundwater quality is monitored regularly;
- the **loading/unloading** of tankers can cause numerous accidents with serious consequences for the environment. To prevent spillage during these operations, Valeo sites are required to draft a specific transfer procedure appropriate to the nature and risks of the products in question, notably including a vehicle circulation plan, a list of people approved for unloading, the method for verifying the nature of the product and its compatibility with the recipient container and instructions in case of spillage;
- the **storage of hazardous products** can be another source of accidental spillage. The Group has laid down rules for designing and building retention systems and tanks, specifying minimum volumes, what materials to use to ensure the sealing of tanks and retention systems based on the nature of products stored and how to structure warning systems in case of overflow;
- **underground tanks have been banned** within the Group since the early 1990s, with the aim of eliminating the risk of significant pollution of soil and groundwater associated with such facilities;
- **internal landfills** are prohibited on all sites regardless of their location;

- for cases of **accidental spillage,** the directive entitled "Intervention means and consequence limitation" focuses on the human and material resources to be put in place on sites to prevent, detect and limit the consequences of emergencies liable to have a direct impact on human health or the environment;
- when a **business is sold or shut down,** the Group 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 (monitoring or decontamination for instance);
- if a site is **closed permanently,** all waste, raw materials, products and equipment are removed, and site maintenance continues until it is sold.

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

For waste management, each site is responsible for:

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

Whatever the channel:

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

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

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

Waste and recycling initiatives in 2019

In 2019, the Group decided to work on the reliability of the data provided by the sites on waste, both on the quantity generated and the traceability of waste until the final stage of treatment. As such:

- the internal directive on waste management has been updated to help sites better classify the waste they generate;
- an investigation has been launched within each Business Group so that each site can list the waste treatment companies and subcontractors with which it works, the terms and conditions of the contracts signed and the insurance conditions, to identify possible red flags;
- lastly, several sites have already carried out physical audits of those companies to gain a clearer picture of their waste disposal processes and guarantee the traceability of the waste entrusted by Valeo to their final treatment process.

2019 also saw the following noteworthy initiatives:

- to improve waste sorting:
  - most sites ran awareness campaigns about the sorting of household waste, especially during the Sustainable Development week in June,
  - the Chonburi site (Thermal Systems Business Group, Thailand) has completely stopped using plastic bags and foam, thereby reducing the amount of waste generated,
  - the Meslin-l'Évêque site (Visibility Systems Business Group, Belgium) has a team that dismantles waste to facilitate sorting;
- to raise awareness of the potential of recycled materials, the Timişoara site (Visibility Systems Business Group, Romania) won the "Make it! Race it! Recycle it!" challenge. Participants were set the task of building a boat made solely from recycled materials for a race on the Bega River.

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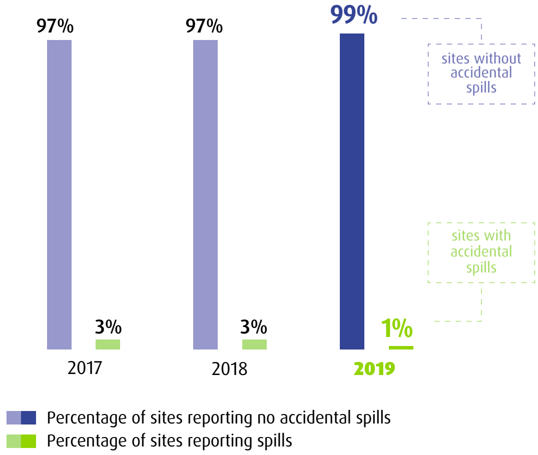
Results and performance

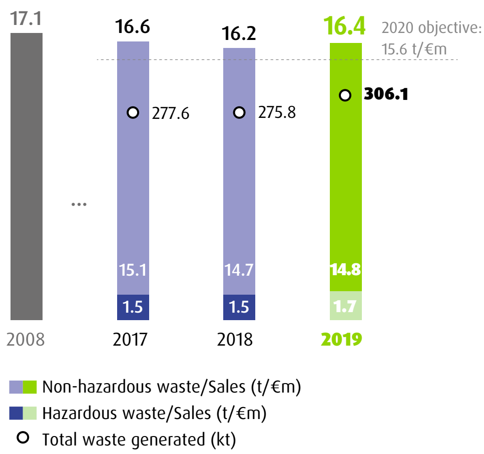
Accidental spills



The percentage of sites reporting significant spills remained low in 2019. An event is considered significant when the quantity is greater than 1 cu.m. In total, one minor accidental spill was reported by the Ebern site (Powertrain Systems Business Group, Germany), consisting of a small quantity of oil spilled in the wastewater network, and one major accidental spill was reported by the Itatiba site (Thermal Systems Business Group, Brazil). Following a connection error, 1.4 cu.m of oil was spilled outside the site, with an environmental impact on the ground. The incident was reported to the authorities.

To improve the monitoring of events liable to have an environmental impact, the Group rolled out an internal tool in 2019, allowing sites to issue alerts in real time when a spill occurs. Known as "Environmental Red Alert", the new tool can measure severity, and monitor and validate the resources devoted to responding and limiting the consequences of the incident.

Total waste generated



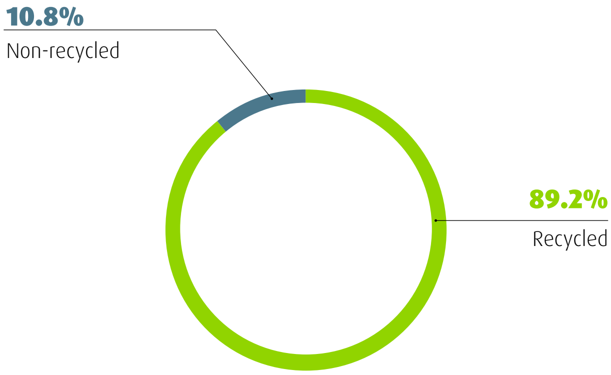
In 2019, the total amount of waste produced was relatively stable as a proportion of sales, increasing by 1.2% compared with 2018. The Group's waste generation in absolute terms increased to 306.1 kt per year, due to the increased number of sites reporting these indicators.

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

- continue reducing raw material consumption;
- shorten development time in the launch phase for new projects (products and processes);
- establish monthly monitoring of the main producers of waste.

The Powertrain Systems Business Group alone accounts for more than 55% of the Group's total waste volume, due to the increase in the number of sites in the Business Group, but also to its press cutting, tray machining and friction lining activities. These manufacturing processes generate considerable raw material waste.

Recovery of waste in 2019



Valeo is working to optimize its waste recovery. Currently, 92% of waste recovered is recycled and 8% is incinerated to produce energy.

The main waste generated by the Group's facilities (presented below in decreasing order of weight) is reused as follows:

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

The breakdown between non-hazardous waste and hazardous waste has been stable since 2014. Non-hazardous waste represents nearly 90% of the waste generated by Valeo's activities. The Group promotes recycling and recovery opportunities.

Health and safety risk

Description of the risk

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

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

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

Risk management policy

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

To ensure an accident-free work environment for its employees, the Group has set itself the goal of reducing the frequency rate (FR1)(2) of lost-time accidents to less than two by 2020. To achieve this objective, Valeo, through its Risk Management Manual, rolls out policies and directives on a range of topics (building and facility safety, employee health and safety, data security and the environment).

In 2019, Valeo continued its external audit plan to verify the proper application of its directives in terms of risk management. The Group is also pursuing its objective of obtaining OHSAS 18001 certification for all sites. At the end of 2019, 85% of the Group's sites were certified.

Ongoing improvement in on-site risk management is governed by the Quick Response to Quality Control (QRQC) methodology. All employees are trained in this approach as soon as they arrive at Valeo, in particular through the mandatory training modules: "Plan, Do, Check, Act", "Safety induction" and "Safety first". The "Safety first" training program, created in 2015, aims to influence the behavior of employees at work, from operator to manager. At the end of 2019, 73,616 employees had been trained, up from 64,886 at the end of 2018, representing 63% of the target population in both years.

In terms of governance, and to guarantee an accident-free environment, a Group Safety Committee has been set up. It is chaired by the Chief Operating Officer, assisted by the Industrial Director, the Health, Safety and Environment Director and the Senior Vice-President, Human Resources.

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

In light of the Covid-19 pandemic, Valeo would like to stress that its priority is to ensure the health and safety of its employees and their families, and is implementing all necessary measures to avoid any risks of contamination.

A reinforced safety protocol designed to guarantee the utmost protection for Group employees has been adopted worldwide across all plants, R&D centers and other Group facilities.

With this in mind, a majority Group agreement was concluded with the French labor organizations on April 16, 2020 to reconcile employee protection and business continuity. The protocol aims to allow our activities to restart under optimum safety conditions.

Measures taken to reduce the risk

For the maintenance of machines that are a potential source of severe accidents, the Group has developed a directive, standard work instructions, a machine certification process and specific training on the lock-out tag-out process in order to strengthen the understanding of risks and its standards.

The aim is to ensure that the machines' power supplies are shut off and locked, and the power dissipated before any maintenance operation so that no power sources, including residual energy, can cause an accident. Locking also prevents third parties from restoring power to a machine inadvertently during these operations. The standards include a list of steps to follow in a specific order to safely shut off the machine.

At the same time, an evaluation grid sets out the steps to be followed to guarantee the smooth operation of the lock-out tag-out process and to ensure that each technician complies with the standards. To prepare for certification of lock out tag out operations, maintenance technicians, method managers and HSE managers follow two lock-out tag-out e-learning modules. In 2019, 2,234 employees took the two modules; 704 people completed the training.

More extensive one-day training is organized by Bureau Veritas, a third-party expert, for service technicians, maintenance managers and HSE personnel. Since 2018, 544 people have completed the training, including 384 in 2019.

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

(2) Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year. This indicator takes into account category 1 and 3 accidents. Occupational diseases are included in this indicator as category 3 accidents. Occupational diseases will therefore not be addressed outside this indicator. All Valeo employees, whatever their contract (temporary worker, service provider, trainee, VIE), are factored into the calculation of the number of accidents.

Enhancing site security: The School of Dojo

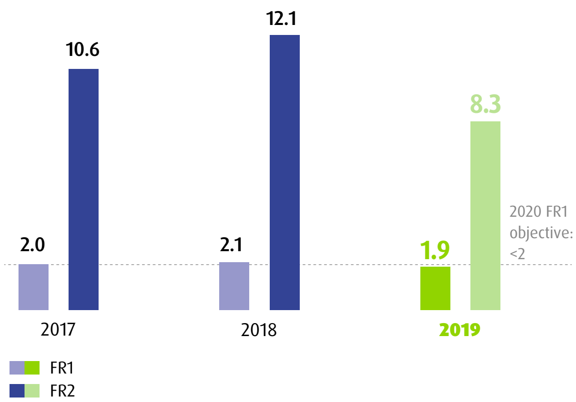
In 2019, in addition to its Safety First training, Valeo continued the rollout of its safety training rooms, known as Safety Dojo. Safety Dojo is a new Group standard, designed to support and develop the knowledge and skills of every employee in the field of safety and ergonomics. It uses lighthearted exercises to teach people how to identify dangers, dangerous situations and the associated risks, and to know how to apply the prevention and protection measures implemented at Valeo sites. Safety Dojo is aimed not only at newcomers, but also at all Valeo employees and suppliers, to reinforce their knowledge of safety rules and as such prevent any form of accident.

In 2019, the number of Safety Dojo courses increased from 25 to 125.

Results and performance

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

FREQUENCY RATE (FR1[(1)] AND FR2[(2)]) OF OCCUPATIONAL ACCIDENTS



- In 2019, frequency rate 1 (FR1) was 1.9. This rate of less than 2 means that Valeo has achieved its Group target for 2020. While the prevention, awareness and training policies implemented with determination by the sites over the years have enabled the Group to reach its target a year in advance, Valeo nevertheless remains vigilant. The performance must not be taken for granted, and there is always room for progress. The FR1 trend varies by country, due to local laws and practices: it is 9.4 and 5.4 in France and Italy respectively, but 0.7 in Mexico and 0.4 in Japan.
- Frequency rate 2 (FR2) also fell from 12.1 to 8.3 between 2018 and 2019. Mirroring FR1, the drop is the result of prevention, awareness and training policy carried out at sites. Since 2018, Valeo has chosen to include all category 5 accidents (in other words “near-accidents”) in its FR2, regardless of their severity.

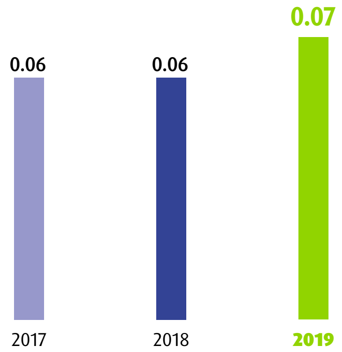
The accidents covered by these indicators include all Valeo employees, regardless of their type of contract (permanent, fixed-term, apprenticeship, internship, VIE, interim and services). With regard to service providers, while the number of occupational accidents is reported, their hours worked are excluded from the calculation. Consequently, the calculation method accentuates the frequency and severity rates.

This choice stems from Valeo’s decision to record the occupational accidents of all Valeo employees and service providers. The Group’s improvement targets for accidents apply to everyone, regardless of contract type.

(1) Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year. This indicator takes into account category 1 and 3 accidents. Occupational diseases are included in this indicator as category 3 accidents. Occupational diseases are not addressed outside this indicator. All Valeo employees, whatever their contract (temporary worker, service provider, trainee, VIE), are factored into the calculation of the number of accidents.

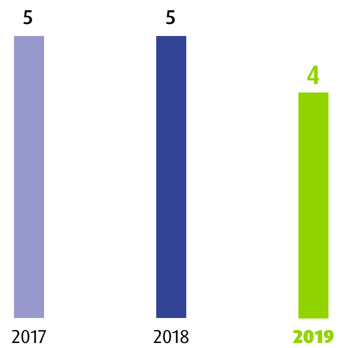
(2) Calculation of FR2: number of occupational accidents, with or without lost time x 1,000,000/number of hours worked during the year. This indicator was removed from the employee-related audit scope in 2019.

Severity rate (SR1[1]) of occupational accidents



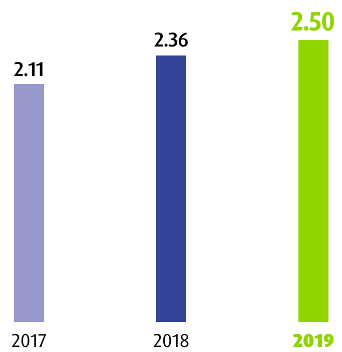
Stable at 0.06 in 2017 and 2018, the severity rate deteriorated in 2019, with a reading of 0.07. The number of accidents declined, however, they resulted in more lost days.

Number of category 1 accidents [2]



The number of category 1 accidents fell in 2019. Accidents involved one temporary worker and nine Valeo employees, including a commuting accident involving five people. The challenge for Valeo is to ensure compliance with its safety standards, not only by its employees but also by its service providers.

Absenteeism rate [3]



The increase in the absenteeism rate reflects in large part the increase in turnover of operators who decide to stop coming to work without any justification.

Risk related to attracting talent

Description of the risk

Attracting the best talent is a key challenge for Valeo in achieving its goals in a competitive environment that is undergoing profound transformation. The Group's success hinges on attracting skilled employees internationally in fast-growing markets and emerging countries, and in fields of advanced technology, such as CO_2 emissions reduction and intuitive driving technologies.

Valeo bolsters its appeal by conveying an image and employer promise that are consistent with its corporate values and culture. To strengthen its "Top Employer" reputation, Valeo regularly communicates on employment and career opportunities through various communication channels, including social networks. Having skilled teams ensures that Valeo can meet the expectations of its customers around the world, and add value in terms of innovation, total quality and competitive solutions and services.

Risk management policy

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

The Group has set itself the ambition of:

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

As part of the "One HR" comprehensive transformation project (see Chapter 1, section 1.5.7 "Human Resources Department", page 78), a new recruitment organization has been set up with the creation of Talent Acquisition Centers (TAC) to generate recruitment synergies at national and regional level. The TACs bring together all teams dedicated to scouting and attracting talent in a given country or region. In 2019, Valeo had 21 TACs worldwide.

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

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

(3) Calculation of the absenteeism rate: actual hours of absence expressed as a proportion of total possible working hours. Hours of absence taken into account are absences due to a workplace accident, illness, suspension of work, strikes, absences authorized other than statutory holidays, unauthorized absences. Possible working hours are equal to the number of days worked in the month x the daily working hours (excluding overtime) x month-end registered headcount.

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

Measures taken to reduce the risk

Valeo's recruitment policy is based on a strong employer brand, which enhances the Group's visibility and its appeal for the talents of tomorrow. Managing relationships with schools and forging strong and special partnerships is a priority for the Group. In 2019, 79% of Valeo's plants maintained relations with higher education institutions (universities, engineering schools, business schools, etc.).

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

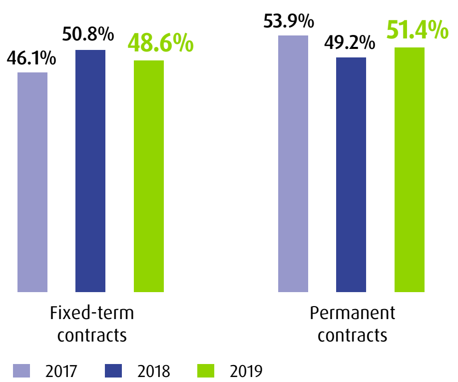
2019 initiative: #REFERAFRIEND, or co-opting at Valeo

In 2019, Valeo launched a co-optation program with the hashtag #REFERAFRIEND. Capitalizing on employee engagement, it allows Valeo job offers to be shared and applicants to be recommended. Experience shows that co-opting employees only put forward the people most capable of ensuring the responsibility attached to the vacant position. Co-opters receive a financial incentive.

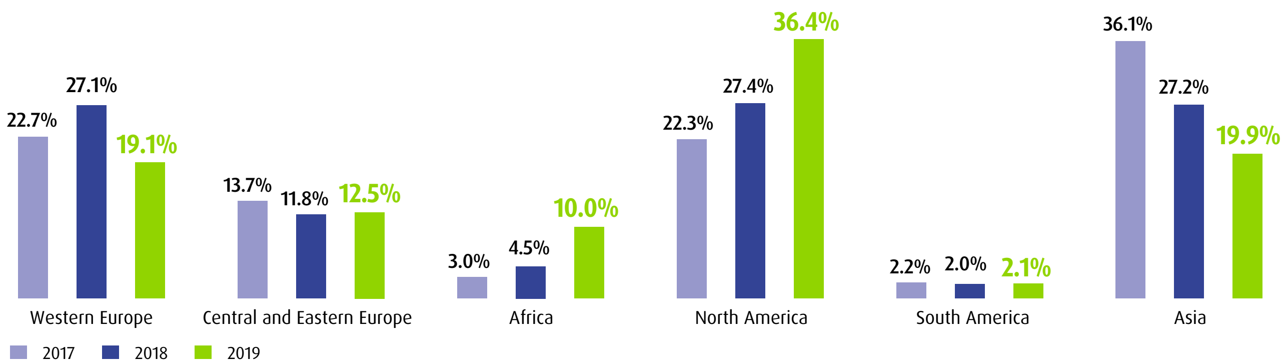
Wishing to facilitate quick and successful integration, in 2018 Valeo also developed an onboarding program called "Discovery" for Managers and Professionals. Harmonizing the onboarding process ensures that newcomers receive quality information, reinforces the role of the manager, ensures that more local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

Results and performance

Breakdown of new hires by type of contract



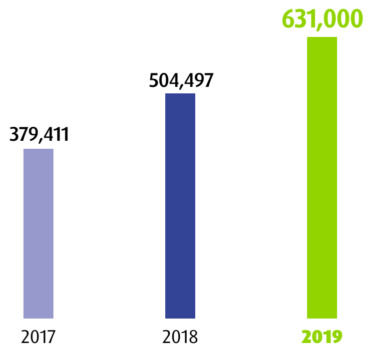
Breakdown of new hires by geographic area



In 2019, Valeo hired 29,290 employees, 15,067 of whom on permanent contracts and 14,223 on fixed-term contracts, compared with 14,373 and 14,848 in 2018, respectively. The increase in hires in North America and Africa is attributable respectively to the launch of numerous products and the growth of activity in Tangier. In Europe and Asia, hiring was down in line with measures designed to adapt to the decline in activity.

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

CHANGE IN THE NUMBER OF LINKEDIN FOLLOWERS



In 2019, the number of LinkedIn followers grew to 631,000, a 25% increase on 2018. Valeo achieved its 2020 target of more than 600,000 followers this year. Greater numbers of employees are playing a role as ambassador in this area: 900 in 2018 and more than 1,380 in 2019.

For the sixth consecutive year, the quality of Valeo's Human Resources policies and practices was recognized with the Global Top Employer label. In 2019, this certification was obtained by 25 countries in five regions (Europe, Asia-Pacific, North America, South America and Africa).

Risk related to developing and retaining talent

Description of the risk

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

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

Risk management policy

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

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

The objectives of Valeo's Human Resources Department for 2020 are as follows:

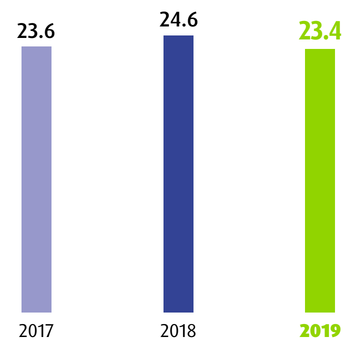
- stabilize the voluntary departure rate among Managers and Professionals at 7%;
- reach an employee shareholding rate of 45%;
- give 100% of employees training in at least one module each year.

Measures taken to reduce the risk

Training

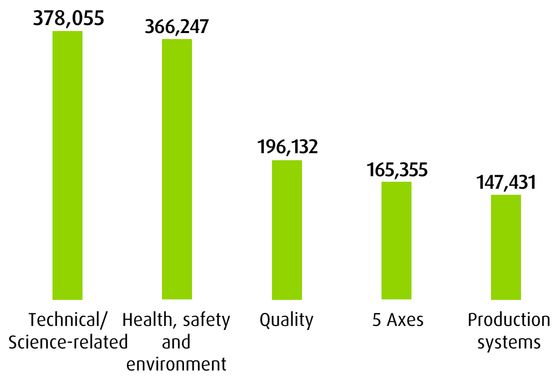
As employee training is a tool for developing and retaining talent, Valeo continued its internal training efforts in 2019. In 2019, 109,000 employees took at least one training course during the year, or 95.1% of the total headcount.

AVERAGE HOURS OF TRAINING PER EMPLOYEE – REGISTERED HEADCOUNT



Each employee received an average of 23.4 hours of training during the year. The knowledge and mastery of tools and working methods by all of its employees is essential for Valeo. The average number of training hours per employee fell by 4.8% between 2018 and 2019, reflecting a policy of reining in costs.

Breakdown by hours of training of the five most popular training courses in 2019

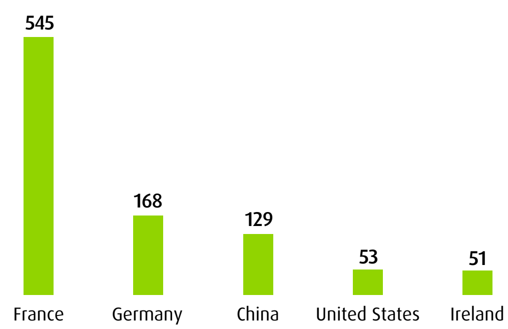


As safety and ergonomics are essential levers of commitment and motivation among our employees, the Group has developed specific training modules to foster awareness of these issues. As soon as they are inducted and throughout their career, employees receive face-to-face and online training specifically dedicated to the identification, control and management of risks (e-learning modules detailing the HSE – Health, Safety and Environment directives). A total of 366,247 training hours were devoted to safety in 2019, compared with 352,975 in 2018. The 3.76% increase in the number of hours of training devoted to safety testifies to the Group's determination to minimize risk by involving all of its employees.

To reinforce the expertise of its employees, Valeo has set up in-house technical training. The Group offers continuous training for its technicians and engineers to encourage innovation at all levels. In 2019, while Technical and Science courses remained the most popular, the number of hours devoted to them eased year on year from 380,440 to 378,055 (down 7%).

Courses are run mainly through the Group's powerful network of Experts. They are designed to provide advanced training on Valeo products, technologies and manufacturing processes. Experts play a vital role in the transmission of knowledge and skills at all levels of the organization. Each year, the Group identifies and appoints Experts to provide support for prospective new products and the development of industrial processes. In 2019, Valeo had 1,261 Experts of 38 different nationalities in 24 countries worldwide, breaking down as 928 product experts and 333 process experts. Between 2017 and 2019, the number of Experts increased by 20%.

Top 5 countries with the most Experts in 2019



France accounts for the highest number of Experts across the Group, with 43% of the total; five countries (France, Germany, China, the United States and Ireland) together account for 75% of Experts. Moreover, strong growth was recorded in the number of Experts between 2018 and 2019 in Egypt (up 70%), India (up 33%), Ireland (up 28%) and Germany (up 27%).

Talent development

To prepare employees for success in their future careers, Valeo has established standard Individual Development Plans and career interviews for Managers and Professionals:

- The Group has set up a competency dictionary by network and function, describing each skill and the level expected for each function. Each year, employees meet with their manager to assess their cross-functional (general), managerial and professional competences, and to draw up an action plan to reduce the skills gap;
- The Group has also defined career paths for all positions existing within its organization. These paths can be accessed by all employees via a mobile 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 selecting 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 their aspirations.

To ensure a match between identified career paths and vacant positions, a meeting designed to review talent and competences, known as the "People Review", is arranged by sites and networks at each level of the organization. This meeting thus promotes geographic and functional mobility. This very active internal mobility policy allows the Group's employees to develop throughout their career by working in different functions in other networks or sites.

Furthermore, each year, Valeo offers international career opportunities in the form of assignments of less than one year or expatriation to ensure the transfer of competences to new locations, the strengthening of certain essential skills to support the growth of Valeo's activities internationally, and the individual development of the employees concerned.

This dynamic policy and these tools allow Valeo to create a pool of internal talent to fill vacant positions. As a result, a total of 24% of Managers and Professionals benefited from career development opportunities in 2019 (up from 14% in 2018). The average length of service of Valeo Managers and Professionals in each position is three years.

In addition to the specific actions taken among Managers and Professionals, the Group strives to promote career development among non-managers, both operators, and technicians and supervisors. In 2019, a specialist path accessible to non-managers (mainly in the Research and Development, Industrial and Quality networks) was developed in France in the same spirit as the Expert approach. 91 specialists were appointed in 2019, 73% of whom are non-managers.

Overall compensation and benefits

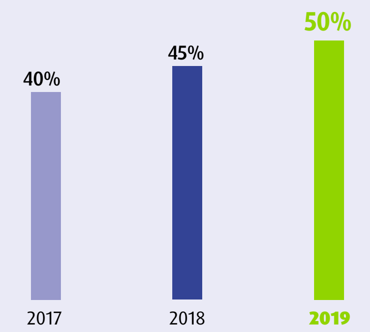
Valeo also conducts regular competitiveness analyses of salaries in major markets to ensure the appropriateness of pay scales in the countries where the Group operates. Compensation policies are developed based on a broad range of reliable sources including market practices from specialist compensation consulting firms, as well as central bank and government agency forecasts.

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

2019 employee share ownership initiatives

In 2016, Valeo launched a share subscription offering reserved for employees, known as "Shares4U". A fourth employee shareholding campaign took place in 2019. 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. In 2019, around 94,000 Group employees were eligible in 21 of the countries where Valeo operates. At the end of the subscription period, which began on May 2 and ended on May 15, 2019, 783,643 new shares were subscribed at a price of 23.72 euros each. Employees received a discount of 20% to the reference share price. At December 31, 2019, around 50% of employees were Valeo shareholders thanks to the share ownership policy implemented in 2010 and the recent Shares4U offerings (see Chapter 6, section 6.4.5 "Employee share ownership", page 430).

Percentage of employee shareholders at Valeo



Payroll costs and personnel expenses

(in millions of euros)	2017	2018	2019	Change (2019/2018)
Payroll costs excluding social security contributions and interim staff (A)	2,633	2,935	3,102	+5.69%
Social security contributions (B)	617	675	690	+2.22%
Pension costs under defined benefit plans (C)	59	57	41	-28.07%
Pension expenses under defined contribution plans (D)	109	112	118	+5.36%
Total payroll costs (excluding interim staff) (E)	3,418	3,779	3,951	+4.55%
Contribution rate ((B+D)/A)	27.60%	26.81%	26.05%	-

(in millions of euros)	2017	2018	2019	Change (2019/2018)
Total personnel costs (including interim staff)	3,890	4,240	4,385	+3.42%
As a % of sales	21.00%	22.10%	22.51%	-

Breakdown of payroll by geographic area in 2019

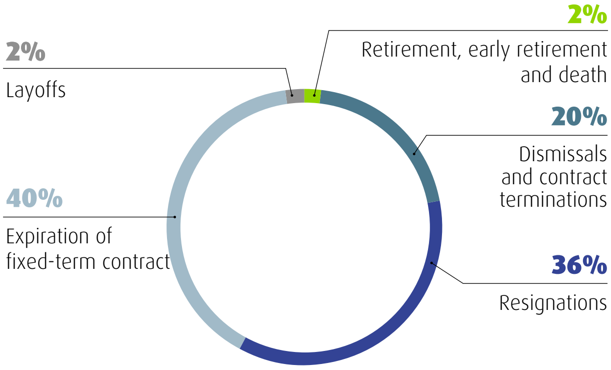
(in millions of euros)	France	Europe (excl. France)	Outside Europe
Payroll costs excluding social security contributions and interim staff (F)	705	1,119	1,278
Social security contributions (G)	248	251	191
Total payroll costs (excluding pension costs) (H)	953	1,370	1,469
Contribution rate (G/F)	35.2%	22.4%	14.9%

The payroll increased by 4.6% in 2019 compared with 2018, due to the increase in the Group's registered headcount over the year and pay increases awarded under wage policies implemented in the various countries where it operates.

Social security contributions grew more slowly, due to the ceiling reached in some countries. Pension costs fell by 5.9% between 2018 and 2019, with defined contribution plans accounting for nearly 74% of these expenses. The ratio of social security contributions eased slightly to 26%. It is important to note that those paid in France represented 36% of total social security contributions paid across the Group as a whole.

Results and performance

Breakdown of turnover by cause in 2019

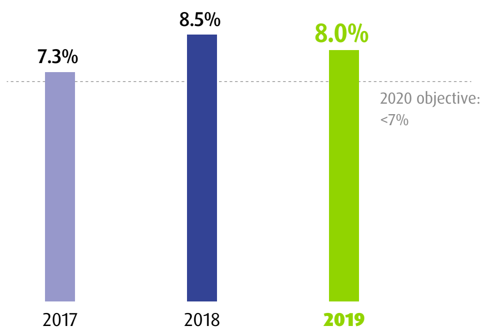


In 2019, 26,114 employees left the Group, compared with 25,320 in 2018. The termination of fixed-term contracts was the biggest cause of departures (40%), followed by resignations, and dismissals and agreed terminations (36% and 20% respectively).

Operators accounted for 67% of resignations, among which 48% were employees on fixed-term contracts. The departure rate for direct labor is increasing, notably due to the tight local job markets of several sites, especially in North America.

Faced with this risk, Valeo is implementing country action plans adapted to local issues in respect of hiring and retaining operators, especially in areas in full employment. They include recruiting a workforce near the plants, favoring permanent contracts over temporary contracts while preserving a certain flexibility, revising the hourly organization of the teams and ensuring the integration of new employees. Pay, training and career development policies are key to attracting and retaining operators.

Voluntary turnover of Managers and Professionals (1)



In 2019, the departure rate for Managers and Professionals in the Group was 8.0%, 0.5 points less than in 2018. China, Hungary and Thailand each reduced their departure rates for Managers and Professionals by 4 points; the rates were also down 3 points in Romania and Morocco. The leading cause of resignation, in addition to personal reasons, are compensation (23%) and the organization of work and responsibilities (21%).

- Younger age groups (people under 30) have the highest turnover rates: 10.7%;
- Turnover was lowest in Slovakia (4.0%), South Africa (4.0%), South Korea (4.6%), Russia (4.7%) and Spain (4.8%);
- Turnover was highest in Tunisia, Malaysia, Hungary and Romania, where specific measures (compensation, career development, diversity promotion, etc.) were taken to bring the rate down significantly;
- In 2019, Eastern Europe (11.3%), Africa (9.9%) and North America (9.7%) accounted for the largest number of resignations in the Group.

Between 2017 and 2019, the increase in turnover among Managers and Professionals was directly linked to Valeo's expansion and innovation strategy, which calls for the recruitment of a larger share of software engineers in its teams (12% of new hires in 2019). However, these profiles are in high demand on the market, and are therefore generally more volatile.

To ensure the retention of talent, Valeo informs each Manager and Professional at their mid-year or year-end appraisal of prospective career developments. In addition, to give them a role in their own professional development, Managers and Professionals have been given the opportunity to communicate their desired career development opportunities ahead of the year-end appraisal since 2017. Their wishes were then reviewed and discussed by line management and the Human Resources network, with a view to giving precise feedback on career prospects during the year-end appraisal.

The turnover rate, i.e., the number of resignations as a percentage of the average headcount[2], deteriorated slightly between 2018 and 2019, climbing from 9.2% to 9.7%. Valeo monitors the voluntary departure rate of Managers and Professionals and that of the direct workforce on a monthly basis to ensure its operational excellence and the retention of its talents.

(1) The calculation of the voluntary departure rate of Managers and Professionals takes into account resignations during the year.
(2) The average headcount is the sum of the Group's total headcount in each quarter divided by 4.

Risk of individual corruption

Description of the risk

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

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

Risk management policy

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

The program sets out prohibited practices and defines the conditions and prerequisites applicable to certain business relationships or cooperation arrangements. Its main components are:

- the policy governing gifts, invitations and donations;
- the conflict of interest management policy;
- the business partner assessment policy;
- the selection policy for agents and intermediaries; and
- a multilingual, secure and confidential whistleblowing system accessible to employees and third parties.

It is complemented by a set of instructions and decision-making tools designed to prevent corrupt behavior and practices.

Its implementation and effectiveness are subject to internal controls and multiple audits.

It is regularly updated in a continuous process of awareness raising, training and prevention.

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

Following corruption risk mapping updated each year:

- targeted internal audits were conducted;
- additional training was provided;
- procedures for declaring conflicts of interest were clarified; and
- a communication campaign based on practical cases was also rolled out in 2019.

Measures taken to reduce the risk

As part of the policy presented above, Valeo:

- maintains global corruption risk mapping that allows it to adjust its policies and areas of attention as needed. In 2020, this mapping will be broken down into regional maps;
- has a Code of Ethics, a comprehensive anti-corruption program including policies, decision-making support tools and manuals for its staff and directors;
- also has a management program for risks represented by certain third parties, consisting of:
  - the Business Partner Code of Conduct,
  - specific mandatory training for certain employees;
- provides annual theoretical and practical training illustrated by numerous examples and practical cases to all Valeo Managers and Professionals, as well as any employees exposed to risks of corruption in the course of their duties;
- requires induction training in Business Ethics and Compliance for newcomers, particularly following acquisitions;
- regularly reaffirms its commitment to fighting corruption in its internal communications;
- benefits from an active prevention system:
  - an alert system open to all Valeo employees and stakeholders (two liaison officers, an outsourced whistleblowing line, an investigation team, etc.),
  - an Alerts Committee that processes alerts and determines the necessary action plans and/or sanctions,
  - regular internal controls,
  - targeted internal audits.

Results and performance

Circulation of the Code of Ethics

In 2019, 100% of new employees signed a declaration acknowledging receipt of a copy of the Code of Ethics. This initiative is aimed at ensuring that all employees joining the Group are informed and have fully grasped their rights (social rights, human rights, etc.) and the rules that apply to them (anti-corruption, etc.).

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

Anti-corruption training

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

To ensure an understanding of a minimum set of anti-corruption measures, Valeo has introduced a mandatory training module for newcomers (the "Anti Bribery Compliance Induction Program"). In 2019, 98% of the year's new employees took and passed it.

To ensure that all of the Group's Managers and Professionals, and people exposed to the risk of corruption, fraud and anti-competitive practices are properly trained to deal with those issues, Valeo has created dedicated mandatory online training programs. Compliance with training obligations in 2019 was subject to strict monitoring by the Group's Human Resources Department and the Ethics and Compliance Office, with mandatory catch-up sessions. In 2019, 99.8% of the people concerned took and passed it.

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

Description of the risk

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

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

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

Risk management policy

Structure of the purchasing function at Valeo, and supplier relations

As a tier-one automotive supplier[1], 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.

Its activity is compliant with standards and laws in force, while also meeting Valeo's sustainable development, ethics and compliance requirements. In dealing with its suppliers, the Group places priority on:

- quality;
- industrial location;
- competitiveness.

Management of the supplier panel

The Group's Purchasing Department has two major priorities:

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

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

Sustainable development requirements and consolidation of suppliers in the Valeo panel

Selection and award meetings chaired by the global segment buyers are held to screen all proposals from suppliers based on a number of objective and rigorous award criteria.

The criteria for selecting suppliers and awarding bids and contracts include:

- economic factors;
- financial risks;
- logistics;
- corporate governance;
- environmental factors;
- social factors (respect for fundamental rights, environmental protection, employee health and safety, and quality).

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 close to 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 panel, possibly following the implementation of an improvement plan jointly agreed with the supplier;

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

(2) ASEAN: Association of Southeast Asian Nations.

- after the meeting of the selection committee and the award of the contract, the supplier is officially listed, and the specific requirements for the deliverable components are set out in Valeo's specifications. A Supplier Quality Engineer from the project team monitors the development and industrialization of components and guides the supplier through final component qualification. If necessary, Valeo's laboratories perform interim design reviews, run tests and take any special measures required. In any event, Valeo always performs an on-site audit.

To be included in the supplier panel, suppliers must meet Valeo's ethics, integrity and sustainable development requirements. In 2015, these obligations were combined in the Business Partner Code of Conduct. This document incorporates all the fundamental principles of the UN Global Compact, the Valeo Code of Ethics and a set of fundamental rights including the freedom of association, the elimination of forced labor, the fight against corruption and workplace health and safety. Any supplier that fails to respect these rules of conduct is liable to receive sanctions, ranging from temporary suspension from new Valeo projects to definitive exclusion from the supplier base. No sanctions of this type were imposed in 2019.

Valeo's supplier base breaks down into several categories based on the supplier's performance level in a given product family. In the event of critical performance or non-compliance with Valeo requirements, a supplier can be placed on "probation" for a maximum of one year and be required to implement an action plan. If the probation period is not successful, the supplier may be excluded from the supplier base.

New suppliers are also placed on probation for at least two years. During this period, the number of projects assigned remains under strict supervision to protect the supplier against the risk of becoming overly dependent on Valeo.

With this system, Valeo aims to better control its supply chain while building trusting relationships with its suppliers through cooperation on remedial action or improvement programs that are aimed at preventing or limiting operating risks.

Measures taken to reduce the risk

Assessment of suppliers' sustainable development practices

As part of the Group's policy of reinforcing the support offered to its suppliers along the entire supply chain, the Sustainable Development and External Affairs, Purchasing and Quality Departments have launched a survey on sustainable development choices across a representative sample of suppliers accounting for 80% of the Group's production purchases.

In 2018, Valeo reinforced this assessment of practices by scheduling 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 specific sectors to be targeted, such as electronics between 2016 and 2018, and certain regions, such as India in 2019 (see box below).

In an effort to reward the commitment and achievements of its suppliers in the field of sustainable development, the Group successively organizes awards for its various geographic regions (North America, Europe – Turkey – Middle East, India, China, Asia-Pacific and Japan), recognizing a high level of compliance with sustainable development requirements. Awards of this nature were organized for India in 2019.

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 Business Partner Code of Conduct specifies the Group's requirements in terms of fundamental rights (minimum working age, prohibition of forced labor, respect for freedom of association, etc.), workplace health and safety and respect for the environment. In addition to the commitment made by Valeo's suppliers to comply with the Valeo Code of Conduct, the Group has included a section related to human rights in the sustainable development questionnaire it sends each year to a representative sample of its suppliers. This is also reviewed and verified during the supplier sustainable development audits that the Group put in place in 2015. Some of these risk apprehension criteria were tightened in 2019.

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

Initiatives in 2019

Assessment of critical suppliers' sustainable development practices

Keen to conduct targeted and specific audit campaigns with purchasing segments or areas identified as critical or at risk, Valeo set the ball rolling with an audit campaign for electronics suppliers in 2016. Between 2016 and 2018, suppliers representing nearly 30% of purchases of electronic components and systems were audited (semiconductor industry, manufacturers of electronic parts, embedded systems, etc.). In 2019, a second specific campaign was focused on suppliers in India and the Southeast Asian countries.

The 2019 Indian campaign had three key stages:

- Selection of suppliers based on specific criteria (segment, quality, etc.) and a universe of local risks in India (human rights, working conditions, etc.);
- Training program in sustainable development and Valeo's requirements in this area, over the first half of the year;
- Two-phase supplier assessment campaign: a self-assessment questionnaire on sustainable development, followed a few weeks later by a dedicated on-site audit.

During the year, Valeo selected 25 suppliers of various sizes and segments (including assembly, foundry and forging), who were trained up to Valeo's requirements. Nearly half of them were also audited. The exercise was accompanied by methodology for verifying data and face-to-face audits on a broad range of aspects including the environment, health and safety, site energy consumption, human rights, ethics in business relationships, workers' employment conditions, diversity, understanding of Valeo's technological roadmaps as a customer to be satisfied.

The audit results showed:

- an absence of alarming situations or risks in respect of human rights, health and safety, or environmental damage;
- but a need for follow-up actions to bring suppliers to the highest levels of qualification under the Valeo sustainable development standards.

Corrective actions were recommended; their implementation will undergo annual monitoring with the assistance of regional/national purchasing departments in 2020. The corrective measures relate essentially to better energy optimization, better consideration of the environment and an increasingly demanding approach to lower-tier suppliers.

The subsequent stages of the process will continue to mobilize both the Sustainable Development Department and the Purchasing Department in the coming years.

During the follow-up in India, Valeo integrated an assessment of the tools implemented to ensure that its direct suppliers have credible assessments of their own lower-tier suppliers.

This focus on certain countries or regional areas will continue over the coming years. As a first step, some suppliers in India will be subject to follow-up audits.

Results and performance

Results of assessment of electronic component suppliers' sustainable development practices in 2019

An annual self-assessment of sustainable development choices made by a representative sample of suppliers whose sales with Valeo covered 80% of the Group's production purchases was conducted in 2019. The response rate was 19% in 2019, an increase of 50% compared with 2018.

This assessment highlighted the fact that in addition to the Group's requirements, more than 92% of the respondent suppliers have their own CSR policy based on a charter, a code of conduct, best practices and a set of guidelines. More than 40% of such policies are also communicated publicly. With a view to validating their commitments, close to 60% 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 one-third of the suppliers surveyed assess their own suppliers' compliance with these requirements through evaluations on the same sustainable development issues and the duty of care, as part of supplier selection processes or through self-assessment or audits.

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.

Conflict minerals

In 2013, Valeo's Purchasing Department aligned its sourcing processes with the American Dodd-Frank Wall Street Reform and Consumer Protection Act of July 21, 2010 on conflict minerals (title XV) in a joint effort to end the financing of violent conflict in the Democratic Republic of the Congo (DRC) and neighboring countries, which is financed in part by mining and the mineral trade. Valeo requires all its suppliers to comply with the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

A specific initiative introduced in conjunction with the Research and Development Department allows the Group to better identify potential sources of conflict minerals. Thus, in 2019, 75% of the suppliers identified using this initiative provided the Group with a certified report on conflict minerals using the Conflict Mineral Reporting Template (CMRT) developed by the Conflict-Free Sourcing Initiative (CFSI).

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

To help suppliers apply the Group's ethics and compliance principles, the Purchasing Department and Ethics and Compliance Office have provided manuals on Valeo's website to raise awareness about both the substantial legal risks of anti-competitive practices and corruption and about Valeo's compliance policies and requirements.

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

North American diversity programs applied to suppliers

Minority diversity programs in North America (United States and Canada) have added the Women's Business Enterprises (WBE), Minority Business Enterprises (MBE) and Veteran Business Enterprises (VBE) to the evaluation criteria for US and Canadian suppliers. Criteria for the integration of women, minority and veteran business enterprises apply to supplier qualification, selection and award processes held during meetings reviewing entities located in North America.

In 2019, Valeo North America placed orders totaling more than 150 million dollars with suppliers classified as integrating women (WBE), minorities (MBE) and veterans (VBE), up 24% compared with 2018. This amount represents nearly 80% of the long-term objective in terms of the Valeo Group's supplier diversity strategy for the United States.

The commitment was also rewarded with the General Motors Silver Impact Award in 2019 and earned Valeo a nomination for the Michigan Minority Supplier Development Council (MMSDC) "MMSDC Advocate of the Year" award.

Purchasing location aligned with consumption area

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

It allows the Group to:

- reduce transportation-related CO_2 emissions;
- support local employment by developing skills;
- meet the expectations of local stakeholders (customers, local and national governments) that increasingly encourage local integration.

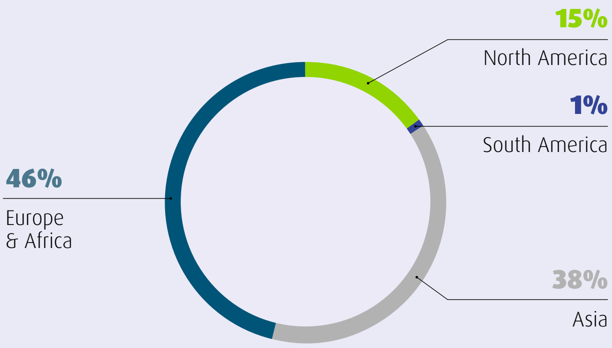
Furthermore, the policy of reducing the risks related to currency fluctuations has also led Valeo to favor local suppliers that comply with its supplier selection criteria.

The supply chain is based on the following principles:

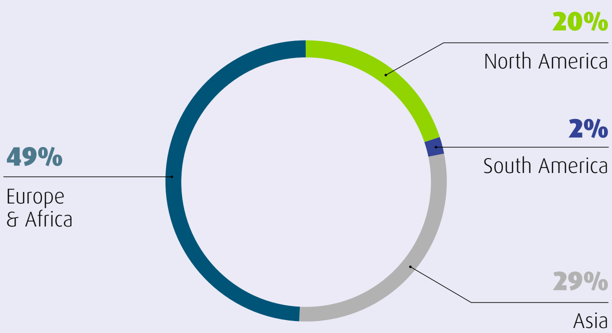
- symmetry between the areas of origin and consumption of purchases, reflecting the broad reach of Valeo's supply chain, in the Group's industrial footprint;
- balance between the main purchasing families, reflecting the breadth of Valeo's product portfolio.

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

Breakdown of direct purchases by geographic area of origin in 2019



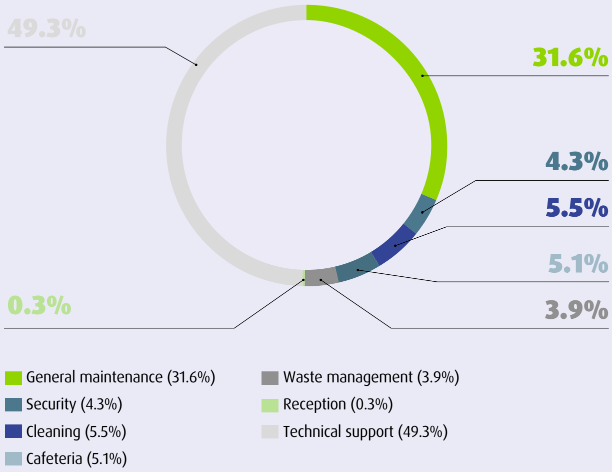
Breakdown of direct purchases by geographic area of consumption in 2019



Due to its long-established presence in the region, Europe is Valeo's primary geographic area in terms of consumption (53%) and supply (49%) of purchases. As a direct result of the Group's growth strategy in emerging countries, Asia ranks second, in terms of both consumption (25%) and number of suppliers (35%).

Subcontracting

Total subcontracting expenditure by category in 2019



Valeo engages subcontractors to perform specific services at its many sites. As a result, the Group ensures that its subsidiaries comply with the provisions of national labor law and ILO conventions in their dealings with subcontractors, requiring them to sign and accept the provisions of the Valeo Business Partner Code of Conduct, and in particular the articles concerning employees' fundamental rights.

Subcontracting represented over 450 million euros in purchases in 2019. Technical support services are significant, and account for almost 50% of this expenditure due to the IT services provided by outside companies (hardware, networks, services, computer applications). General maintenance costs represent more than 30% of expenditure due to the industrial nature of Valeo's activities.

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

4.4 The duty of care plan

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

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

In compliance with the French legal framework, Valeo's 2019 reporting sets out the measures in its duty of care plan(2):

- the Group's risk mapping and non-financial risk analysis conducted in 2019 (see above), which include the provisions of the duty of care law (human rights and fundamental freedoms, personal health and safety and environmental breaches);
- the procedure for evaluating the situation of subsidiaries, subcontractors and suppliers;
- measures to mitigate risks or prevent serious breaches;
- whistleblowing and reporting mechanisms concerning the existence or occurrence of risks;
- mechanisms for monitoring the measures implemented and assessing their effectiveness.

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

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 disclosure of non-financial information. Gathering information served to improve the identification and definition of risks, classified based on their criticality and their possible existence prior to the introduction of the duty of care law, in the risk map.

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

- fundamental rights and freedoms (see section 4.5.4 "Employee-related commitments", paragraph "Respecting and promoting fundamental rights", pages 258 to 260);
- health and safety (see section 4.3.3 "Valeo's non-financial risks", paragraph "Health and safety risk", pages 219 to 221);
- serious environmental breaches (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk associated with accidental pollution of water and/or soil", pages 216 to 218).

Regular assessment of the situation of subsidiaries and suppliers

For Valeo sites, the practice of identifying risks specific to the duty of care confirmed the existence of risk factors that the Group had already identified and brought under control. This work confirmed earlier findings obtained from existing tools or assessment criteria used by the Group's subsidiaries:

- regarding fundamental freedoms, the fight against harassment and discrimination, child labor and forced labor: these issues are part of the protocols for the various sites' internal audit campaigns (see section 4.5.4 "Employee-related commitments", paragraph "Promoting and respecting fundamental rights", pages 258 to 260);
- 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;
- regarding serious environmental breaches, particularly the risk of air, soil and water pollution, and the management of hazardous waste, the sites' environmental risk management tools ensure the regular reporting of information to the Group (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk associated with accidental pollution of water and/or soil", pages 216 to 218, and section 4.5.3 "Environmental commitments", paragraph "Atmospheric emissions and discharges", pages 245 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.

The situation of the Group's activities is assessed regularly by measuring the extent to which the various roadmaps have been rolled out, in particular the 5 Axes roadmaps and regular internal audits. The result of the monitoring indicators is published annually in the Universal Registration Document, and the indicators are subject to an annual audit (see section 4.8 "Independent third party report on the non-financial information statement", page 275).

For its suppliers, the Group has applied criteria bearing on risks relating to fundamental rights, workplace health and safety and environmental breaches since the creation of its sustainable development performance assessment tools in 2012. These tools provide a regular assessment of suppliers' practices, initiatives and policies regarding duty-of-care challenges, covering a growing proportion of Valeo's supplier panel (in 2019, it covered suppliers representing 80% of the amount of direct production purchases). Supplier practices and the tools for measuring and monitoring them are described in this chapter of the Universal Registration Document (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 228 to 232).

Initiatives to prevent serious breaches and mitigate risks

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

- for fundamental rights, prevention tools have been rolled out. They include training in the Code of Ethics, and risk mitigation measures, notably through the existence of a whistleblowing line (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of individual corruption", pages 227 to 228);
- for workplace health and safety, new prevention tools are launched every year, along the lines of the Safety First campaign. As a complementary measure, in the event of serious breaches, appropriate action methodologies are rolled out at all of the Group's sites, in particular rapid risk management solutions, such as QRQC Safety, a rapid internal analysis approach to identify and limit the causes of a health and safety risk (see section 4.3.3 "Valeo's non-financial risks", paragraph "Health and safety risk", pages 219 to 221);
- for environmental risks, the Group has in particular an environmental management system with prevention and mitigation tools.

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

In accordance with the policies in place within the Group, non-compliance with a standard set by Valeo triggers an on-site audit to confirm the situation before the implementation of appropriate action plans (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 228 to 232).

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. For 2019, an awareness-raising initiative was specifically organized for Valeo suppliers in India (see section 4.3.3 of this chapter, "Valeo's non-financial risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 228 to 232).

A whistleblowing and reporting mechanism

Since November 2013, Valeo has had an anonymous multilingual whistleblowing line, free of charge and open to all employees. At the end of 2017, Valeo improved and extended the whistleblowing system. Since then, the system has enabled whistleblowers **inside or outside** the Group to issue alerts relating to:

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

Alerts are dealt with confidentially by a trained and dedicated team. A specific document sets out the procedure applicable to the formulation and communication of alerts on the system for Valeo employees and third parties.

The whistleblower can issue an alert and pass on the associated documents in the following ways:

- verbally: a toll-free number connects people to a contact person speaking the chosen language;
- in writing: a website made available free of charge offers a pre-established questionnaire allowing people to submit a detailed, documented alert in the language of their choice. These documents are available at www.expolink.co.uk/valeo;
- by email: valeo@expolink.co.uk;
- through the liaison officers appointed by the Group to receive, study and deal with the alerts reaching them through the alert system. The two officers are the Group Chief Ethics and Compliance Officer and the Group Internal Audit Director.

Whistleblowers employed by Valeo can refer the matter to their direct or indirect supervisor; external employees can go to their usual contact within the company.

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

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

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

Mechanisms used to monitor implemented measures and assessing their effectiveness

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

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

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

Likewise, for Group suppliers, Valeo's expectations in terms of sustainable development and the monitoring of their action plans implemented are monitored annually through a system blending self-assessments of suppliers' practices and targeted audits, depending on the country, specific aspects and needs involved (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 228 to 232).

4.5 Valeo's sustainable development commitments

4.5.1 A commitment to sustainable development based on strong relationships with stakeholders

A multi-stakeholder approach

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

Valeo offers a comprehensive picture of its sustainable development policy based on an analysis of its relationships with stakeholders.

The analysis states the type of stakeholder, the objectives and the form of dialog. The table below underscores the Group's responsible approach, taking into account changes in the automotive industry, stakeholders' demands and the Group's determination to meet the highest international standards in sustainable development.

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 technological platforms
Partners and suppliers	▪ Lessors/tenants ▪ Suppliers ▪ Innovative SMEs	▪ Cooperate and co-construct in compliance with competition law and fundamental rights	▪ 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 ▪ Banks ▪ Insurers ▪ Statutory Auditors	▪ Adopt a dialog-based approach building on the relevance, rigor and transparency of information relating to the Group's results	▪ Meetings with investors and analysts (including SRI[1]) ▪ Financial results presentations ▪ Shareholders' Meeting ▪ Discussions with shareholders (dedicated line and email address) ▪ Website and digital resources (webzine, flash e-newsletter, shareholders' letters, etc.)
Financial and non-financial analysts	▪ Investors ▪ Rating agencies ▪ Banks	▪ Ensure that Valeo's financial, employee, environmental and social performance and commitments are recognized	▪ Responses to various questionnaires ▪ Discussions with agencies

(1) SRI: socially responsible investment.

Dialog with industry stakeholders

Within the Automotive Industry Platform (*Plateforme de la filière automobile* - PFA), Valeo supported entering into dialog with stakeholders, drawing on a panel of various French and European public bodies and international organizations, representatives of local authorities, private automotive companies, infrastructure managers and urban planning agencies, as well as representatives from civil society and environmental NGOs.

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

Since then, this dialog has been maintained and enriched in various stages, including the introduction of new themes such as reducing planned obsolescence. Valeo represented automotive suppliers (excluding tire manufacturers) on a number of themes. Another development was the opening of new discussion forums, such as participation in the 2017, 2018 and 2019 editions of the Movin'On event (formerly Challenge Bibendum), organized by Michelin in Montreal, and at the annual European research conference organized by the European Commission (TRA 2019) in Vienna. Lastly, at the 2018 Paris Motor Show, the PFA once again brought together stakeholders in this dialog around low-carbon mobility, which continued in 2019.

Valeo, a global player in the automotive industry

As a responsible player within the French automotive industry, Valeo contributes to the Automotive Future Fund (*Fonds Avenir Automobile* – FAA), formerly the Tier 2 Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Équipementiers Automobiles Rang 2)*.

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

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

- in France, Valeo took part in creating the Automotive Industry Platform (*Plateforme de la Filière Automobile* – PFA), which works to improve customer-supplier relationships and in turn to better align research and production. It continues to play an active part;
- in Germany, Valeo participates in working groups of the *Verband der Automobilindustrie* (VDA), the German automotive industry body;
- in Europe, Valeo is involved in collaborative, precompetitive research through the European Road Transport Research Advisory Council (ERTRAC), the European Commission's technology platform for research on road transportation (see section 4.1.3 "Sustainable development policies", paragraph "Research and development policy", pages 192 to 194);
- 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.

Participation in these national and European organizations takes place in strict compliance with the competition law applicable in each of the organization's countries of action.

Valeo's commitment to the Automotive Future Fund in France

Since the creation of FMEA Tier 2 in 2010 and its transformation into the Automotive Future Fund (*Fonds Avenir Automobile* – FAA) in 2014, Valeo has been involved, alongside Bpifrance and other automotive suppliers (Bosch France, Faurecia, Hutchinson, Plastic Omnium), in providing the fund with capital, selecting automotive suppliers and assisting the fund in acquiring minority stakes in their share capital to support them in their growth and investments. By agreement between the parties, the work of the Fund was terminated at the end of 2019.

The Fund's purpose was to acquire minority stakes in the capital of automotive industry players driving value-creating industrial projects, but also to play a role in the governance of the companies in which it had invested. The Fund was essential for the consolidation of the automotive value chain and for the strengthening of a number of French SMEs.

4.5.2 Technological commitments

A comprehensive and partnership-based approach to Research, Development and Innovation (R&D&I)

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

Strategic industrial partnerships

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

This industrial-scale research approach has also been reinforced in recent years by Valeo's various acquisitions, including peiker in 2016 in the field of telematics and connectivity, Spheros in 2016, a leader in thermal systems for buses, FTE automotive in 2017, a leader in the production of actuators, and Valeo-Kapec in 2017, a world leader in torque converters for automatic and continuously variable transmissions.

In vehicle electrification, the Valeo Siemens eAutomotive joint venture, dedicated to high-voltage (over 60V) electric propulsion systems, had a backlog of 11 billion euros at the end of 2019. Valeo is developing e-motors, range extenders, onboard chargers, inverters and DC/DC converters for all types of hybrid, plug-in hybrid and all-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. To do so, the Group is applying an open innovation policy based chiefly on:

- an internal organization of innovation based on dedicated cross-cutting structures (Car Lab) blending expertise and new ways of imagining innovation (design thinking, Agile method, Blue Ocean Strategy, etc.);
- ambitions for artificial intelligence, marked in 2017 by the creation of Valeo.ai, the first global center dedicated to artificial intelligence and deep learning in automotive applications. Its close ties with a large scientific and academic community, i.e., through its strategic partnerships with recognized players such as Inria (French National Institute for Research in Computer Science and Control), Télécom ParisTech, Mines ParisTech and CEA (the French Alternative Energies and Atomic Energy Commission), will allow Paris-based Valeo.ai to become a key industry player and contribute to the ongoing transformation of transportation and mobility models;
- a proactive strategy with regard to start-ups, through various channels (simple cooperation, investment, acquisition or creation). 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, and internal tools for identifying and analyzing new high-potential start-ups. Valeo reviews more than a thousand start-ups each year.

Valeo, an actor in the governance of institutional collaborative research organizations

European Road Transport Research Advisory Council (ERTRAC)

ERTRAC, the official technological platform of the European Commission, dedicated to collaborative research in the automotive industry, is responsible for directing and coordinating land transportation research policy (excluding railroads) with EU bodies. Valeo is its Co-Chair alongside German automaker BMW.

With its industry-led governance, ERTRAC's main goal is to guide actors in land transportation to sustainable, environmentally friendly and connected solutions building on research roadmaps endorsed by all stakeholders. This requires interaction between industrial players, providers of technological solutions and representatives of society or institutions.

ERTRAC is built around public and private bodies (national governments and city associations working for mobility, the environment and consumers), the relevant European Commission directorates, industry (automakers, suppliers), and public and private research bodies. The diversity and quality of the partners involved are what drive the value of the expertise provided by ERTRAC, particularly through the regular publication of medium-term technology roadmaps on various topics relating to automotive mobility. In 2019, the ERTRAC platform continued to provide advice and guidance on calls for projects under the 2020 Horizon Framework Programme (FP8), and began providing guidance on the next program (FP9).

Valeo has made its own contribution to this work, and also contributed to preparing the largest European event on research in land transportation (Transport Research Arena – TRA), held in Vienna in 2018, and whose next edition will be held in Helsinki in 2020.

Artemis-IA

Valeo has joined Artemis-IA, an association 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, health and pharmaceuticals, microelectronics, etc.). Valeo was keen to take part in the governance of Artemis-IA as the

(1) See sustainable development glossary, page 274.

Group wishes to promote collaborative European research projects in the fields of electronics and embedded systems. Electrification, driving range, connectivity and digital advances relating to mobility are the common core of research represented by cyber-physical and embedded components and systems.

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

The Group is considered by the Commission's services as a co-manager of these programs dedicated to collaborative research.

Competitiveness clusters

Valeo is involved in the governance of cooperative structures of which the Group is an active member, such as Mov'eo in France, which covers all the Group's strategic areas.

In France, Valeo is also a member of SystemX, an Institute for Technological Research (IRT), and a founding member of the Institute for Energy Transition. Since 2014, the two institutions have launched several projects involving Valeo, in the fields of vehicle electrification (reducing CO_2 emissions) and automated driving.

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

Collaborative projects

Valeo participates in collaborative research programs in the automotive industry in the various countries and regions where it operates. 2019 took Valeo into the final phases of the eighth European framework program (H2020). The Group plans to continue participating and constructing European projects within this framework.

In 2019, Valeo launched the European CPS4EU project, with more than 40 European partners across France, Germany, Italy, Hungary and the Czech Republic. The project's aim is to generate cross-cutting technological building blocks for autonomous, intelligent and connected systems (or others known as cyber-physical systems – CPS) in three sectors of application (automotive, energy and industry of the future).

CPS4EU is piloted by Valeo with the support of the European Union (ESCEL program) and the partner member states in the project (see above). The project is important in Europe, as it is the first time that complementary sectors have joined forces to address the challenges of embedded systems and cross-functional development. It brings together key players in embedded software and AI in Europe (Valeo, CEA, Fraunhofer, etc.) and will run for three years, presenting its first results by 2022.

Academic partnerships

Valeo takes part in multi-sector initiatives, making its expertise available to various partnerships and bodies. These partnerships help create and promote standards of quality and environmental performance that are both demanding and stimulating for the industry.

Diversified academic partnerships

Valeo attaches growing importance to collaborative research. The different systems that make up a vehicle today are expanding into new scientific and technological domains, and new fields must be taken into consideration.

Collaborative research involves academic and scientific cooperation, primarily in the form of:

- supervision and funding of doctoral theses;
- bilateral projects;
- government-funded, multi-partner, collaborative projects;
- university chairs.

Many of these scientific alliances (with universities, engineering schools or research bodies) are in Europe (primarily in France and Germany) and the United States. They are also emerging in other regions where Valeo has set up new local Research and Development centers (most recently in India, China and Egypt).

Funding of doctoral theses

The Group is funding more than 50 doctoral theses in areas such as new materials and technologies, new calculation and simulation tools and methods, new system architectures and component optimization.

Support for and creation of academic chairs

Partnerships formed through academic chairs aim to promote research and innovation activities with high value creation potential. For Valeo, they offer the opportunity to deepen research and innovation activity close to academic centers, offering them subjects and areas of thinking focused on strategic areas for the industry.

Valeo has partnered with universities and public research bodies to create the following research and teaching units:

- an international research chair on automated driving, called "Automated Driving – Drive for You", bringing together teams from the Center for Robotics at Mines ParisTech (France), Shanghai Jiao Tong University (China), the University of Berkeley (California) and Ecole Polytechnique Fédérale de Lausanne (Switzerland), in partnership with PSA Peugeot Citroën and Safran. With a budget of 3.7 million euros funded by manufacturers, the chair aims to advance knowledge on automated vehicles, to develop embedded intelligence devices and to put automated vehicles on the road on three continents (Asia, North America and Europe). This chair ended in 2019, having created the necessary synergies between the main participants;

- an industrial teaching and research chair on embedded lighting systems (ELS), known as the ELS Chair, which brings together the following schools and partners including ESTACA (Graduate School of Aeronautical and Automotive Technology), Institut d'Optique Graduate School, Strate School of Design, Renault, PSA Peugeot Citroën and Automotive Lighting Rear Lamps. This chair aims to develop expertise and skills in the field of indoor and outdoor lighting applied to transportation;
- an academic chair under the name "IoT" (Internet of Things), launched in 2016 by the ESCP Europe business school in partnership with Valeo and Schneider Electric. Its aim is to (i) develop a better understanding of the business and managerial challenges associated with changes in digital technology and the development of connected objects, and (ii) develop high-level teaching and research in line with business expectations. Through a partnership between ESCP Europe and a Chinese university, the chair's activities (teaching, projects, forums, etc.) will span both Europe and China. Having presence in two regions provides the opportunity for multicultural comparisons of expectations, usages and conceptions of connected objects;
- two chairs, one on big data and the other on connected vehicles and cybersecurity, have been established by Valeo and other technology partners with the Télécom ParisTech engineering school. The second of these chairs focuses on cybersecurity challenges in terms of the operational safety of vehicles, data protection and flows, and user identification technologies in vehicles. It also aims to address the legal and social aspects of the management of personal data and to ensure their security.

Significant intellectual property activity

Innovation is central to Research and Development activities; it results in major orders and a growing patent portfolio. In 2019, the Group had 33,340 patents, of which 1,698 were filed for new inventions during the year. The numbers for 2019 reflect a phase of progressive consolidation of Valeo's intellectual property activity.

A commitment to R&D for the aftermarket and remanufacturing market

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

The specific features of these products position Valeo as a key player in mobility access in markets characterized by a high proportion of second-hand vehicles, predominantly emerging regions (parts of Southeast Asia, Africa, etc.). More generally, the aftermarket in these regions is creating economic opportunities for various automotive-related businesses.

The existence of replacement products has a substantial impact on the safety of vehicle users, since they offer an economically viable alternative to repaired, rebuilt or reworked parts, often in traditional or semi-industrial settings, which are often not subject to any form of harmonized or standardized quality control. The remanufacturing market is currently dominated by European players.

Valeo, a participant in the remanufacturing market

Through its remanufacturing activity, Valeo puts its original equipment 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.

Valeo offers two ranges of parts – one new and one remanufactured. Remanufactured systems mainly include alternators and starters as well as clutches and air conditioning compressors.

Valeo has set up an efficient system called e-CORPS to collect used parts. The system permits the immediate identification of product references (type of part, origin, size, production year, etc.). Once parts have been retrieved, Valeo disassembles, inspects and cleans them, and subjects them to electrical and electronic tests. Valeo then initiates a remanufacturing process, which most importantly involves eliminating any traces of hazardous substances to guarantee personal protection. With more than 40 testing points for rotating machines on test benches, Valeo meets the standards of the original equipment market, and tests all remanufactured products before packaging them for sale on the aftermarket.

This industrial expertise has enabled Valeo to offer a full range and selection of remanufactured parts, and thereby to champion environmental protection in the remanufacturing market.

4.5.3 Environmental commitments

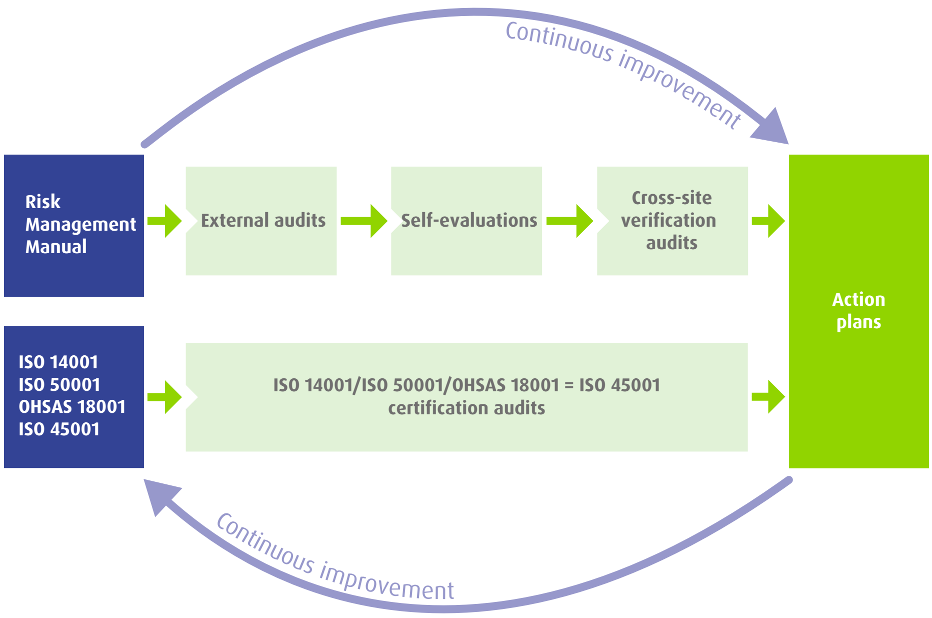
Valeo's commitment to the circular economy

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

- prevention and management of waste:
  - recycling of waste related to the production process (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk associated with accidental pollution of water and/or soil", pages 216 to 218),
  - reuse of packaging materials (see paragraph "Packaging" in this section, page 253),
  - recovery of products, such as the Valeo starter-alternator remanufacturing program (see section 4.3.3 "Valeo's non-financial risks", paragraph "Examples of recyclability of two Valeo products", page 213);
- sustainable use of resources, with policies and action plans covering:
  - water consumption and supply (see paragraph "Water management" in this section, pages 243 to 245),
  - consumption of raw materials and more efficient use thereof (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with environmental product regulations", pages 201 to 215),
  - energy consumption and increased energy efficiency and the use of renewable energies (see paragraph "Reducing energy consumption and greenhouse gas emissions" in this section, pages 247 to 251).

Evaluation and certification processes

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

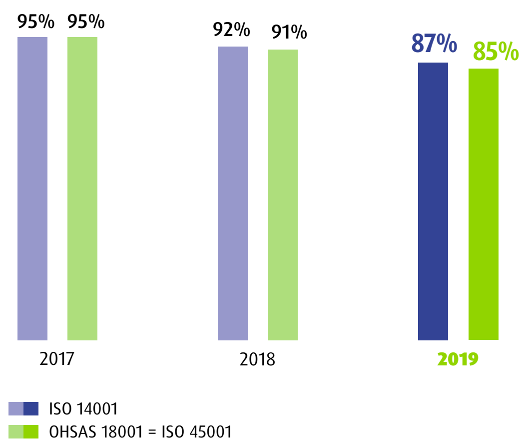


ISO 14001, ISO 50001 and OHSAS 18001 certification audits

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

ISO 45001 was published in March 2018. It is intended to replace the OHSAS 18001, which expires in March 2021. That leaves the sites a three-year transition period to switch to ISO 45001. ISO 45001 is the first international standard to provide a framework for Occupational Health and Safety (OHS) management. The new standard will also allow companies that have already earned ISO 9001 or ISO 14001 certification to benefit from the new management system standard structure.

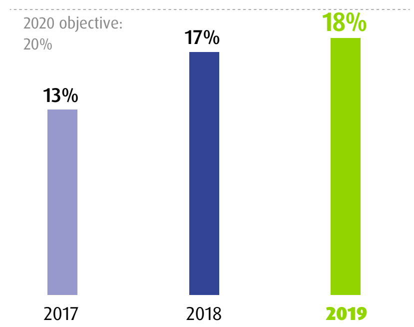
Percentage of plants certified ISO 14001 and OHSAS 18001/ISO 45001



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. The downward trend can be ascribed largely to the inclusion of numerous certifiable sites between 2018 and 2019.

In 2019, the Group included the 11 Ichikoh sites in the Visibility Systems Business Group in the certification scope. These sites are working to obtain certifications in the coming years.

Percentage of plants certified ISO 50001



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

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

In 2019, 18% of Valeo sites had ISO 50001 certification (up from 8% in 2015), i.e., 28 sites certified. The percentage of sites continues to grow despite a significant increase in the number of certifiable sites, highlighting the Group's strong commitment to this determined approach.

External audits worldwide

At the initiative of the HSE Department, the Group's sites are regularly audited by external consultants to ensure compliance with and proper implementation of the Risk Management Manual. With the same frequency, the Group also determines themes to be systematically audited in each campaign in order to measure their implementation and reinforce their control.

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

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

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

The action plans of all sites are reported to the HSE Department and monitored by the Business Group HSE managers via a system known as HSE Action Plan. This database provides a fast and reliable way of consolidating audit results, and makes it possible to monitor progress on the associated action plans. A half-yearly review is also conducted with the Business Group HSE managers. The indicators are updated each month and reported to the Business Group HSE managers during monthly meetings. A more detailed half-yearly review is also conducted with the Business Group HSE managers.

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

In 2018, a committee was set up to reduce the risks associated with equipment for moving goods (stackers, forklifts, pallet trucks, etc.), with the participation of the Logistics and Purchasing networks, as well as the suppliers of this equipment.

Self-diagnostic tool

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

Stronger communication

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

- a new HSE Portal launched in 2019 to circulate a wide variety of thematic articles, share best practices and offer more dynamic content;
- the release of "Safety Flashes" when an incident needs to be communicated to all sites, with the main checkpoints;
- online training via e-learning to provide a summary of the main requirements of each environmental directive. The modules include a quiz to check the participants' understanding;
- information for site employees on environmental procedures and respect for the environment, particularly as part of the onboarding of new arrivals;
- awareness-raising for all site staff on measures aimed at controlling environmental risks and impacts through ISO 14001, ISO 50001 and OHSAS 18001/ISO 45001 management systems;
- information for employees through newsletters and dedicated displays, and at operational team briefings;
- dedicated events such as "Sustainable Development Week", featuring local initiatives.

In 2019, the HSE network provided 84,430 hours of environmental training across all sites, compared with 72,500 hours in 2018.

Water management

Challenges

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

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

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

Approach

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

To control and minimize their consumption as much as possible, the sites leverage appropriate human and material resources:

- each water supply source is equipped with systems for determining the volume of water consumed and its uses (domestic, industrial and fire);
- the use of water for cooling in open circuits is prohibited, with the exception of heat pumps for heating or air conditioning;
- the site maintains a plan of its water supply and distribution networks, which must identify the network's isolation systems, backflow preventers and meters, and distinguish between:
  - domestic use (if separate from drinking water),
  - industrial use,
  - use for firefighting,
  - drinking water.

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

The site also monitors its water consumption at least on a **quarterly basis**. This monitoring serves to:

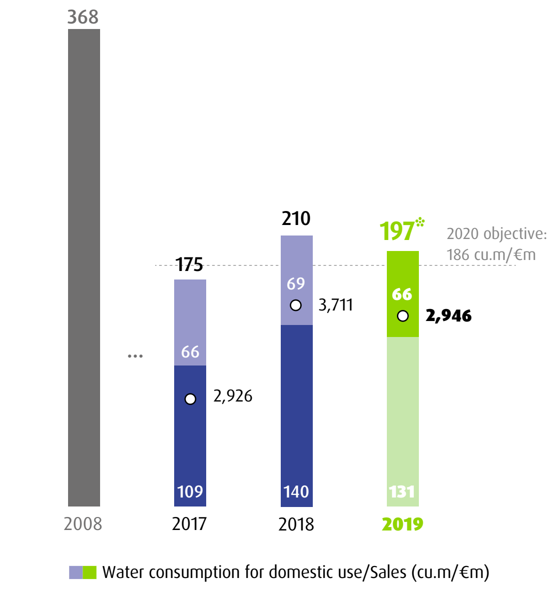
- identify the respective needs in regard to each of the main uses of water;
- identify any variation in water consumption and take swift action in the event of leaks in the network;
- draw up a water consumption reduction plan to achieve or better the objectives set for each site by the Group;
- restrict the use of drinking water to domestic purposes and promote the use of non-drinking water wherever possible (e.g., toilets, watering, cleaning, extra water for closed water cooling circuits and fire extinguishing).

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

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

Performance

Water consumption

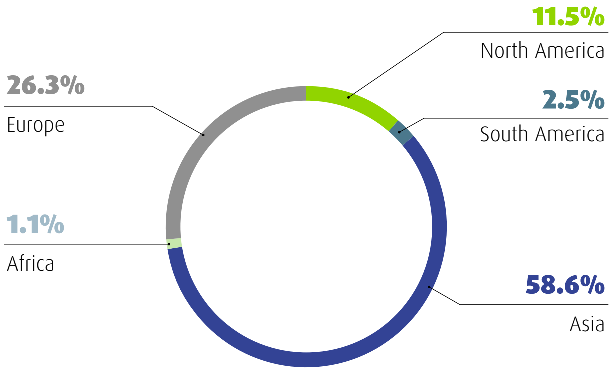


* *Excluding the Ichikoh sites, water consumption in relative terms would have been 166 cu.m/€m, down 55% compared with 2008.*

Water consumption was down in relative terms (cu.m per million euros of sales), showing the effectiveness of the procedures implemented on the newly consolidated sites. However, between 2017 and 2019, water consumption increased by 772,000 cu.m in absolute terms. This is attributable chiefly to the inclusion of 24 new sites in the reporting scope between 2017 and 2019, notably within the Powertrain Systems Business Group and the Visibility Systems Business Group. The Visibility Systems Business Group alone accounts for nearly 50% of the Group's water consumption, due to the activities of these sites, such as surface treatment.

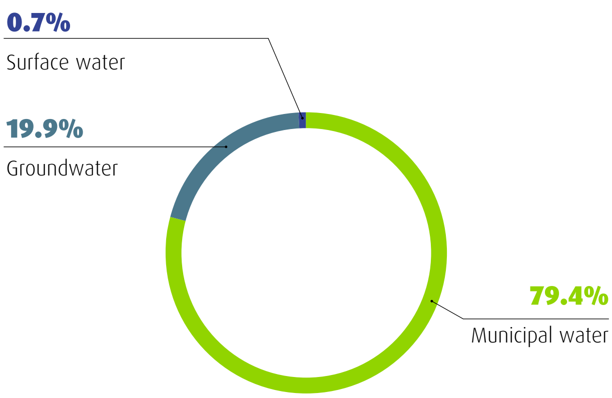
Since 2008, total water consumption has declined by 46% in relative terms.

Geographic breakdown of total water consumption in 2019



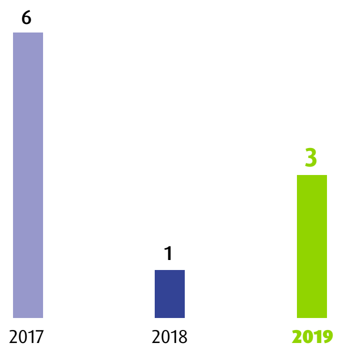
Sites in Europe and Asia account for almost 85% of total water consumption. The geographical breakdown of consumption changed little compared with 2018. The consumption of Asian sites eased from 61.2% to 58.6%. By contrast, the consumption of European sites increased from 25.2% to 26.3%, notably due to the inclusion of FTE automotive sites in the reporting scope, five of them being located in Europe.

Sources of water in 2019



To measure the overall impact of its activities on water resources, Valeo measures its consumption, distinguishing between the various sources (municipal water, groundwater, surface water) and uses (industrial water, domestic water) of water on its sites. The breakdown of the various sources of water was stable compared with 2018. As in 2018, the percentage of water supplied by municipal water networks represented nearly 80% of the breakdown in 2019.

Number of water outages and restrictions



In 2019, three sites suffered water supply outages, stemming from outages across the public water network. For the São Paulo site (Visibility Systems Business Group, Brazil) this was the fifth consecutive year that this situation has occurred. However, it had no impact on production, as the site's crisis management plan includes the delivery of drinking water by truck.

In 2017, with a view to ensuring that the Group's future operations do not face water restrictions or outages, Valeo added a chapter on the availability of water in the area surrounding the prospective site to the audit questionnaire that must be completed before new industrial projects are undertaken. Environmental Red Alert, a new internal tool currently being rolled out, will also allow sites to report this type of event (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk associated with accidental pollution of water and/or soil", pages 216 to 218).

Actions undertaken to reduce water consumption in 2019

In 2019, 20 sites reported having carried out one or more initiatives to reduce their water consumption. Sites may adopt technical measures such as:

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

The sites in Pune (Powertrain Systems Business Group, India), Bobigny (Visibility Systems Business Group, France), Rakovnik (Comfort & Driving Assistance Systems Business Group, Czech Republic) and Zaragoza (Thermal Systems Business Group, Spain), carried out technical initiatives of this nature in 2019.

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

Atmospheric emissions and discharges

Challenges

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

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

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

Approach

Each site must establish a system to ensure compliance with regulatory requirements on atmospheric emissions. This system requires each site to draw up an inventory of its emissions aimed at:

- listing the sources of atmospheric emissions, taking all of the site's processes and activities into consideration;
- listing facilities for the treatment of these emissions;
- describing emissions based on their origin (emissions from combustion plants or production processes);
- quantifying emissions in order to determine whether operating permits need to be obtained in accordance with applicable regulations.

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

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

Valeo monitors atmospheric emissions of volatile organic compounds (VOCs)(1), nitrogen oxides (NO_x), lead (Pb) and trichlorethylene (TCE) resulting from its activities. Emissions of sulfur oxides (SO_x) are not monitored as equipment mainly uses natural gas, which does not emit sulfur oxides during combustion.

Prohibited or regulated substances

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

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

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

For several years, Valeo has also sought to take a proactive approach to reducing emissions of ozone-depleting substances. Its commitments on the subject are set out in a dedicated directive in the Risk Management Manual. As mentioned above, CFCs and halons are prohibited substances at Valeo. For 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.

Hazardous substances

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

Because of the hazard they represent and their longstanding use in industrial processes on its sites, the Group is also working to reduce the consumption of heavy metals (lead, mercury, chromium VI, cadmium), chlorinated solvents and substances classified under European regulations as carcinogenic, mutagenic and reprotoxic (CMR)(1). Some of these substances were still present in manufacturing processes in 2019, but Valeo is working with its stakeholders to find alternatives.

Volatile organic compounds

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

Performance

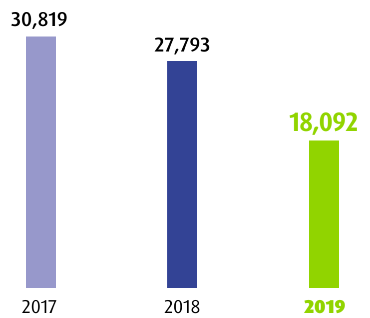
Lead

Lead emissions remain immaterial: 224 kg in 2019, of which 120 kg for the Perai-Penang site (Malaysia, Comfort & Driving Assistance Business Group).

VOC

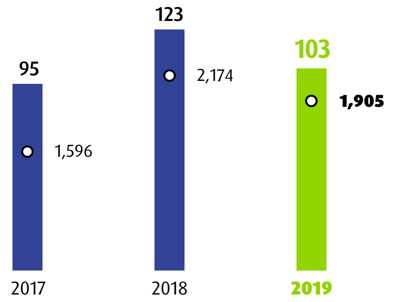
Quantity of ozone-depleting substances used

In the interests of transparency, the Group again performed an overall estimate of CFC and HCFC emissions in 2019. The chart below shows the quantity of ozone-depleting substances (in kg), which are used only in closed-loop equipment at Valeo sites (refrigerants or fire extinguishing gas).



(1) See sustainable development glossary, page 274.

Atmospheric VOC emissions



In 2019, the decline in VOC emissions stemmed above all from the reduction in emissions on the Martos site (Visibility Systems Business Group, Spain), which alone accounts for more than 8% of the Group's VOC emissions. Valeo will continue to improve the efficiency of its filtration systems and mainstream the best practices implemented by some of its sites in order to reach its goal of reducing its VOC emissions.

Achievements during the year

A number of sites have taken action to reduce their atmospheric emissions. Noteworthy achievements include:

- the Chennai Friction Materials site (Powertrain Systems Business Group, India) changed its production process so as to no longer use substances containing VOCs;
- the Chennai Clutches site (Powertrain Systems Business Group, India) installed a dust filter on some of its equipment to reduce atmospheric emissions;
- the Sainte Florine site (Powertrain Systems Business Group, France) changed the seals on several items of equipment identical to the machine that caused a major GHG leak in the past, as a preventive measure;
- the Fujioka site (Visibility Systems Business Group, Japan) replaced several items of equipment, such as compressors, to reduce its emissions into the air.

Reducing energy consumption and greenhouse gas emissions

Challenges

Valeo sites use the following three types of energy for industrial and domestic purposes:

- direct energy in the form of primary energy sources (fuel oil, natural gas);
- indirect energy in the form of electricity, steam and compressed air;
- direct renewable (solar) energy generated on site, which currently provides only a very small amount of energy.

Electricity and natural gas have for several years been the two main sources of energy used by sites. Together, they account for 98% of the Group's total energy consumption.

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

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

While energy consumption was not a material risk for Valeo in 2019, the Group works actively to keep abreast of potential change in greenhouse gas emission regulations. Concerning energy consumed (either from renewable or non-renewable sources), the Group is very much dependent on the energy mix available in each host country, as the energy consumed by its sites is produced locally. With that in mind, Valeo has opted to purchase green power in Poland and India in order to improve the energy mix in those countries.

Approach

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

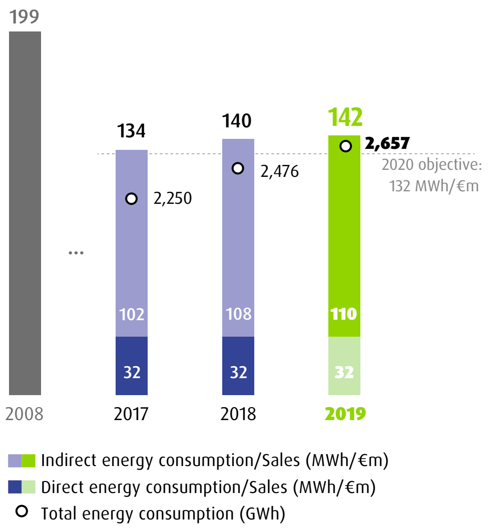
In view of the importance of reducing energy consumption and emissions related to the production of GHGs (scopes 1 and 2), Valeo has also set itself the goal of reducing its direct and indirect greenhouse gas emissions (scopes 1 and 2) as a proportion of sales by 8% between 2016 and 2020.

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

In line with its objectives on improving environmental performance during the 2016-2020 period, Valeo has set itself the target of ensuring that 20% of its sites obtain ISO 50001 energy management certification by the end of 2020 (see paragraph "Evaluation and certification processes" in this section, pages 241 to 243). Since 2018, Valeo has partnered with an expert third party to conduct energy performance audits and highlight opportunities to reduce consumption.

Performance

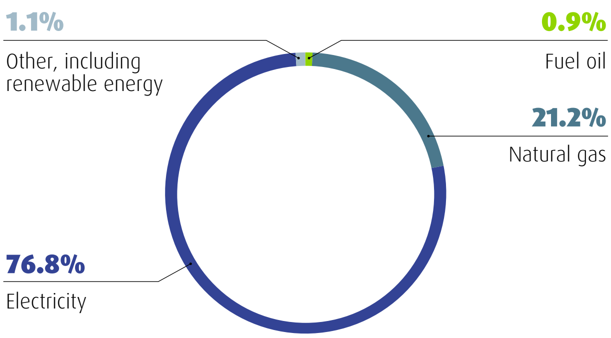
ENERGY CONSUMPTION



Between 2018 and 2019, energy consumption increased by 7% in absolute terms. Most of the increase was attributable to the increase in the sites' electricity consumption. Direct energy consumption (gas, fuel oil, renewable energy produced on site) as a proportion of sales has remained stable in recent years at 32 MWh/million euros. It has been halved since 2008.

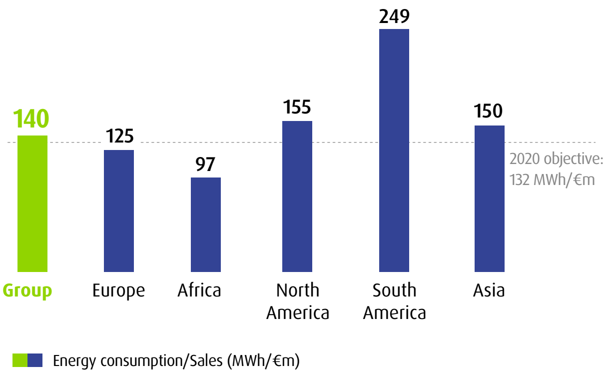
Indirect energy consumption (electricity, purchase of thermal energy or compressed air) as a proportion of sales was stable between 2018 and 2019. Since 2008, total energy consumption relative to sales has fallen by 29%.

BREAKDOWN OF ENERGY SOURCES IN 2019



The proportion of electric power has stabilized at around three-quarters of the Group's consumption, while the proportion of natural gas increased slightly from 20.3% in 2018 to 21.2% in 2019.

REGIONAL BREAKDOWN OF ENERGY CONSUMPTION AS A PROPORTION OF SALES IN 2019



Energy consumption as a proportion of sales is markedly higher at the Group's South American sites than in Africa, Europe, North America and Asia. With the exception of Europe and Africa, the ratio of energy consumption to sales remains above the performance target set for 2020, mainly due to the overall increase in electricity consumption in 2019.

Reducing our carbon impact

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

Since 2009, Valeo has made progress in the analysis of its carbon footprint by evaluating the direct and indirect greenhouse gas (GHG) emissions resulting from its activities. In 2019, the following operations-related emissions sources (excluding product use) were included in the review:

- **direct GHG emissions:** combustion emissions from stationary sources on sites, emissions from fuel combustion by Group vehicles, direct emissions from non-energy processes such as the incineration of VOCs[(1)], and direct fugitive emissions relating to refrigerant leaks (included in scope 1 of the international framework);
- **indirect GHG emissions** associated with energy consumption, related to the consumption of electricity, steam, compressed air and other sources (included in scope 2 of the international framework);
- **other indirect GHG emissions** related to purchases of products used in industrial processes, and the transportation of goods and people (included in scope 3 of the international framework).

Direct and indirect CO_2 emissions (as a proportion of sales) have been cut by 3.5% compared with 2009.

(1) See sustainable development glossary, page 274.

Scope 1

Direct GHG emissions as a proportion of sales were stable between 2018 and 2019.

Direct GHG emissions *($ktCO_2eq.$)* – Emissions sources	2016	2017	2018	2019
Emissions generated by fuel oil and gas combustion at sites *($ktCO_2eq.$)*	119.3	132.8	134.9	143.3
Direct emissions from non-energy processes *($ktCO_2eq.$)*	2.8	7.4	6.7	6.6
Emissions caused by Valeo's vehicle fleet *($ktCO_2eq.$)*	8.9	10.4	19.4*	23.5
Fugitive emissions (refrigerant leakage) *($ktCO_2eq.$)*	14.9	16.3	14.3	13.5
TOTAL DIRECT EMISSIONS *($KTCO_2EQ.$)*	**145.8**	**166.9**	**175.3**	**186.9**
TOTAL DIRECT EMISSIONS/SALES *($TCO_2EQ./€M$)*	**9.6**	**9.9**	**9.9**	**9.9**

* *Since 2018, the data have been calculated using the emission factor of Valeo vehicles (0.547 kg $CO_2eq.$/km/person), unlike in previous years where the coefficient applied was that of personal vehicles (0.253 kg$CO_2eq.$/km/person).*

Scope 2

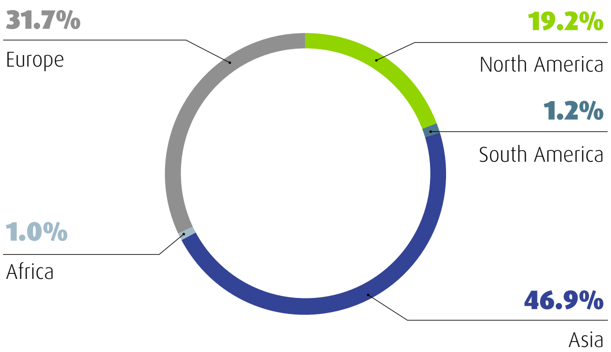
Indirect GHG emissions as a proportion of sales increased by 3% between 2018 and 2019.

Indirect emissions related to electricity consumption(1) and other energy such as steam, compressed air, etc.	2016	2017	2018	2019(2)
TOTAL INDIRECT EMISSIONS *($KTCO_2EQ.$)*	**710.9**	**763.9**	**870.5**	**892**
TOTAL INDIRECT EMISSIONS/SALES *($TCO_2EQ./€M$)*	**46.97**	**45.60**	**49.29**	**47.6**

(1) The calculation takes into account the primary energy sources used to generate electricity in each country.
(2) The calculation also takes into account the purchase of green energy certificates in 2019.

In 2019, despite the integration of new sites and its growth in high-emissions countries, particularly China and Poland, the Group managed to reduce its direct and indirect greenhouse gas emissions to 57.55 $tCO_2eq.$/€m as a proportion of sales (9.9 $tCO_2eq.$/€m and 47.6 $tCO_2eq.$/€m, respectively). This corresponds to a decrease of 3.5% compared with 2009 (59.6 $tCO_2eq.$/€m).

Geographic breakdown of direct and indirect greenhouse gas emissions (scopes 1 and 2) associated with the Group's energy consumption in 2019



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

Sites in Asia emit nearly 47% of the Group's total GHG emissions, as power plants supplying energy to Valeo's sites in Asia are predominantly coal-fired. The Group's growth in Asia therefore results in an increase in absolute terms in indirect emissions of greenhouse gases.

Scope 3

For transparency, Valeo estimated all other indirect emissions sources (scope 3) linked to its activity in 2019. The following other indirect GHG emissions (scope 3) related to Valeo's operations are considered material:

- 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 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with environmental product regulations" and "CO_2 emissions related to the use of Valeo products (scope 3)", pages 210 to 215).

Other indirect GHG emissions (scope 3) regarded as not material are:

- emissions related to waste management in the relevant channels;
- emissions from Valeo's assets used by third parties (e.g., loans of molds to suppliers);
- emissions from energy production (e.g., extraction of gas or fuel oil);
- emissions from the installation of our products in vehicles by automakers;

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

Although they are not considered material, Valeo has elected to publish the following emissions data related to its activity:

- emissions related to the upstream transportation of goods and raw materials;
- emissions from employee travel (commuting and business trips).

Other relevant indirect GHG emissions (*$ktCO_2eq.$*) – Sources of emissions	2016	2017	2018	2019
Emissions generated by the production of the main materials used in industrial processes, of which:	**6,904***	**7,770**	**8,764**	**9,179**
Materials (metals)	4,274*	4,817	5,722	5,807
Materials (other)	2,630*	2,953	3,042	3,372
Emissions generated by upstream logistics:	**223**	**296**	**343**	**281**
Road/rail/maritime transportation	106	164	222	236
Air/express transportation	117	132	121	45
Emissions generated by employee travel of which:	**169**	**195**	**222**	**236**
Commuting	136	153	182	209
Business trips	33	42	40	27
TOTAL OTHER INDIRECT EMISSIONS (*$KTCO_2EQ.$*)	**7,296**	**8,261**	**9,329**	**9,696**
TOTAL OTHER INDIRECT EMISSIONS/SALES (*$TCO_2EQ./€M$*)	**482**	**493**	**528**	**517**

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

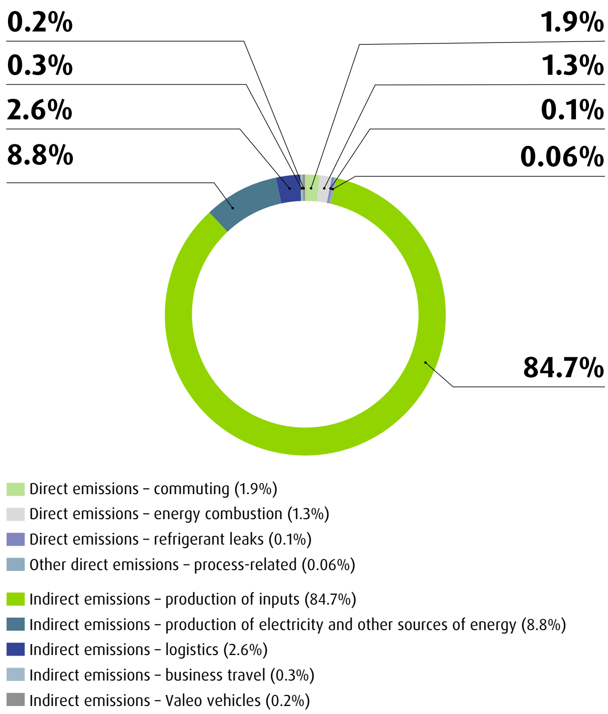
Scope 3 emissions as a proportion of sales fell by 2% between 2018 and 2019, whereas they increased by 7% between 2017 and 2018. Note that product-related emissions (installation in the end vehicle, use, end of life) are described in section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with environmental product regulations", pages 210 to 215.

The Group's industrial carbon footprint

In 2019, the Group's overall carbon footprint (scopes 1, 2 and 3, excluding emissions from the use of its products) was 10.83 million metric tons of CO_2.

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

Breakdown of the source of GHG emissions in 2019



Achievements during the year

In 2019, Valeo's sites undertook several projects to foster the use of renewable energy. Noteworthy initiatives of this nature include the sites in Rayong (Thermal Systems, Thailand), Chennai Clutches (Powertrain Systems, India) and Chonburi (Thermal Systems, Thailand), which installed photovoltaic panels to generate electricity.

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

- **replacement of lighting systems** using conventional fluorescent or metal-halide lights with more energy-efficient **LEDs.** Sites generally stagger the replacement of this equipment over several years;
- installation of **systems to recover heat from compressors or furnaces** for reuse in other plant areas (showers, production hall, etc.). The sites in Rakovnik (Comfort & Driving Assistance Systems Business Group, Czech Republic), Wuhan (Visibility Systems Business Group, China) and Jingzhou (Thermal Systems Business Group, China) undertook measures of this nature in 2019;
- **optimization of compressed air systems** by such means as the reduction of the use of pressure in air networks, implementing an organizational procedure for switching on and off compressors supplying the compressed air network and the detection of leaks using an ultrasonic sensor. Examples of sites that took measures bearing on this equipment include Elkhart (Thermal Systems Business Group, United States), Wemding (Comfort & Driving Assistance Systems Business Group, Germany) and Martos (Visibility Systems Business Group, Spain);
- **roof insulation:** the Zaragoza site (Thermal Systems Business Group, Spain) carried out work in 2019 with a view to reducing its gas consumption;
- most sites also set up **awareness campaigns** on the responsible use of energy, especially during the Sustainable Development Week in June.

Biodiversity

Challenges

The 153 sites in the reporting scope occupy a total area of approximately 902 hectares, of which approximately 11% are left in their natural state. The rest is used for buildings, traffic areas and gardens.

Almost all of the sites occupied by Valeo, i.e., nearly 88% of its operating plants, are located in urban areas or areas zoned for industrial use. In addition, its activities are not liable to significantly alter ecological processes (no extraction or spraying, for instance).

To more accurately understand its potential impacts, the Group conducts an annual biodiversity inventory at plants located in or near (within 10 km of) protected areas. Eleven such sites were identified in 2019: one in North America, three in South America and seven in Europe.

Approach

The precise identification of significant direct impacts on biodiversity is conducted across sites through environmental analysis. This step is crucial in the implementation of an ISO 14001-certified environmental management system.

The "Biodiversity" Directive lays down guidelines to regulate practices in terms of biodiversity conservation during selection, construction, operation and closure of plants.

Achievements during the year

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

- the Queretaro site (Visibility Systems Business Group, Mexico) gave its employees 150 trees to plant;
- 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 Wuhan site (Visibility Systems Business Group, China) started collecting electronic waste from its employees and sending it to a recycling channel.

Transportation and logistics

Challenges

Valeo's operations require inbound supplies of raw materials and parts, the transfer of parts between sites and outbound deliveries to automaker-customer premises, plants and dealer networks. The main environmental impacts of these logistics flows result from emissions of greenhouse gases attributable to the use of non-renewable fuels.

Approach

In line with its product development strategy aimed at reducing the impact of vehicles on the environment, Valeo pursued its transportation optimization strategy to reduce associated CO_2 emissions in 2019.

Performance

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

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

In 2019, emissions related to air transportation for the delivery of parts from suppliers amounted to 45,035 metric tons of CO_2, compared with 120,994 metric tons of CO_2 in 2018. Emissions related to air transportation for the delivery of Valeo products to customers amounted to 3,649 metric tons of CO_2.

The significant reduction in emissions linked to air transportation stems directly from the reduction in the use of air freight, the most polluting means of transportation, in favor of sea freight, the least polluting but the slowest in terms of transit time, and train, an intermediary in terms of transit time and a hundred times less polluting than air.

In **road transportation,** optimization work performed in previous years continued in 2019:

- load consolidation by the use of logistics platforms to collect as many parts as possible from multiple sources, which are then re-routed in fully loaded trucks to each plant;
- development of new solutions for packaging parts for customers, to guarantee the quality of deliveries, and ensure optimum truck fill rates;
- where technically feasible and as permitted by domestic law, use of dual-capacity trailers (double deck in a single trailer or double trailer) to further improve fuel consumption ratios per part delivered and, in turn, CO_2 emissions.

Emissions related to road transportation for the delivery of parts from suppliers amounted to 151,433 metric tons of CO_2. Emissions related to road transportation for the delivery of Valeo products to customers amounted to 17,963 metric tons of CO_2. As a whole, these emissions were stable compared to 2018 despite the increase in sales.

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

In 2019, emissions related to maritime transportation for the delivery of parts from suppliers amounted to 82,180 metric tons of CO_2. Emissions related to maritime transportation for the delivery of Valeo products to customers amounted to 655 metric tons of CO_2.

Lastly, Valeo opted decisively for **rail transportation** in 2019 due to the improvement of China-Europe and North America routes and its more environmentally friendly nature, as well as its 50% reduction in transit times on China-Europe routes. On this route, rail is becoming a viable alternative to air transportation in some areas. Road, maritime and air transportation are increasingly being diverted to rail, giving this mode of transportation the highest rate of growth in the Group.

In 2019, emissions related to rail transportation for the delivery of parts from suppliers amounted to 2,163 metric tons of CO_2. Emissions related to rail transportation for the delivery of Valeo products to customers amounted to 256 metric tons of CO_2.

Achievements during the year

In 2019, several initiatives were taken to reduce CO_2 emissions relating to transportation and logistics:

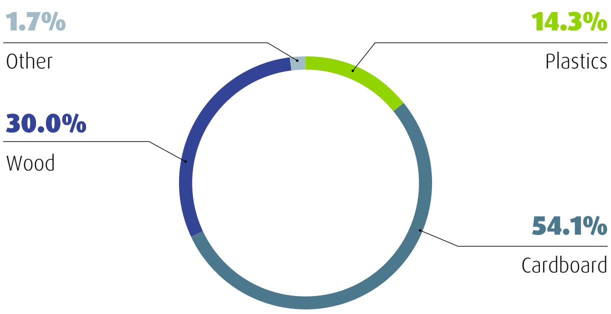
- for road transportation, several flows were redefined in order to reduce the kilometers traveled;
- thanks to tighter control of production and optimized inventory management, Valeo was able to switch to more environmentally friendly modes of transportation, albeit slower in terms of delivery times. As such, the main change, in terms of CO_2 emission reduction, is the reduced use of the most polluting means of transportation, namely air freight;
- the railway line between China and Europe has been used more in both directions;
- last year's best practices in the preparation of road trucks and double-deck trailers, implemented at regional level, are being spread to other regions;
- work to consolidate platforms to minimize transportation was continued in all regions; its aim is to detect and react to all opportunities for optimizing transportation;
- in general, the volume of transportation managed by Valeo increased, mainly due to Valeo's assumption of responsibility for the transportation of components, previously assumed by suppliers. This process, started in previous years, will continue to be rolled out and reinforced in 2019-2020. This transfer allows Valeo to consolidate more loads in the most distant countries of origin, thereby reducing overall transportation costs and CO_2 emissions.

Packaging

Challenges

Packaging is essential for product handling. It is required for transporting, storing and protecting products and, in the case of aftermarket products, selling them. For these various purposes, Valeo uses many different kinds of packaging materials, mainly cardboard, wood, plastics and metal. Cardboard and wood together account for nearly 85% of packaging materials used.

Breakdown of packaging materials consumption in 2019



Approach

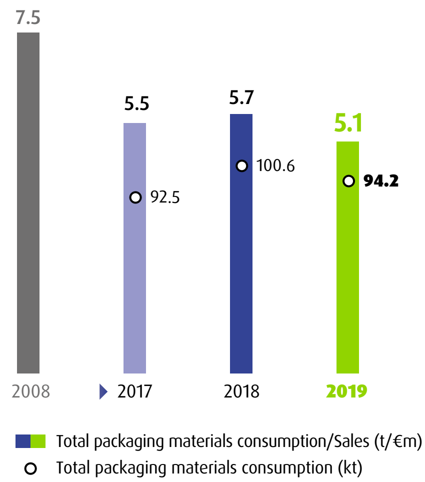
For several years, Valeo has worked to reduce its consumption of packaging materials in two main ways:

- 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 fell by 11% compared with 2018. To reduce its environmental footprint, Valeo pays particular attention to the use of recycled materials. In 2019, 7,261 metric tons of packaging materials were recovered internally and reused. Since 2008, total packaging consumption has declined by 32% in relative terms.

Achievements during the year

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

This policy can be adopted both for customer packaging and packaging for the storage of semi-finished products. The sites in Changchun (Thermal Systems, China), Foshan (Visibility Systems, China) and Warsaw (Valeo Services, Poland) offer examples of initiatives of this nature in 2019. This can also involve the packaging of parts or components delivered by suppliers, which are either reused directly for packaging intended for products, or returned to suppliers so that they can reuse it for their deliveries.

4.5.4 Employee-related commitments

Quality of life at work

Challenges

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

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

Approach

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

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

Aware of the need to formalize its quality of life at work policy, Valeo rolled out a Human Resources procedure entitled "Quality of life @work" in 2018. The purpose of this procedure is to define the quality of life at work, the means of improving it and the tools needed. It is then implemented at each site by a Quality of Life at Work Committee comprising a multidisciplinary team: a site manager, employee representatives and members of the HR network, Health, Safety and Environment network and the site's medical team. It is tasked with defining the site's Quality of Life at Work policy in accordance with its specific challenges and ensuring communication with employees.

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

- the "Quality of Life at Work" employee involvement roadmap. Each year, Valeo's internal auditors check that the action plans drawn up as part of the roadmaps are properly implemented. By 2019, Valeo plants had achieved 61% compliance with the roadmap, compared with 52% in 2018;
- annual labor-related CSR reporting.

Performance

In 2019, considerable progress was made in terms of quality of life at work:

- 6,938 employees benefited from teleworking, representing 21.7% of Managers and Professionals, compared with 18.7% in 2018, an increase of 17%;
- 95% of plants implemented at least one action to promote quality of life at work, an increase of 13 points compared with 2018;
- 6,080 employees attended training/awareness modules on quality of life at work, an increase of 37% compared with 2018;
- 40% of sites have set up a fund to assist employees experiencing financial hardship, an increase of 10 points compared with 2018.

Achievements during the year

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

Respecting and promoting diversity

Challenges

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

Approach

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

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

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

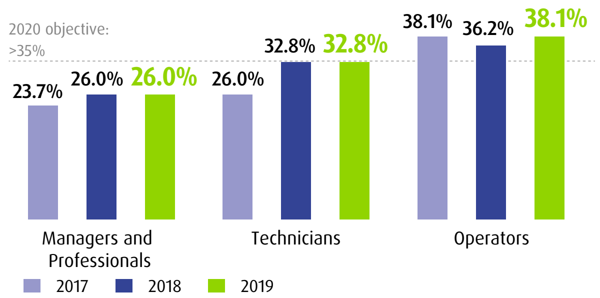
Firmly believing in the importance of diversity in non-financial and financial results, the Group decided in 2018 to incorporate the criterion of diversity into the variable compensation of Jacques Aschenbroich, its Chairman and Chief Executive Officer. The aim of this approach is to send a strong signal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

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

Performance

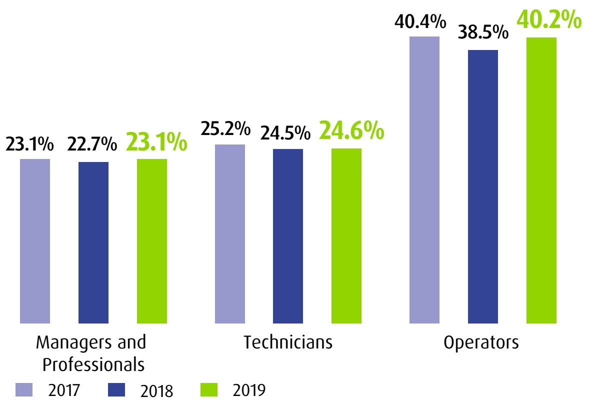
Gender

Percentage of women among new hires



In 2019, women represented 34.9% of new hires, meaning that the Group has exceeded its 2020 target, initially set at 33% in 2017, and is well on the way to the new 2020 target of 35%, as increased in 2018.

Proportion of women per socio-professional category – registered headcount



The percentage of women in the general population is 32.7%. The percentage of women Managers and Professionals is 23.1%. The percentage of women in R&D is 15.8%. Valeo is committed to promoting and developing female talent. In 2019, the proportion of women in the executive population[1] increased by a point, rising from 11.5% to 12.4% between 2018 and 2019.

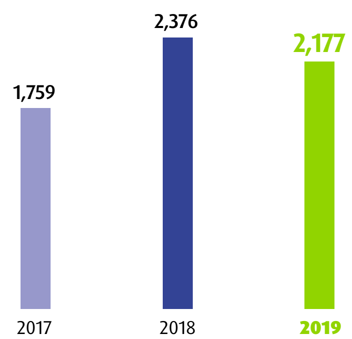
Valeo commits to equal pay for men and women

In March 2019, Valeo was the first CAC 40 company to extend the index, mandatory in France, to all of its host countries. It did so on the basis of a slightly different methodology, since it only takes Managers and Professionals into account: for instance, the index calculates the weighted differences in the proportion of women and men given pay rises or promotions, and the percentage of women among the 10 highest salaries.

The Group average was 82/100 in 2019, with a lowest score of 40 and a highest of 91. Following analysis carried out by each country, national action plans have been launched with a view to improving the index and in turn gender equality in all the countries where the Group operates.

Disability

Number of employees with disabilities worldwide (direct employment)



The number of employees with disabilities is 23.8% higher than in 2017. The new disability management approach has resulted in better follow-up of recruitment and the promotion of the talents of workers with disabilities. The number of disabled workers declined from 2,376 in 2018 to 2,177 in 2019. In this period of contraction in the workforce, it was harder to replace disabled employees who retired or took early retirement. As such, 126 departures of disabled workers were recorded in France, compared with 13 hirings and 67 new recognitions.

(1) The executive population corresponds to employees in the two highest of the six grades in the Managers and Professionals category of the Valeo scale.

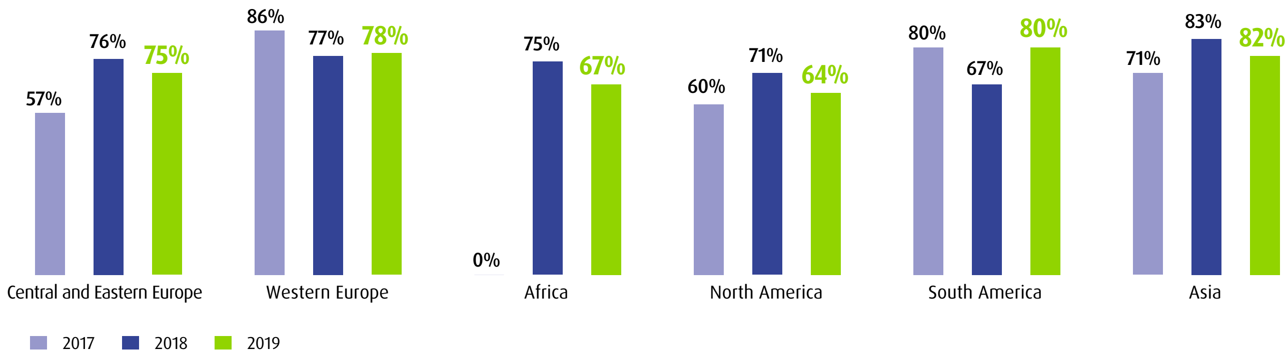
Culture

In 2019, Valeo had 307 expatriates in its ranks, compared with 367 in 2018. The decline is encouraged by the Group, which wants to allow local managers to access key management positions. The countries hosting the largest number of expatriates are the United States (51), France (39), Japan (38), China (38) and Germany (26).

The proportion of expatriates in the total number of Managers and Professionals was down 0.2 points compared with 2018 (1.16% in 2018 vs. 0.96% in 2019). French expatriates accounted for 59% of total Valeo expatriates in 2019. Expatriates working in Research and Development account for 24% of the Group's expatriates.

The Group currently includes employees of 140 different nationalities. The ten most widely represented nationalities within the Group are Chinese, French, Mexican, Polish, German, Indian, American, Japanese, Spanish and Czech.

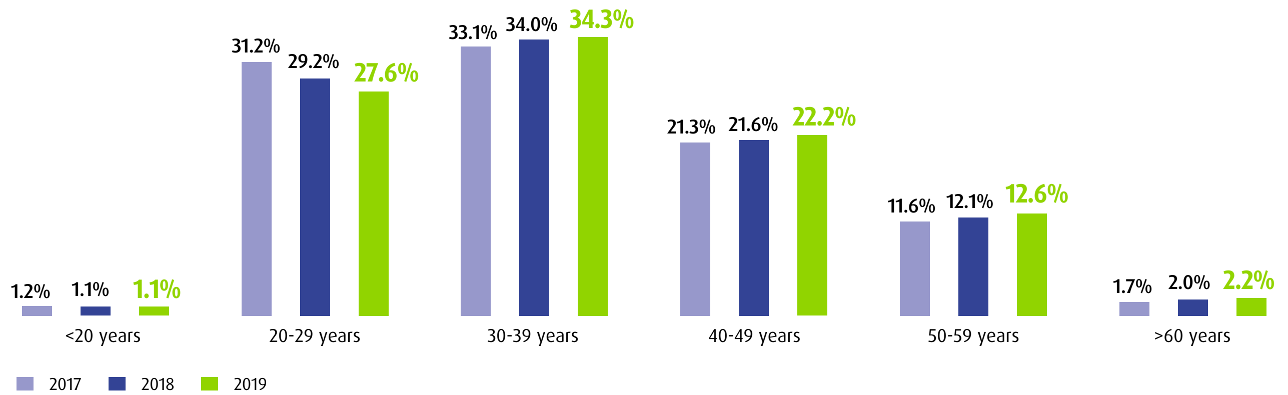
Breakdown of sites run by local directors (2019)



In 2019, Valeo continued to strengthen the ranks of local employees among its directors: 78% of its sites were run by a local director, compared with 75% in 2018. Valeo uses succession plans to ensures the gradual replacement of expatriate site directors by local directors.

Generational

Breakdown of registered headcount by age group



In 2019, Valeo had a total of 16,161 employees aged over 50, and 31,584 aged under 30, representing 15.6% and 30.5% of the registered headcount respectively. In 2018, Valeo had a total of 15,077 employees aged over 50, and 32,563 aged under 30, representing 14.7% and 31.8% of the registered headcount respectively.

- In 2019, Valeo hired 14,984 employees under 30, representing 51% of new hires, and 929 employees over the age of 50, representing 3.2% of new hires.
- In 2018, Valeo recruited 16,774 employees under the age of 30, representing 62% of new hires, and 896 seniors, representing 3.3% of new hires.
- The average age of the registered headcount was 37 in December 2019.

Achievements during the year

Gender

Actively in favor of gender equality and the promotion of this facet of diversity, the entire Group achieved the following in 2019:

- 74% of the Group's plants implemented at least one initiative in favor of gender equality: organization of seminars and conferences, organization of photo exhibitions or sports tournaments, etc.;
- particularly attentive to the quality of life at work, 70% of the plants have introduced specific measures for pregnant women: adjustments to workstations or working hours, etc.;
- aware that women are less represented than men in its industry, in 2019, Valeo strengthened its partnership with association *Elles Bougent* by taking part in an event dedicated to introducing schoolgirls to the automotive industry at the Paris Motor Show. The number of *Elles Bougent* sponsors also increased. There are now 86 of them at Valeo.

2019 initiatives – Promoting the place of women in business

A series of interviews conducted at the start of 2019 brought out the desire of many female employees to benefit from advice, guidelines and models from which to draw inspiration and learn.

To meet these expectations and encourage peer-to-peer exchanges, Valeo has set up an original program built on three axes:

1) Experience Sharing – woman4women

On several occasions, very experienced women managers from Valeo agreed to share their experience, their career path, their successes, their reservations, the challenges they faced and what helped them succeed. Each presentation was followed by a very open Q&A session.

2) Business Talks – women&business

Two senior executives stood up to present their respective fields of activity, Valeo's challenges and priorities, and the impact of their work on Valeo.

3) Confidential Discussion – woman2woman

Valeo offered women the possibility of receiving personal mentoring through private and informal interviews in order to:

- ask questions about career stages, promotions and personal aspirations;
- share their professional experience;
- receive support and advice.

Disability

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

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

HandiTech Trophy

In 2019, for the third year in a row, Valeo took part in the HandiTech Trophy. Xavier Baillard, Director of the Valeo start-up and technological incubator, and Guillaume Devauchelle, Vice-President, Innovation and Research & Development, contributed to the selection of technological and innovative projects for people with disabilities. Respectively on the panels for the Mobility and AI/Digital categories, the EZYMOB and CROCOS GO DIGITAL start-ups raised funds to develop their solution and improve the daily lives of disabled people.

Culture

In 2019, Valeo actively promoted cultural and social diversity, a real performance driver:

- 67% of the plants implemented at least one initiative in favor of cultural diversity: celebration of the World Day for Cultural Diversity, introduction of pairs formed by employees from different countries, circulation of an e-learning module;
- to attract talented young people from diverse backgrounds, Valeo has launched the Insertion Process. Currently piloted in France, it aims to integrate a greater number of young people from priority neighborhoods in urban policy(1), especially for school work experience or work-study programs for college students.

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

Valeo Campinas in Brazil awarded for its "Generation in TransformAction" project

At the end of 2019, the AEDHA[1] association in Brazil recognized Valeo Campinas for its socially responsible role in developing the youth of tomorrow. The site implemented the "Generation in TransformAction" project to help young apprentices from low-income neighborhoods to enter the Group's workforce. To this end, Valeo employees regularly hold workshops centered on the world of work.

Generational

The Group takes care to create an environment in which four generations can work together as the retirement age increases and members of generation Z arrive on the labor market. This generational diversity is a factor of human enrichment for the Group, but it questions the perception of Valeo's management model by each generation. In 2019, Valeo implemented a number of measures in favor of generational diversity:

- 52% of the plants implemented at least one action in favor of generational diversity, especially to mark generational diversity day: activities, workshops, open days for high schools;
- extension of the policy of selective partnerships with higher education institutions at the international level, to promote diversity within teams. These initiatives in favor of youth employment and the integration of young people in the workplace allowed the Group to welcome 1,793 interns, 1,017 apprentices and trainees, and 76 *Volontariat International en Entreprise* (VIE) program applicants.

Promoting and respecting fundamental rights

Challenges

Valeo believes that employee progress is inseparable from financial performance. As employee trust is essential to its business and development, Valeo has undertaken to respect fundamental rights, and promotes open communication between employers and unions[2].

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

Approach

- The Group is committed to having the CSR report prepared in accordance with the provisions of the CSR agreement presented and discussed with local unions on all plants by 2020.
- To promote and ensure respect for fundamental rights, Valeo's goal by 2020 is to ensure that all of its employees have received the Code of Ethics and signed the relevant statements, and that they have received training on its content.

Social dialog

In 1999, Valeo concluded an agreement to set up a European Works Council. The agreement was renegotiated and signed unanimously by the unions in 2016. The Works Council provides a forum for exchanging points of view and establishing dialog between management and the 16 employee representatives from each European country in which Valeo has more than 150 employees. A nine-member committee meets quarterly at a European site.

The European Works Council represented 41% of the Group's registered headcount in 2019, or 42,446 employees. Each country sets up specific bodies in line with local laws and regulations.

In 2019, 65.6% of Valeo plants had formal bodies representing employees and unions. This representation at different levels of the organization has allowed Valeo to develop an active bargaining policy with the unions. Valeo must continue promoting high-quality labor relations that provide a platform for exchanging points of view, fostering mutual understanding and finding well-balanced solutions that are in the interests of all stakeholders. In 2019, 78.3% of the registered headcount worked in accordance with the working organization and salary condition rules provided for in collective bargaining agreements.

Fundamental rights

Valeo has participated in the UN Global Compact since 2004. The Group also aims to comply with the International Labour Organization (ILO) conventions on fundamental principles and rights at work:

- elimination of discrimination in employment and occupation (Conventions 100 and 111);
- prohibition of child labor (Conventions 138 and 182);
- elimination of forced and compulsory labor (Conventions 29 and 105);
- respect for weekly rest periods (Conventions 14 and 106);
- freedom of association and collective bargaining (Conventions 87 and 98);
- protection of workers' representatives and union members (Convention 135);
- equal rights and opportunities for workers with family responsibilities (Convention 156).

(1) Associação Educacional dos Homens de Amanhã.

(2) This paragraph deals with the promotion and respect of the fundamental rights of Valeo employees. The risk related to sustainable development practices of tier-one suppliers is addressed in "risk related to suppliers' sustainable development practices" (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 228 to 232).

Professional, individual and collective integrity is a key value of the Group. Wishing to ensure that it is embodied by all employees in all their exchanges (internally and externally), Valeo published its Code of Ethics in 2005. It combines the Valeo Values, the 5 Axes and the Valeo Compliance Program. To ensure that all employees understand the commitments made by Valeo in its Code of Ethics, the document is given to all employees, who are required to sign a statement acknowledging receipt and pledging to uphold it. In 2019, 100% of new employees signed a declaration acknowledging receipt of a copy of the Code.

To ensure the proper application of its policies on child labor, the Group's Internal Audit Department carries out a specific procedure to assess whether the risks associated with the hiring of employees under the legal working age have been addressed and mitigated by Valeo's rules and overall policies. In 2019, 28 sites were audited. The policy on the prohibition of child labor was respected at all such sites.

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

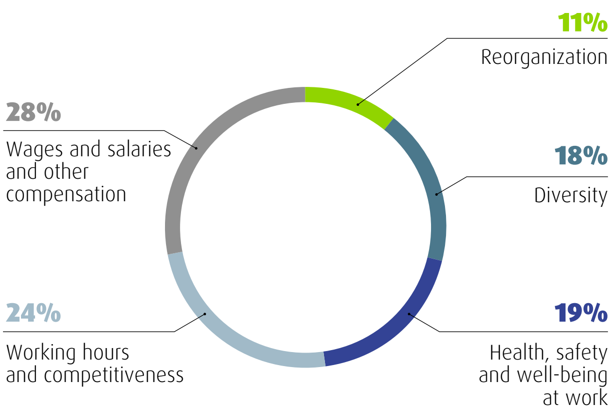
- prevention of harassment and discrimination;
- fight against child labor;
- fight against forced labor;
- promotion of social dialog.

These procedures apply to all of the Group's employees. Each of them sets out Valeo's approach and commitments, specifies the roles of the various stakeholders and determines the follow-up methods implemented by the Group, which are based on specific, quantifiable and auditable criteria.

Performance

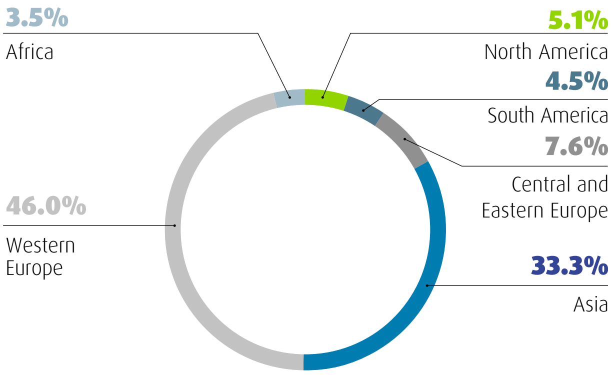
A total of 471 collective bargaining agreements were in force locally and nationally at Valeo's various sites worldwide in 2019. The topics covered by these agreements are as follows:

Breakdown of agreements in force by category in 2019



In 2019, the main topics covered were wages and other compensation (28%), working hours and site competitiveness (24%), health, safety and quality of life at work (19%) and diversity (18%).

Breakdown of agreements signed by geographic area in 2019



The vast majority (79%) of agreements were signed in Europe and Asia. The high proportion of agreements signed in Asia demonstrates the Group's determination to promote this type of dialog with labor organizations worldwide.

Achievements during the year

Employee relations

A Corporate Social Responsibility (CSR) agreement was signed on July 10, 2012 and renewed on November 4, 2016 between the Group's Management and labor organizations. The purpose of this global agreement is to ensure that an appropriate labor framework is in place to accompany the Group's international expansion, in line with its principles of responsibility, Code of Ethics and sustainable development policy. The agreement also seeks to promote labor and environmental practices that go beyond legal and regulatory obligations. The procedures and principles defined in the agreement are being phased in by the subsidiaries at the various national and local levels. This agreement is intended to be a determined reflection of the commitment to universal principles for all of the Group's companies, as well as being pragmatic, by respecting cultural, social and economic differences in the implementation of the principles. In 2019, the CSR report provided for in the CSR agreement was presented and discussed at the European Works Council.

Fundamental rights

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

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

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

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

The scope of the Valeo whistleblowing line, which has hitherto been used to signal management of non-compliance with internal regulations concerning anti-competitive practices, corruption or fraud, has been extended. It now allows the reporting of any behavior contrary to international laws or agreements, including violations of fundamental rights, environmental breaches or the health or safety of people. Valeo does not tolerate any form of retaliation against people who blow the whistle in good faith, or who take part in investigations, proceedings or hearings. The scope of the whistleblowing line covers all employees and former employees, as well as suppliers.

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

4.5.5 Social commitments

Proactive 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 2019.

Main corporate citizenship initiatives at Valeo sites

Commitment	Partners	Focus of the 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 ■ Partnerships with the world of education and local training ■ Partnerships with the local research ecosystem
Action with local populations	■ Local populations	■ Dialog with local stakeholders ■ Solidarity initiatives through donations to local populations

Approach and achievements during the year

2019, continuity in the Group'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 from Japan to Paris.

Valeo created and finances the center's "innovative technologies for sustainable transport" chair. The chair's aim is to support exchanges between universities in France and Japan, including visits to France by Japanese academics in the fields of technology companies for an aging society, robotics and human-machine interfaces for connected and automated mobility solutions.

In 2019, the exchange program was awarded to Haruki Sawamura, a doctoral student at the Interdisciplinary Institute for Innovation at the Center for Research in Management (CRG) at École Polytechnique, and a graduate of the School of Engineering of the University of Tokyo and the School of Advanced Science and Engineering of Waseda University. His research focuses on innovation (design, management, outreach, etc.).

(1) *Law No. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization, known as the Sapin II law.*
(2) *Law No. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.*

As part of the 2019 CEAFJP/Valeo chair, he studied the spread of connectivity technologies such as detection, IT and telecommunications and how these technologies facilitate the move to other automated products and services. His research focuses on the interaction between humans and infrastructure, including information and communication technology (ICT) infrastructure, allowing better access and wider spread of automated products and services within the Company.

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 2013, and whose 2019 meeting was held in Tokyo.

Action by sites with local communities

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

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

Relationships with local educational and training bodies

As a global group with a strong R&D dimension and structured networks (see section 4.5.2 "Technological commitments", paragraph "Valeo, an actor in the governance of institutional collaborative research organizations", pages 238 to 239), Valeo also encourages the Group's sites to join specific local initiatives covering relationships with local educational and training institutions (engineering schools, universities, technical institutes, etc.).

As such, 79% of sites worldwide initiated partnerships and exchanges with higher education structures (universities/engineering schools) in 2019. The diversity of relationships and partnerships with these teaching institutions reflects the wide range of relationships sites have with the surrounding area, depending on the specific local teaching and training environment.

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

Valeo is committed to promoting industrial jobs among women

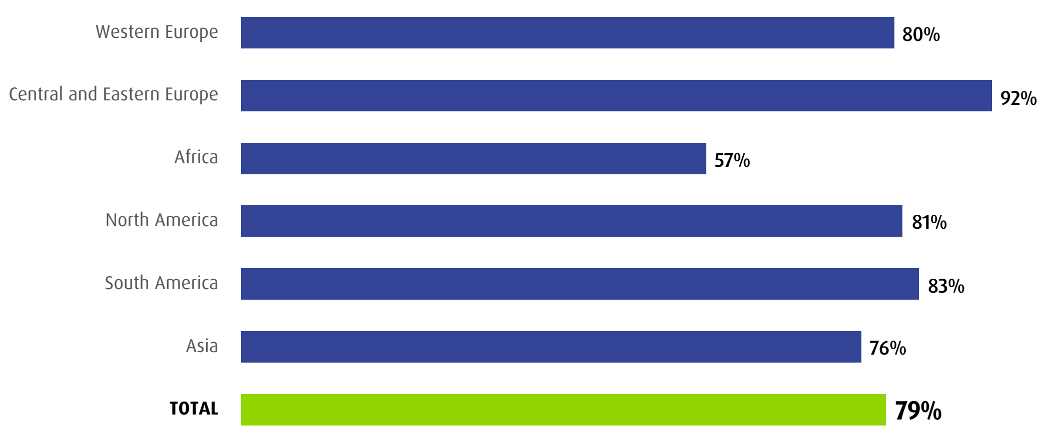
Valeo maintains its well-established link with *Elles Bougent*, an association whose purpose is to promote gender equality and diversity in companies in the industrial and technological sectors. Several projects have been carried out in collaboration with the association, and other partners, on the promotion of the place of women in the industry.

For example, the La Verrière site (France) supported female senior high school students from two schools for an entire academic year, as well as female students from the ESTACA engineering school, giving them an overview of the various professions that exist in automotive and engineering industries.

A total of four meetings were organized during the 2018-2019 school year: one at the Paris Motor Show in October 2018, where Valeo welcomed the students and a delegation brought by *Elles Bougent* to its stand, allowing them to discover the professions of the automotive industry, and a further three in 2019, including a visit to the La Verrière site, a visit to ESTACA and finally a visit to the Polytechnique incubator to close the project.

Similarly, in 2019 the Ben Arous site (Tunisia), continued its participation in the EcoWin project and its partnership with the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ), hosting a group of high school girls for a day of meetings on auto industry professions on its site.

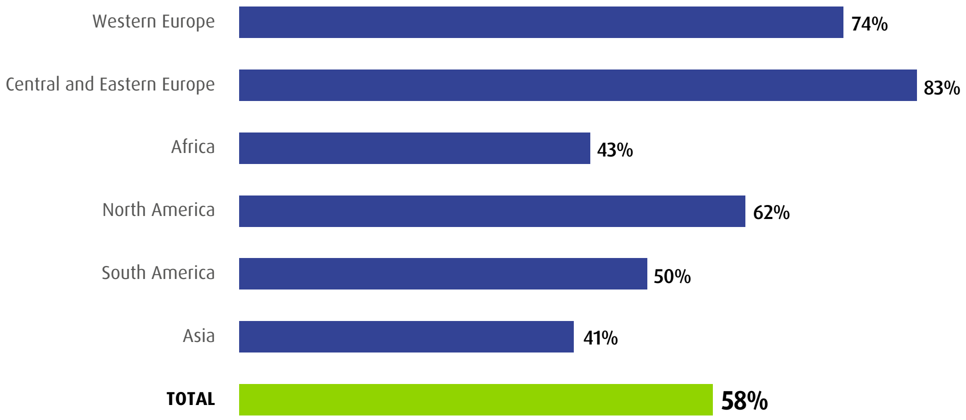
SHARE OF SITES PARTNERING WITH LOCAL UNIVERSITIES/ENGINEERING SCHOOLS IN 2019



Similarly, at the primary school level, the Group first called on sites to build closer relationships with elementary and high schools in 2016, as a means of increasing Valeo's visibility as a local economic actor and potential future employer.

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

Share of sites partnering with local elementary/high schools in 2019



Signature of a sponsorship agreement to support the development of the Espérance Banlieues school in Angers, France

In December 2019, Valeo signed an agreement to support the development of the Cours Le Gouvernail primary school in Angers, a member of the Espérance Banlieues network, through the sponsorship of one of the school's classes. Espérance Banlieues schools, which are set up in underprivileged neighborhoods, associate cultural and humanist teaching with the curriculum so that children can find their place in society and grow up with the confidence and desire to succeed. Convinced that perseverance and self-confidence are the drivers of success, and that teaching combined with continuous innovation lead to excellence, Valeo supports the innovative learning methods applied in educating these young people from disadvantaged neighborhoods.

Relationships with local research ecosystems

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

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

In 2019, 18% of sites in Central and Eastern Europe were part of a local research ecosystem (local competitiveness clusters, participation in collaborative research projects, etc.). In North America (United States, Canada and Mexico), nearly a quarter of sites are also involved in initiatives of this nature. The aim is to increase the numbers in the future.

Valeo employees, actors of CSR initiatives with their regions

As part of the Plant's Initiatives programs, whose themes are left to the initiative of the employees of the sites in view of local issues, we can note the following initiatives shared by certain sites on the themes of:

- road safety, such as the Valeo site in Chennai (India), where 50 employees took part in an information campaign in the city streets, in direct cooperation with City of Chennai road police (CCTP), thereby lending their efforts to existing municipal prevention efforts;
- respect for biodiversity, with cleaning operations (see next box).

Valeo Thailand and South Korea spearhead actions to clean up fragile ecosystems

In December 2019, nearly 600 employees from the Rayong site in Thailand participated in a beach cleaning day, an extension of initiatives undertaken by the Valeo Group to protect biodiversity. It was a chance for participants to learn more about the fragile ocean ecosystem while collecting and disposing of a significant amount of waste from this delicate environment. Similar initiatives are planned in the coming years, alongside local authorities and communities.

Employees from the Gyeongju site in South Korea organized a cleaning session near the Kumjangdae archaeological site to mark World Environment Day in June 2019.

Plants' initiatives alongside local populations

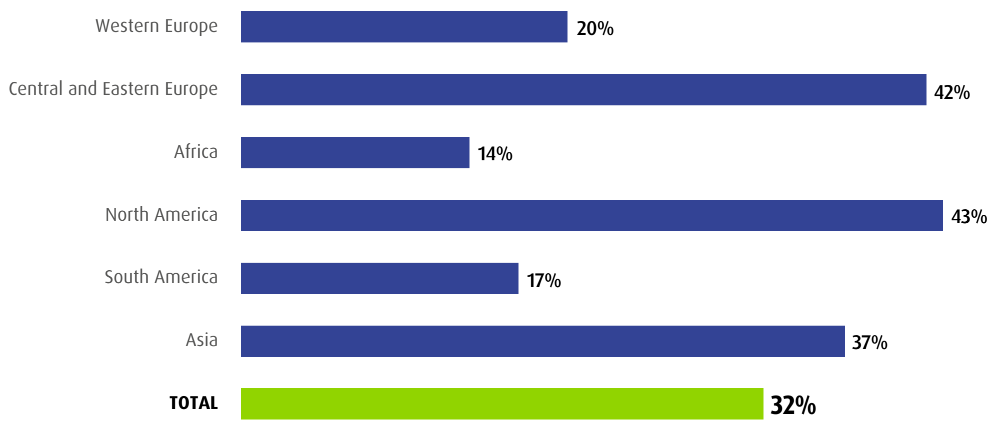
Valeo sites involved in dialog with local stakeholders

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

Open days at Valeo sites

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

Proportion of sites that held an open day in 2019



Valeo employees, working with the local community

Valeo China, an advocate for children's access to books

Since 2015, Valeo in China has been running a program entitled "The Valeo Library", under which employees of Valeo sites in China are encouraged to donate books allowing libraries to be opened in schools in disadvantaged areas. After opening its thirtieth library in November 2017, Valeo continued the program in 2018 and 2019, with the total number of libraries standing at 52 at the end of 2019. The program now offers access to books suitable for their age to more than 11,000 children, with more than 38,000 books donated.

With a view to establishing a lasting relationship with their local communities, Valeo sites and their employees are committed to solidarity actions around the following main themes:

- awareness-raising on critical illnesses and disabilities, such as Alzheimer's disease, breast cancer and visual impairment (including on-site testing), and fundraising events including charity races, flea markets and other initiatives;
- support for public health issues, with blood donations organized in many of the Group's host countries worldwide in 2019, or events of local importance, such as donations of basic necessities (rice, oil, clothing, etc.) from the Chennai site (India) in early 2019 to local populations (250 families helped) left destitute following cyclone Gaja in November 2018;
- charity targeting the poorest populations, primarily in the form of donations of clothing, toys and eyeglasses, as well as food bank initiatives, led by the Valeo sites in Turkey, the Czech Republic, Brazil, Thailand, India, etc.;
- awareness-raising around sustainable development, during the "sustainable development week" held every June in a large number of the Group's sites.

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

In addition to solidarity campaigns initiated by site employees and in-kind donation campaigns (basic necessities for disadvantaged populations, school materials, clothing, etc.), a quarter of the Group's sites donated money for local solidarity or charity initiatives in 2019.

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 partnership was rounded out in 2019 with a response to the Foundation's call to create a skills sponsorship program for wheelchair innovation.

Public and regulatory policies

Challenges

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

Approach and achievements during the year

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

Relationships with public bodies

Valeo develops institutional relationships with relevant administrations (at international, national and local levels), through regular dialog, such as:

- dialog with international organizations (UN Global Compact, OECD, World Bank);
- consultations on request:
  - from the European Commission (Directorates-General for Industry, Research, Transport, and the Environment, Directorate-General for Communications Networks, Content and Technology [DG CONNECT]),
  - 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 creation of roadmaps, under Valeo's co-chairmanship (since 2014) of the European Road Transport Research Advisory Council (ERTRAC), the European Commission technology platform (see section 4.5.2 "Technological commitments", paragraph "Valeo, an actor in the governance of institutional collaborative research organizations", page 238).

In 2017, in compliance with the French legal framework[1], 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. For 2019, Valeo sent the HATVP a summary of the activities to be declared.

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

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

Institutional relationships are coordinated under the responsibility of three people at Valeo's headquarters, and relayed locally, as required, by national directorates in the country or region concerned.

Membership of professional organizations

As an independent, global tier-one[2] 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: PFA (*Plateform de la Filière Automobile*);
- in Germany: VDA *(Verband der Automobilindustrie)*;
- in Spain: Sernauto *(Asociación Española de Proveedores de Automoción)*;
- in Italy: ANFIA *(Associazione Nazionale Filiera Industria Automobilistica)*;
- in Japan: JAPIA (Japan Autoparts Industries Association);
- in Brazil: Sindipeças (*Sindicato Nacional da Indústria de Componentes para Veículos Automotores*).

Valeo is a member of the International transport Forum's Corporate Partnership Board, as well as the French Association of Private Enterprises (AFEP).

It contributed a total of 500,000 euros to these entities in 2019.

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 External Affairs Department (fewer than three FTEs[1] per year).

As in previous years, the Group did not use public affairs consultancy services in 2019. 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.

4

(1) *Full-time equivalents.*

4.6 Methodology and international guidelines

4.6.1 Sustainable development reporting methodology

Reporting methodology for environmental indicators

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

Scope and consolidation

Scope

Published environmental data concern all plants and distribution platforms managed by Valeo worldwide, excluding research centers not located at production sites, administrative sites, sites located at or near automaker sites, such as vehicle front-end assembly sites, and subsidiaries in which the Group has a non-controlling interest. In all, a total of 153 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 2017, 2018 and 2019 figures published in this document correspond to the new year, while figures from previous years correspond to the former year.

Calculation of ISO 14001, ISO 50001 and OHSAS 18001/ISO 45001 certification indicators takes into account all production sites and distribution platforms managed by Valeo worldwide from the third year of their consolidation within the Group, excluding research centers not located on production sites, administrative sites, sites located directly on automakers' sites or nearby (such as front-of-vehicle assembly sites) and the subsidiaries in which the Group has a non-controlling interest. In all, a total of 153 production sites report their environmental indicators.

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. 2019 sales are calculated on the basis of a year beginning on October 1, 2018 and ending on September 30, 2019 so as to match the reporting period of the 2019 indicators. The ratio per million euros is calculated by dividing total quantity by sales for the relevant sites. Across all indicators, the lowest coverage rate is 96%. The majority of environmental indicators have a response rate of 100%.

Source of data

Environmental data are collected by a centralized online tool (Valeo Environmental Indicators), except for environmental indicators relating to the consumption of raw materials, ISO 14001, ISO 50001 and OHSAS 18001/ISO 45001 certification and indirect greenhouse gas emissions relating to logistics, inputs and the use of products sold by Valeo. The other aforementioned data are collected from the relevant internal department and consolidated by the Health, Safety and Environment (HSE) Department. Financial data (sales) and those relating to raw materials for the scope 3 calculation are sent directly by the Group's Finance Department.

Specifications

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

Controls and external verification

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

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

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

Methodological limits

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

- the absence of harmonized national or international definitions, especially on hazardous substances and waste;
- use of estimates where measurements are not possible, for example for atmospheric VOC[1] emissions;
- the limited availability of external data required in particular for calculating indirect greenhouse gas emissions (logistics and transportation);
- the absence of a confirmed methodology for calculating indirect emissions related to the use of the Group's products.

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

Reporting methodology for labor-related indicators

The labor-related indicators were prepared using the obligations and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code resulting from the "Grenelle II" decree of April 24, 2012.

Scope and consolidation

Scope

The Group includes in its worldwide scope of consolidation the 190 plants, 20 research centers, 39 development centers and 15 distribution platforms located in 33 countries, except for the Fuzhou Niles Electronic Co. joint venture. As such, all countries and Business Groups are concerned, including Valeo Service. Valeo reports its labor-related indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

Changes in scope

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.

Source of data

Labor-related indicators are collected by the Business Groups' and Valeo Service's Human Resources Departments and the Group's Human Resources Department via a personal data management application, PeopleSoft.

Financial data are sent directly by the Group Finance Department.

Specifications

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

Controls and external verification

Consistency checks on data for each site in the scope are performed by the site and the Business Group Human Resources Department. The labor-related data provided in the report of the independent third-party on the non-financial information statement has been certified by the independent firm Ernst & Young et Associés and are also subject to an external audit 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 190 plants, 20 research centers, 39 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 surveyed responded to this questionnaire, the published data covers the Group's entire scope of consolidation;

(1) See sustainable development glossary, page 274.

- data concerning Valeo's purchases and suppliers were collected and analyzed jointly by the Purchasing and Sustainable Development and External Affairs Departments. The sustainable development performance of the Group's suppliers was assessed based on a survey entitled "Supplier Evaluation on Sustainable Development Practices", with an online questionnaire to be completed by the supplier. Valeo has established a representative sample of its main suppliers, covering 63% of the total value of the Group's production purchasing;
- data concerning fair practices and compliance were collected by the Ethics and Compliance Office. Quantified data on training on risks related to corruption and anti-competitive practices were collected by the Human Resources network, which regularly records training data (see reporting methodology for labor-related indicators).

Specifications

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

Controls and external verification

The social data provided in the report of the independent third-party on the non-financial information statement has been certified by the independent firm Ernst & Young in the form of a statement of completeness and a limited assurance report, and are also subject to verification by the Statutory Auditors.

4.6.2 Cross-reference with national and international guidelines

GRI code	Description of the indicator	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	184-185
G4-2	Key impacts, risks and opportunities	4.3.3 – Valeo's non-financial risks	210-232
ORGANIZATIONAL PROFILE			
G4-3	Name of the organization	7.1.1 – Company name and headquarters	442
G4-4	Primary brands, products and services	1.3 – Operational organization	52-70
G4-5	Headquarters	7.1.1 – Company name and headquarters	442
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	444-445
G4-7	Ownership and legal form	7.1.2 – Legal structure and governing law 6.6.1 – Changes in share capital	442; 434
G4-8	Markets served (geographic breakdown, sectors served and types of customers and beneficiaries)	Integrated Report – Environment in (r)evolution 1.3 – Operational organization	20-25; 52-70
G4-9	Scale of the organization (number of employees, locations)	Integrated Report – 4 coherent, well-balanced Business Groups 1.4 – Operational organization 4.1.3 – Sustainable development policies	34-35; 52-70; 192-202
G4-10	Breakdown of employees by employment type, employment contract, region and gender	4.1.3 – Sustainable development policies	192-202
G4-11	Percentage of total employees covered by collective bargaining agreements	4.5.4 – Employee-related commitments	253-260
G4-12	Description of the organization's supply chain	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders 4.1.3 – Sustainable development policies	236-237; 192-202
G4-13	Significant changes during the reporting period	1.1 – History and development of the Group 5.1.6 – Investments over the past three years 6.4 – Share ownership	50-51; 290-291; 425-430
G4-14	Precautionary principle and actions in this area	4.3.3 – Valeo's non-financial risks	210-232
G4-15	External charters, principles and initiatives to which the Group subscribes	4 – Interview with Jacques Aschenbroich 4.5.4 – Employee-related commitments	184-185; 253-260
G4-16	Membership of associations and/or advocacy organizations	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders 4.5.5 – Social commitments	236-237; 260-265

GRI code		Description of the indicator	Chapters/Sections	Pages
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	266-268
G4-18	●	Procedure for defining report content	4.1.2 – Sustainable development challenges and non-financial risks	188-191
G4-19	●	List of material aspects	4.1.2 – Sustainable development challenges and non-financial risks	188-191
G4-20	●	Boundary of each material aspect within the organization	4.1.3 – Sustainable development policies 4.5.5 – Social commitments	192-202; 260-265
G4-21	●	Boundary of each material aspect outside the organization	4.1.3 – Sustainable development policies 4.5.5 – Social commitments	192-202; 260-265
G4-22	●	Restatements of information provided in previous reports	No restatements in 2019	
G4-23	●	Changes in the scope and aspect boundaries	No substantial changes were observed in 2019	
STAKEHOLDER ENGAGEMENT				
G4-24	●	List of stakeholders	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders	236-237
G4-25	●	Basis for the identification and selection of stakeholders	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders	236-237
G4-26	●	Stakeholder engagement	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders	236-237
G4-27	●	Topics raised through stakeholder engagement and how the organization has responded	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders	236-237
REPORT PROFILE				
G4-28	●	Reporting period	4.6.1 – Sustainable development reporting methodology	266-268
G4-29	●	Date of most recent previous report	3/27/2018	
G4-30	●	Reporting cycle	4.6.1 – Sustainable development reporting methodology	266-268
G4-31	●	Contact point	6.2 – Investor relations	423-424
G4-32	●	"Compliance" option chosen and GRI G4 index	4.6.2 – Cross-reference with national and international guidelines	268-273
G4-33	●	Independent verifier's report	4.8 – Independent third party's report on the non-financial information statement	275-276
GOVERNANCE AND COMMITMENTS				
G4-34	●	Governance structure	4.1.1 – Sustainable development governance	187
G4-35	●	Process for delegating authority for economic, environmental and social topics from the Board of Directors to senior executives and other employees	1.3 – Operational organization	52-70
G4-36	●	Senior executives responsible for economic, environmental and social issues, and relationship with the Board of Directors	4.1.1 – Sustainable development governance	187
G4-37	●	Stakeholder consultation by the Board of Directors	7.1.10 – Shareholders' Meetings	443
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	104-151
G4-39	●	Independence of the Chairman of the Board of Directors	3.2.1 – Composition of the Board of Directors	104-131

GRI code	Description of the indicator	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	104-143
G4-41	Process established by the Board of Directors to avoid and manage conflicts of interest; disclosure of conflicts of interest to stakeholders	3.2.3 – Declarations concerning the Group's corporate officers	144-145
G4-42	Role of the Board of Directors and senior executives in the development, approval and review of the tasks, values or mission statements, strategies, organizational policies and objectives relating to economic, environmental and social impacts	-	
G4-43	Measures taken to develop and improve the collective knowledge of the Board of Directors on economic, environmental and social impacts	4.1.1 – Sustainable development governance	187
G4-44	Evaluation of the Board of Directors on economic, environmental and social topics	4.1.1 – Sustainable development governance	187
G4-45	Role of the Board of Directors in the identification and management of economic, environmental and social impacts, risks and opportunities	3.2.2 – Preparation and organization of the Board of Directors' work	132-143
G4-46	Role of the Board of Directors in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	3.2.2 – Preparation and organization of the Board of Directors' work	132-143
G4-47	Frequency of reviews of economic, environmental and social impacts, risks and opportunities by the Board of Directors	4.1.1 – Sustainable development governance	187
G4-48	Committee or highest-level position that formally reviews and approves the sustainable development report	5.6.5 – The Sustainable Development Report is an integral part of the Management Report, reviewed and approved by the Board of Directors	
G4-49	Process for communicating critical concerns to the Board of Directors	7.1.10 – Shareholders' Meetings	443
G4-50	Nature and total number of critical concerns communicated to the Board of Directors and the mechanism used to address and resolve them	-	
G4-51	Compensation policy of the members of the Board of Directors and senior executives; relationship between compensation and performance (including labor-related and environmental performance)	3.3 – Compensation of corporate officers, Board members and other Group executive managers	152-182
G4-52	Process of determining compensation and participation in compensation committees	3.3 – Compensation of corporate officers, Board members and other Group executive managers 3.2.2 – Preparation and organization of the Board of Directors' work	152-182; 132-143
G4-53	Method used to seek and take into account the views of stakeholders on compensation	7.1.10 – Shareholders' Meetings	443
G4-54	Ratio of the annual total compensation of the highest-paid individual in the organization to the median total annual compensation	-	
G4-55	Ratio of the percentage increase of the annual total compensation of the highest-paid individual in the organization to the median percentage increase in annual total compensation	-	

GRI code	Description of the indicator	Chapters/Sections	Pages
INNOVATION			
G4-DMA	Management approach	Integrated Report	
G4-EN7	Reduction in energy requirements of products and services	Integrated Report – Strategy	26-47
G4-DMA	Management approach	4.3.3 – Valeo's non-financial risks	210-232
G4-EN2	Percentage of materials used that are recycled input materials (packaging only)	4.3.3 – Valeo's non-financial risks	210-232
G4-EN27	Extent of mitigation of environmental impacts of products and services	4.3.3 – Valeo's non-financial risks	210-232
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	4.5.3 – Environmental commitments	241-253
G4-DMA	Management approach	4.1.3 – Sustainable development policies	192-202
G4-EC8	Significant indirect economic impacts, including extent of impacts	4.1.3 – Sustainable development policies 4.5.2 – Technological commitments	210-232; 238-240
ENVIRONMENTAL ECO-EFFICIENCY			
G4-DMA	Management approach	4.5.3 – Environmental commitments	241-253
G4-EN3	Direct energy consumption by primary energy source	4.5.3 – Environmental commitments	241-253
G4-EN4	Indirect energy consumption by primary energy source	4.5.3 – Environmental commitments	241-253
G4-EN5	Energy intensity	4.5.3 – Environmental commitments	241-253
G4-EN6	Reduction of energy consumption	4.5.3 – Environmental commitments	241-253
G4-EN15	Direct greenhouse gas emissions (scope 1)	4.5.3 – Environmental commitments	241-253
G4-EN16	Energy-related indirect greenhouse gas emissions (scope 2)	4.5.3 – Environmental commitments	241-253
G4-EN17	Other indirect greenhouse gas emissions (scope 3)	4.5.3 – Environmental commitments	241-253
G4-EN18	Greenhouse gas emissions intensity	4.5.3 – Environmental commitments	241-253
G4-EN19	Reduction of greenhouse gas emissions	4.5.3 – Environmental commitments	241-253
G4-DMA	Management approach	4.3.3 – Valeo's non-financial risks 4.5.3 – Environmental commitments	210-232; 241-253
G4-EN20	Emissions of ozone-depleting substances (ODS)	4.5.3 – Environmental commitments	241-253
G4-EN21	Emissions of nitrogen oxides (NOx) and sulfur oxides (SOx) and other significant atmospheric emissions	4.5.3 – Environmental commitments	241-253
G4-EN22	Total water discharge by quality and destination	4.5.3 – Environmental commitments	241-253
G4-EN23	Total weight of waste by type and disposal method	4.3.3 – Valeo's non-financial risks	210-232
G4-EN24	Total number and volume of significant spills	4.3.3 – Valeo's non-financial risks	210-232
G4-EN25	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention	4.3.3 – Valeo's non-financial risks	210-232
G4-DMA	Management approach	4.5.3 – Environmental commitments	241-253
G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	4.5.3 – Environmental commitments	241-253
G4-EN1	Consumption of raw materials (packaging only)	4.5.3 – Environmental commitments	241-253
G4-DMA	Management approach	4.5.3 – Environmental commitments	241-253
G4-EN8	Total water withdrawal by source	4.5.3 – Environmental commitments	241-253
G4-EN9	Water sources significantly affected by withdrawal of water	4.5.3 – Environmental commitments	241-253
G4-EN10	Percentage and total volume of water recycled and reused	4.5.3 – Environmental commitments	241-253

GRI code		Description of the indicator	Chapters/Sections	Pages
G4-DMA	●	Management approach	4.5.3 – Environmental commitments	241-253
G4-EN11	●	Operational sites owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	4.5.3 – Environmental commitments	241-253
G4-EN12	○	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Not disclosed	
G4-EN13	●	Habitats protected or restored	4.5.3 – Environmental commitments	241-253
G4-EN14	○	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organization, by level of extinction risk	Not disclosed	
EMPLOYEES				
G4-DMA	●	Management approach	4.3.3 – Valeo's non-financial risks	210-232
G4-LA5	●	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on workplace health and safety programs	4.5.4 – Employee-related commitments	253-260
G4-LA6	●	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by geographic area and by gender	4.3.3 – Valeo's non-financial risks	210-232
G4-LA8	●	Health and safety topics covered in formal agreements with trade unions	4.5.4 – Employee-related commitments	253-260
G4-DMA	●	Management approach	4.3.3 – Valeo's non-financial risks	210-232
-	●	Response rate to the Employee Feedback Survey	4.3.3 – Valeo's non-financial risks	210-232
G4-LA1	●	Total number and rates of new employee hires and employee turnover by age group, gender and region	4.3.3 – Valeo's non-financial risks	210-232
G4-LA9	●	Average hours of training per year, per employee, by gender and by employee category	4.3.3 – Valeo's non-financial risks	210-232
G4-LA10	●	Programs for competences management and lifelong learning that support the continued employability of employees and assist them in managing career endings	4.3.3 – Valeo's non-financial risks	210-232
G4-LA11	●	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	4.3.3 – Valeo's non-financial risks	210-232
G4-DMA	●	Management approach	4.5.4 – Employee-related commitments	253-260
G4-LA12	●	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	4.5.4 – Employee-related commitments	253-260
COMMITMENT TO CORPORATE CITIZENSHIP				
G4-DMA	●	Management approach	1.4 – Operational organization	52-70
G4-PR1	●	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	1.4 – Operational organization	52-70
G4-DMA	●	Management approach	4.3.3 – Valeo's non-financial risks	210-232
G4-EN32	●	Percentage of new suppliers that were screened using environmental criteria	4.3.3 – Valeo's non-financial risks	210-232
G4-LA14	●	Percentage of new suppliers that were screened using labor practices criteria	4.3.3 – Valeo's non-financial risks	210-232
G4-SO9	●	Percentage of new suppliers that were screened using criteria for impacts on society	4.3.3 – Valeo's non-financial risks	210-232

GRI code		Description of the indicator	Chapters/Sections	Pages
G4-HR10	●	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken	4.3.3 – Valeo's non-financial risks	210-232
G4-EC9	●	Policy, practices and proportion of spending on locally based suppliers at significant locations of operation	4.1.3 – Sustainable development policies	192-202
G4-DMA	●	Management approach	4.3.3 – Valeo's non-financial risks	210-232
G4-56	●	Codes of conduct and ethics	4.3.3 – Valeo's non-financial risks	210-232
G4-57	●	Advisory mechanisms (ethical and lawful behavior)	4.3.3 – Valeo's non-financial risks	210-232
G4-58	●	Alert mechanisms (unethical and unlawful behavior)	4.3.3 – Valeo's non-financial risks	210-232
G4-SO4	●	Communication and training on anti-corruption policies and procedures	4.3.3 – Valeo's non-financial risks	210-232
G4-DMA	●	Management approach	4.5.5 – Social commitments	260-265
G4-DMA	●	Management approach	4.5.5 – Social commitments	260-265
G4-SO6	●	Total value of political contributions by country and recipient/beneficiary	4.5.5 – Social commitments	260-265
G4-DMA	●	Management approach	4.5.5 – Social commitments	260-265
G4-SO1	●	Percentage of operations with implemented local community engagement, impact assessments and development programs	4.5.5 – Social commitments	260-265
G4-EC6	●	Proportion of senior executives hired from the local community at significant operation sites	4.5.5 – Social commitments	260-265

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 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
AFF	Automotive Future Fund (*Fonds Avenir Automobile* – FAA), bringing together, under the aegis of the French public investment bank (BPI), the main French automotive industry players (automakers and automotive suppliers) to provide joint support for domestic suppliers experiencing financial or operational difficulties.
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	Substances classified as carcinogenic, mutagenic, or reprotoxic.
ELV Directive	Directive 2000/53 of the European Parliament and of the Council of September 18, 2000, aiming to reduce end-of-life vehicle waste through prevention, collection, treatment and recycling measures.
FTSE4Good	Non-financial 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
NFIS	Introduced by Government order No. 2017-1180 of July 19, 2017 on the disclosure of non-financial information by certain large corporations and groups of corporations, the non-financial information statement (NFIS) reflects the current legal and regulatory framework for the disclosure of sustainable development information for companies in France. It supersedes the sustainable development information disclosure system previously existing in France (known as "Grenelle II" reporting in reference to Law No. 2010-788 of July 12, 2010 on the national commitment for the environment, sometimes referred to as the "Grenelle II law").
Oekom-Research	Non-financial rating agency. www.oekom-research.com
OHSAS 18001	International standard on occupational health and safety management systems.
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).
RMI	The Responsible Minerals Initiative, formerly the Conflict-Free Sourcing Initiative, helps companies and organizations make informed choices about responsibly sourced minerals in their supply chains. The initiative, which brings together more than 360 companies from ten different industries, has defined common principles and provides shared monitoring of high-risk suppliers.
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.
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.

4.8 Independent third party's report on the consolidated non-financial information statement

Year ended December 31, 2019

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 General Assembly,

In our quality as an independent verifier, accredited by the COFRAC under the number 3-1681 (scope of accreditation available on the website www.cofrac.fr), and as a member of the network of one of the statutory auditors of your company (hereafter "entity"), we present our report on the consolidated non-financial statement established for the year ended December 31, 2019 (hereafter referred to as the "Statement"), included in the management report pursuant to the requirements of articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de commerce*).

The entity's responsibility

The Board of Directors is responsible for preparing the Statement, including a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are presented in the Statement and available on request at the entity's headquarters.

Independence and quality control

Our independence is defined by the requirements of article L. 822-11-3 of the French Commercial Code and the French Code of Ethics (*Code de déontologie*) of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with applicable legal and regulatory requirements, the ethical requirements and French professional guidance.

Responsibility of the independent third party

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the requirements of article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R. 225-105, 3° and II of the French Commercial Code, i.e., the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on the entity's compliance with other applicable legal and regulatory requirements, in particular the French duty of care law and anti-corruption and tax avoidance legislation nor on the compliance of products and services with the applicable regulations.

Nature and scope of the work

The work described below was performed in accordance with the provisions of articles A. 225-1 *et seq.* of the French Commercial Code, as well as with the professional guidance of the French Institute of Statutory Auditors ("CNCC") applicable to such engagements and with ISAE 3000[(1)]:

- we obtained an understanding of all the consolidated entities' activities and the description of the principal risks associated;
- we assessed the suitability of the criteria of the Guidelines with respect to their relevance, completeness, reliability, neutrality and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in article L. 225-102-1 III as well as information regarding compliance with human rights and anti-corruption;
- we verified that the Statement provides the information required under article R. 225-105 II of the French Commercial Code, where relevant with respect to the principal risks, and includes, where applicable, an explanation for the absence of the information required under article L. 225-102-1 III, paragraph 2 of the French Commercial Code;

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

- we verified that the Statement presents the business model and a description of principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships, their products or services, as well as their policies, measures and the outcomes thereof, including key performance indicators associated with the principal risks;
- we referred to documentary sources and conducted interviews to:
  - assess the process used to identify and confirm the principal risks as well as the consistency of the outcomes, including the key performance indicators used, with respect to the principal risks and the policies presented, and
  - corroborate the qualitative information (measures and outcomes) that we considered to be the most important presented in Appendix 1. Concerning certain risks (Safety at work, Talent attraction, Talent retention, Corruption, Responsible purchasing, Accidental pollution (water and soil), Product compliance with environmental regulations (low-carbon technologies)), our work was carried out on the consolidating entity, for the other risks, our work was carried out on the consolidating entity and on a selection of entities: PTS - Amiens (France), PTS - Czechowice (Poland), PTS - Atsugi (Japan), CDA - Veszprém (Hungary), CDA - Rio Bravo (Mexico), THS - San Luis Potosi 1 (Mexico), THS - San Luis Potosi 5 (Mexico), VIS - San Luis Potosi 3 (Mexico);
- we verified that the Statement covers the scope of consolidation, i.e. all the consolidated entities in accordance with article L. 233-16 of the French Commercial Code;
- we obtained an understanding of internal control and risk management procedures the entity has put in place and assessed the data collection process to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative outcomes that we considered to be the most important presented in Appendix 1, we implemented:
  - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data,
  - tests of details, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a selection of contributing entities and covers between 11% and 23% of the consolidated data relating to the key performance indicators and outcomes selected for these tests (11% of the headcount, 23% of training hours, 20% of hazardous and non-hazardous waste and 17% of recovered waste);
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgement, is sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

Means and resources

Our verification work mobilized the skills of six people and took place between October 2019 and March 2020 on a total duration of intervention of about eleven weeks.

We conducted about ten interviews with the persons responsible for the preparation of the Statement including in particular the Departments of Public Affairs, Ethics and Compliance, Human Resources, Health, Safety and Environment and Purchasing.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the consolidated non-financial statement is not presented in accordance with the applicable regulatory requirements and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines, in all material respects.

Comments

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

Improvements still need to be made in the understanding and application of the reporting framework and in the monitoring of key performance indicators relating to waste-related risks.

Paris-La Défense, March 24, 2020

French original signed by
Independent third party
EY & Associés

Jean-François Bélorgey
Partner

Eric Mugnier
Partner, Sustainable Development

Appendix 1: The most important information

SOCIAL INFORMATION

Quantitative Information (including key performance indicators)	Qualitative information (actions or results)
Frequency rate of accidents with lost time Severity rate of accidents Number of category 1 accidents Average number of hours of training per employee Absenteeism rate Voluntary turnover of Managers and Professionals	Health and safety (prevention actions) Training Organization of work (absenteeism) Employment (attractiveness, retention)

ENVIRONMENTAL INFORMATION

Quantitative Information (including key performance indicators)	Qualitative information (actions or results)
Production of hazardous and non-hazardous waste Breakdown between recovered and not recovered waste Number of accidental spills Share of sales generated from products contributing to carbon emissions reduction	The results of the environmental policy (certifications, products) Pollution prevention measures (water, air and soil) Circular economy (raw materials, energy, waste management and food waste)

SOCIETAL INFORMATION

Quantitative Information (including key performance indicators)	Qualitative information (actions or results)
Share of production purchases for which the suppliers' sustainable development practices were assessed during the year Percentage of identified suppliers having provided a certified report on conflict minerals Share of the target population (including newcomers) which completed the online training program on anti-corruption	Subcontracting and suppliers (environmental and social issues) Actions undertaken to prevent corruption

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 2019 consolidated results AFR

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.

The financial statements include the information deemed material as required by the ANC in Standard No. 2016-09.

IFRS 16 – "Leases" came into force on January 1, 2019. IFRS 16 was applied using the modified retrospective approach. Accordingly, the financial statements published before the date of the first-time application of IFRS 16 have not been restated (see section 5.4.6, Note 1.1.1 to the consolidated financial statements, pages 305 to 308).

5.1.1 Business review

Global automotive production

Automotive production *(year-on-year change)*	**Second-half 2019 IHS + CPCA***	**Full-year IHS + CPCA***
Europe & Africa	-4%	-4%
Asia, Middle East & Oceania	-5%	-8%
▪ *o/w China*	*-3%*	*-10%*
▪ *o/w Japan*	*-3%*	*0%*
▪ *o/w South Korea*	*-6%*	*-2%*
▪ *o/w India*	*-15%*	*-11%*
North America	-5%	-4%
South America	-6%	-4%
TOTAL	**-5%**	**-6%**

* *Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.*

Global automotive production contracted by 5% in the second half owing to a 4% decline in production in Europe and a 5% decline in North America due to the strike at General Motors.

Order intake(1) supported by technological innovations

Valeo continued to adopt a more selective approach for its **order intake** in 2019, to optimize the development and industrialization of its numerous ongoing projects. In 2019, the Group recorded order intake of 22.8 billion euros, comprising:

- 22 billion euros for Valeo, or 1.34 times original equipment sales;
- 0.8 billion euros for Valeo Siemens eAutomotive, corresponding to an order book worth 11 billion euros at end-2019.

Order intake (excluding Valeo Siemens eAutomotive) remained well-balanced across the Group's different regions:

- 35% in Asia (of which 18% in China, where 26% of orders were booked with local Chinese automakers);
- 43% in Europe (and Africa);
- 18% in North America.

In all, 47% of the order intake related to innovative products(2), confirming the successful positioning of Valeo's new technologies and products in the powertrain electrification, ADAS, autonomous vehicle and digital mobility segments.

Change in sales(3): outperformance of 8 percentage points in the second half and 6 percentage points over the full year

Consolidated sales(3) totaled 19,244 million euros in 2019, up 1% year on year and stable like for like.

The overall impact of changes in exchange rates and in Group structure was minimal:

- changes in exchange rates had a positive 1.7% impact, primarily reflecting the appreciation of the US dollar and Japanese yen against the euro;
- changes in Group structure had a negative 1.4% impact, and chiefly relate to the exclusion of the TCM business from consolidated figures.

(1) See financial glossary, page 48.
(2) Products and technologies in series production for less than three years, including Valeo Siemens eAutomotive.
(3) Excluding the Top Column Module (TCM) business.

Sales *(in millions of euros)*	As a % of 2019 sales	Second-half 2019(1)	Second-half 2018	Second-half LFL* change	Second-half Change	Full-year 2019(1)	Full-year 2018	Full-year LFL* change	Full-year Change
Original equipment	84%	8,033	7,771	+3%	+3%	16,122	16,146	0%	0%
Aftermarket	10%	976	969	0%	+1%	1,972	2,010	-2%	-2%
Miscellaneous	6%	579	521	+9%	+11%	1,150	968	+15%	+19%
TOTAL	**100%**	**9,588**	**9,261**	**+3%**	**+4%**	**19,244**	**19,124**	**0%**	**+1%**

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

Original equipment sales[1] **totaled** 16,122 million euros, stable like for like[2]. This represents an outperformance versus global automotive production of 6 percentage points over the year, with a sharp acceleration in the second half (at 8 percentage points versus 4 percentage points in the six months to June 30).

Aftermarket sales[1] declined by 2% on a like-for-like basis[2], owing to the slowdown in business in Europe, China and Turkey, as well as the closure of the Iranian market.

"Miscellaneous" sales[1] including tooling revenues (and revenues relating to customer contributions to R&D), rose by a sharp 19%, confirming the hypothesis of a continued outperformance of at least 5 percentage points for original equipment sales in 2020.

Change in original equipment sales by destination region

Original equipment sales *(in millions of euros)*	Second-half 2019(1)	Second-half 2018	Second-half LFL* change	Second-half Outperf. vs. IHS/CPCA**	Full-year 2019(1)	Full-year 2018	Full-year LFL* change	Full-year Outperf. vs. IHS/CPCA**
Europe & Africa	3,618	3,528	+5%	+9 pts	7,534	7,660	+1%	+5 pts
Asia, Middle East & Oceania	2,625	2,563	-1%	+4 pts	4,994	5,146	-6%	+2 pts
▪ *o/w China*	*1,092*	*1,025*	*+8%*	*+11 pts*	*1,941*	*2,101*	*-5%*	*+5 pts*
▪ *o/w Japan*	*634*	*675*	*-13%*	*-10 pts*	*1,271*	*1,329*	*-10%*	*-10 pts*
▪ *o/w South Korea*	*660*	*619*	*+1%*	*+7 pts*	*1,311*	*1,214*	*0%*	*+2 pts*
▪ *o/w India*	*80*	*93*	*-18%*	*-3 pts*	*169*	*198*	*-16%*	*-5 pts*
North America	1,601	1,502	+5%	+10 pts	3,217	2,964	+5%	+9 pts
South America	189	178	+10%	+16 pts	377	376	+6%	+10 pts
TOTAL	**8,033**	**7,771**	**+3%**	**+8 PTS**	**16,122**	**16,146**	**0%**	**+6 PTS**

* *Like for like (constant Group structure and exchange rates).*
** *Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.*

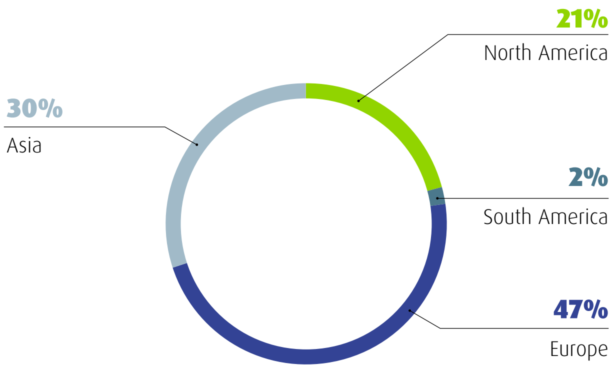
Like-for-like[2] **original equipment sales**[1] were stable in 2019, outpacing global automotive production by 6 percentage points (IHS/CPCA estimates). This outperformance accelerated sharply as the year progressed (coming out at 8 percentage points overall for the second half versus 4 percentage points in the six months to June 30) in all production regions:

- **in Europe** (including Africa) (47% of original equipment sales[1]), like-for-like[2] original equipment sales[1] rose 1%, outpacing automotive production by 5 percentage points. The sharp acceleration in the region's outperformance (from 3 percentage points in the first half to 9 percentage points in the second) was driven by the start of production on numerous projects in the camera, electrification system and lighting segments;
- **in Asia** (31% of original equipment sales[1]), like-for-like[2] original equipment sales[1] fell 6%, outpacing automotive production by 2 percentage points:
  - in China, like-for-like[2] original equipment sales[1] decreased by 5%, outpacing automotive production by 5 percentage points. The sharp acceleration in the outperformance in China (from an underperformance of 3 percentage points in the first half to an outperformance of 11 percentage points in the second) was fueled by the start-up of numerous projects in the camera and lighting segments,
  - in Japan, like-for-like[1]original equipment sales[2] were down 10%, underperforming automotive production by 10 percentage points (of which an underperformance of 10 percentage points in the second half), primarily due to an unfavorable customer mix, particularly in thermal solutions;

(1) Excluding the TCM business.
(2) See financial glossary, page 48.

- **in North America** (20% of original equipment sales(1)), like-for-like(2) original equipment sales(1) rose 5%, outpacing automotive production by 9 percentage points (10 percentage points in the second half), driven by the start of production on projects in the lighting and thermal solutions segments;
- **in South America** (2% of original equipment sales(1)), like-for-like(2) original equipment sales(1) grew by 6%, outpacing automotive production by 10 percentage points (16 percentage points in the second half).

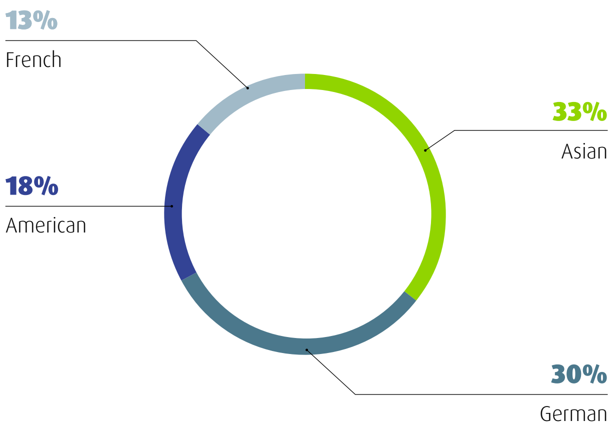
Balanced geographic alignment of Valeo's businesses



Year-on-year changes in the share of original equipment sales(1) in the four main production regions in 2019 were as follows:

- a rise of 2 percentage points for North America, accounting for 21% of original equipment sales(1);
- stable for South America, accounting for 2% of original equipment sales(1);
- a fall of 1 percentage point for Europe, accounting for 47% of original equipment sales(1);
- a fall of 1 percentage point for Asia, accounting for 30% of original equipment sales(1).

Balanced customer portfolio



The share of original equipment sales(1) among the Group's customers remained stable in 2019:

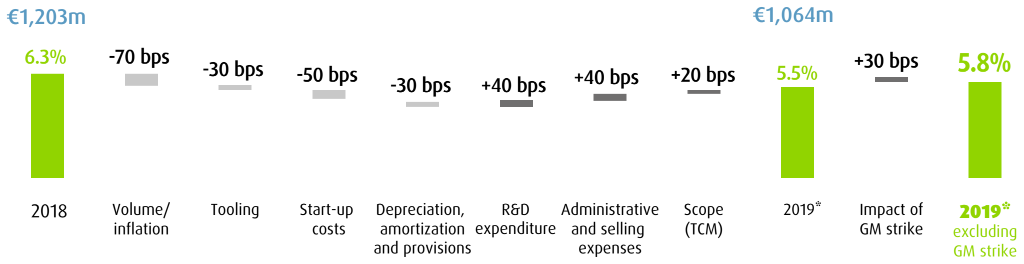
- Asian customers accounted for 33% of original equipment sales(1);
- German customers accounted for 30% of original equipment sales(1);
- American customers accounted for 18% of original equipment sales(1);
- French customers accounted for 13% of original equipment sales(1).

(1) Excluding the TCM business.

5.1.2 Earnings

Analysis of operating margin (excluding share in net earnings of equity-accounted companies)

As a % of sales



* *Excluding TCM business*
bps: basis points

In a particularly unstable economic and geopolitical environment and amid a marked 6% decline in automotive production, Valeo pressed ahead with its cost reduction program, reporting lower R&D expenditure and selling and administrative expenses for the year.

R&D expenditure[(1)] contracted by 2%, or 0.3 percentage points compared with 2018, down a sharp 5% in the second half of the year. The decrease was driven by the strict implementation of cost savings measures thanks to the high degree of standardization of Valeo's new technological platforms, which led to a 44 million euro reduction in gross development expenditure[(1)] (from 2,073 million euros in 2018 to 2,029 million euros in 2019). The contraction in R&D expenditure comes amid a sharp rise in amortization charged against previously capitalized development expenditure (representing 2.1% of sales[(1)] in 2019 compared to 1.6% in 2018). This reduced the positive net impact of R&D capitalization (by 0.3 percentage points in 2019), with the trend significantly accelerating in the second half of the year (0.7 percentage point reduction in the net impact of the capitalization of development expenditure).

Thanks to the new cost savings program rolled out early in the year and to organizational efficiency measures, general, administrative and selling expenses[(1)] were also down, shrinking 6% to 860 million euros, representing 4.5% of sales, 0.3 percentage points lower than in 2018.

Operating margin[(2)] narrowed 12% to 1,064 million euros, or 5.5% of sales (down 0.8 percentage points), primarily reflecting:

- a negative volume and inflation effect of 0.7 percentage points;
- start-up costs for new projects, which had a negative impact of 0.5 percentage points;
- a 0.3 percentage point decline in the tooling revenues margin;
- an overall 0.8 percentage point reduction in R&D expenditure and general, administrative and selling expenses;
- a positive scope effect of 0.2 percentage points relating to the Group's withdrawal from the Top Column Module business.

Excluding the impact of the General Motors strike, operating margin[(3)] came in at 5.8% of sales, in line with our October 2019 guidance and the information disclosed at the December 2019 Investor Day. This performance came despite a bigger-than-expected slowdown in the European and Chinese markets leading to a 6% fall in automotive production. In the second half of the year, operating margin[(3)] represented 6.1% excluding the impact of the General Motors strike, a sharp 1.3 percentage point improvement on the same period in 2018.

The share in net earnings of equity-accounted companies represented a loss of 237 million euros, or a negative 1.2% of sales. It takes into account:

- the share of the loss recorded by Valeo Siemens eAutomotive which is bearing the costs needed for its expansion. The loss hit a high of 260 million euros in 2019, in line with our expectations;
- the contribution of the Chinese and Indian joint ventures, whose performance was hard hit by the weak performance of their markets.

Operating income totaled 732 million euros, or 3.8% of sales. It includes other income and expenses representing a net expense of 65 million euros.

After taking into account the cost of net debt of 73 million euros and an effective tax rate of 29.4%, net attributable income came to 313 million euros, or 1.6% of sales.

Return on capital employed (ROCE[(4)(5)]) and return on assets (ROA[(4)(5)]) stood at 14% and 9%, respectively.

(1) Excluding the TCM business.
(2) Excluding share in net earnings of equity-accounted companies and excluding the TCM business.
(3) Excluding share in net earnings of equity-accounted companies, the TCM business and the impact of the General Motors strike.
(4) See financial glossary, page 48.
(5) Excluding the TCM business and the impact of the General Motors strike.

5.1.3 Reconciliation of Valeo and Top Column Module (TCM) business data and impact of the General Motors strike

The Group decided to withdraw from the TCM segment and is no longer taking orders for this product line.

In the second and third quarters of 2019, Valeo's sales were impacted by strikes at General Motors' plants in North America.

The table below reconciles reported consolidated data for 2019 with data excluding the TCM business and excluding the impact of the General Motors strike:

		2019 (audited)	TCM	2019 excluding TCM	Impact of GM strike	2019 excluding TCM and GM strike
Sales	*(in millions of euros)*	**19,477**	**233**	**19,244**	**105**	**19,349**
Original equipment sales	*(in millions of euros)*	**16,360**	**238**	**16,122**	**105**	**16,227**
Gross margin	*(in millions of euros)*	3,454	4	3,450	50	3,500
	(as a % of sales)	*17.7%*	*1.7%*	*17.9%*	*47.6%*	*18.1%*
R&D expenditure	*(in millions of euros)*	(1,550)	(24)	(1,526)	-	(1,526)
	(as a % of sales)	*(8.0%)*	*(10.3%)*	*(7.9%)*	-	*(7.9%)*
Selling and administrative expenses	*(in millions of euros)*	(870)	(10)	(860)	-	(860)
	(as a % of sales)	*(4.5%)*	*(4.3%)*	*(4.5%)*	-	*(4.4%)*
Operating margin excluding share in net earnings of equity-accounted companies	*(in millions of euros)*	1,034	(30)	1,064	50	1,114
	(as a % of sales)	*5.3%*	*(12.9%)*	*5.5%*	*47.6%*	*5.8%*
Share in net earnings of equity-accounted companies	*(in millions of euros)*	(237)	-	(237)	-	(237)
	(as a % of sales)	*(1.2%)*	-	*(1.2%)*	-	*(1.2%)*
Operating margin[1] including share in net earnings of equity-accounted companies	*(in millions of euros)*	797	(30)	827	50	877
	(as a % of sales)	*4.1%*	*(12.9%)*	*4.3%*	*47.6%*	*4.5%*
EBITDA[1]	*(in millions of euros)*	**2,496**	**(5)**	**2,501**	**50**	**2,551**
	(as a % of sales)	**12.8%**	**(2.1%)**	**13.0%**	**47.6%**	**13.2%**

5.1.4 Consolidated sales and results

Consolidated sales totaled 19,477 million euros in 2019, up 1.8%. The overall impact of changes in exchange rates and in Group structure was minimal:

- changes in exchange rates had a positive 1.7% impact, primarily reflecting the appreciation of the US dollar and Japanese yen against the euro;
- changes in Group structure had a negative 0.2% impact over the year.

Original equipment sales totaled 16,360 million euros, stable like for like[1]. This represents an outperformance versus global automotive production of 6 percentage points over the year, with a sharp acceleration in the second half (at 8 percentage points versus 4 percentage points in the six months to June 30).

Aftermarket sales declined by 2% on a like-for-like basis[1], owing to the slowdown in business in Europe, China and Turkey, as well as the closure of the Iranian market.

"Miscellaneous" sales including tooling revenues (and revenues relating to customer contributions to R&D), rose by a sharp 16%, confirming the hypothesis of a continued outperformance of at least 5 percentage points for original equipment sales in 2020.

		Second-half				Full-year			
Sales *(in millions of euros)*	**As a % of 2019 sales**	**2019**	**2018**	**LFL* change**	**Change**	**2019**	**2018**	**LFL* change**	**Change**
Original equipment	84%	8,140	7,771	+3%	+5%	16,360	16,146	0%	+1%
Aftermarket	10%	985	969	0%	+2%	1,990	2,010	-2%	-1%
Miscellaneous	6%	576	521	+9%	+11%	1,127	968	+15%	+16%
TOTAL	**100%**	**9,701**	**9,261**	**+3%**	**+5%**	**19,477**	**19,124**	**0%**	**+2%**

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

(1) See financial glossary, page 48.

Original equipment sales *(in millions of euros)*	Second-half				Full-year			
	2019	**2018**	**LFL* change**	**Outperf. vs. IHS/CPCA****	**2019**	**2018**	**LFL* change**	**Outperf. vs. IHS/CPCA****
Europe & Africa	3,699	3,528	+5%	+9 pts	7,724	7,660	+1%	+5 pts
Asia, Middle East & Oceania	2,641	2,563	-1%	+4 pts	5,022	5,146	-6%	+2 pts
▪ *o/w China*	*1,110*	*1,025*	*+8%*	*+11 pts*	*1,971*	*2,101*	*-5%*	*+5 pts*
▪ *o/w Japan*	*634*	*675*	*-13%*	*-10 pts*	*1,271*	*1,329*	*-10%*	*-10 pts*
▪ *o/w South Korea*	*660*	*619*	*+1%*	*+7 pts*	*1,311*	*1,214*	*0%*	*+2 pts*
▪ *o/w India*	*80*	*93*	*-18%*	*-3 pts*	*169*	*198*	*-16%*	*-5 pts*
North America	1,610	1,502	+5%	+10 pts	3,234	2,964	+5%	+9 pts
South America	190	178	+10%	+16 pts	380	376	+6%	+10 pts
TOTAL	**8,140**	**7,771**	**+3%**	**+8 PTS**	**16,360**	**16,146**	**0%**	**+6 PTS**

* *Like for like (constant Group structure and exchange rates).*
** *Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.*

Sales by Business Group *(in millions of euros)*	Second-half					Full-year				
	2019	**2018**	**Change in OE sales***	**Change in sales**	**Outperf. vs. IHS/CPCA****	**2019**	**2018**	**Change in OE sales***	**Change in sales**	**Outperf. vs. IHS/CPCA****
Comfort & Driving Assistance Systems	1,963	1,867	+4%	+5%	+9 pts	3,901	3,766	+2%	+4%	+8 pts
Powertrain Systems	2,556	2,477	+4%	+3%	+9 pts	5,121	5,141	0%	0%	+6 pts
Thermal Systems	2,252	2,228	-1%	+1%	+4 pts	4,582	4,569	-3%	0%	+3 pts
Visibility Systems	3,000	2,753	+5%	+9%	+10 pts	6,014	5,783	0%	+4%	+6 pts

* *Like for like (constant Group structure and exchange rates).*
** *Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.*

In a particularly unstable economic and geopolitical environment and amid a marked 6% decline in automotive production, Valeo pressed ahead with its cost reduction program, reporting lower R&D expenditure and selling and administrative expenses for the year.

R&D expenditure contracted by 1%, or 0.2 percentage points compared with 2018, down a sharp 3% in the second half of the year. The decrease was driven by the strict implementation of cost savings measures thanks to the high degree of standardization of Valeo's new technological platforms, which led to a 19 million euro reduction in gross development expenditure (from 2,073 million euros in 2018 to 2,054 million euros in 2019). The contraction in R&D expenditure comes amid a sharp rise in amortization charged against previously capitalized development expenditure (representing 2.1% of sales in 2019 compared to 1.6% in 2018). This reduced the positive net impact of R&D capitalization (by 0.3 percentage points in 2019), with the trend significantly accelerating in the second half of the year (0.7 percentage point reduction in the net impact of the capitalization of development expenditure). Thanks to the new cost savings program rolled out early in the year and to organizational efficiency measures, general, administrative and selling expenses were also down, shrinking 5% to 870 million euros, representing 4.5% of sales, 0.3 percentage points lower than in 2018.

Operating margin (excluding equity-accounted companies) stood at 1,034 million euros, down 14%, or 5.3% of sales (down 1 percentage point), primarily reflecting:

- a negative volume and inflation effect of 0.7 percentage points;
- start-up costs for new projects, which had a negative impact of 0.5 percentage points;
- a 0.3 percentage point decline in the tooling revenues margin;
- an overall 0.8 percentage point reduction in R&D expenditure and general, administrative and selling expenses.

The share in net earnings of equity-accounted companies represented a loss of 237 million euros, or a negative 1.2% of sales. It takes into account:

- the share of the loss recorded by Valeo Siemens eAutomotive which is bearing the costs needed for its expansion. The loss hit a high of 260 million euros in 2019, in line with our expectations;
- the contribution of the Chinese and Indian joint ventures, whose performance was hard hit by the weak performance of their markets.

Operating income totaled 732 million euros, or 3.8% of sales. It includes other income and expenses representing a net expense of 65 million euros.

After taking into account the cost of net debt of 73 million euros and an effective tax rate of 29.4%, net attributable income came to 313 million euros, or 1.6% of sales.

Return on capital employed (ROCE) and return on assets (ROA) stood at 13% and 8%, respectively.

The reported indicators for changes in like-for-like sales, cash flow and financial position include the Top Column Module (TCM) business.

5.1.5 Segment reporting

Change in sales by Business Group

Sales by Business Group (in millions of euros)	Second-half 2019(1)	2018	Change in OE sales*	Change in sales	Outperf. vs. IHS/CPCA**	Full-year 2019(1)	2018	Change in OE sales*	Change in sales	Outperf. vs. IHS/CPCA**
Comfort & Driving Assistance Systems	1,843	1,867	+4%	-1%	+9 pts	3,649	3,766	+2%	-3%	+8 pts
Powertrain Systems	2,556	2,477	+4%	+3%	+9 pts	5,121	5,141	0%	0%	+6 pts
Thermal Systems	2,252	2,228	-1%	+1%	+4 pts	4,582	4,569	-3%	0%	+3 pts
Visibility Systems	3,000	2,753	+5%	+9%	+10 pts	6,014	5,783	0%	+4%	+6 pts

* *Like for like (constant Group structure and exchange rates)[3].*
** *Based on IHS automotive production estimates released on January 16, 2020/CPCA estimates for data relating to China.*

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.

In 2019, original equipment sales[1] outpaced automotive production by 6 percentage points, with a sharp acceleration in the second half to 8 percentage points. All Business Groups significantly outperformed automotive production during the year:

- the **Comfort & Driving Assistance Systems Business Group** recorded a strong outperformance (8 percentage points for the year and 9 percentage points for the second half), fueled by many new launches in Europe, particularly front cameras for German and French customers, as well as a favorable customer mix in China;
- the **Powertrain Systems Business Group** outperformed by 6 percentage points (9 percentage points in the second half), mainly thanks to launches in the powertrain electrification segment, primarily in Europe;
- the 3 percentage point outperformance of the **Thermal Systems Business Group** (4 percentage point outperformance in the second half) was mainly attributable to an unfavorable customer mix in Asia, particularly with Nissan and Subaru in Japan. In Europe and North America, the Business Group is benefiting from the start of production on projects with French and US customers, respectively;
- the **Visibility Systems Business Group** reported a significant outperformance (6 percentage points over the year and 10 percentage points in the second half), spurred by the start of production on projects in North America with US customers in the lighting segment and a slight upturn in business in Europe and China.

(1) Excluding the TCM business and the impact of the General Motors strike.

EBITDA[1] by Business Group

EBITDA* (in millions of euros and as a % of sales by Business Group)		2019	2018	Change	Second-half 2019	Second-half 2018	Change
Comfort & Driving Assistance Systems**		599	528	+13.5%	316	245	+29%
		16.4%	*14.0%*	*+2.4 pts*	*17.2%*	*13.1%*	*+4.1 pts*
Powertrain Systems**		685	674	+2%	366	305	+20%
		13.4%	*13.1%*	*+0.3 pts*	*14.3%*	*12.3%*	*+2.3 pts*
Thermal Systems**		502	495	+1%	240	207	+16%
		11.0%	*10.8%*	*+0.2 pts*	*10.7%*	*9.3%*	*+1.4 pts*
Visibility Systems**		660	642	+3%	336	257	+31%
		11.0%	*11.1%*	*-0.1 pts*	*11.2%*	*9.3%*	*+1.9 pts*
Other		50	71	-30%	20	55	-64%
		45.0%	*2.9%*	*-0.9 pts*	*40.0%*	*5.1%*	*-3.6 pts*
GROUP		**2,496**	**2,410**	**+3.5%**	**1,278**	**1,069**	**+20%**
		12.8%	**12.6%**	**+0.2 PTS**	**13.2%**	**11.5%**	**+1.7 PTS**

* *Depreciation of right-of-use assets totaled 95 million euros in 2019, representing a positive impact on EBITDA in connection with the application of IFRS 16 compared to 2018. In accordance with the modified retrospective approach, the 2018 figure has not been restated.*
** *Excluding the TCM business.*

EBITDA came out at 2,496 million euros, or 12.8% of sales. In line with the plan unveiled at the Investor Day, EBITDA benefited from the 29% acceleration in amortization charged against development expenditure following the start of production on numerous projects in 2019.

5.1.6 Cash flow and financial position

Stockholders' equity

At December 31, 2019, consolidated stockholders' equity amounted to 5,464 million euros versus 5,378 million euros at December 31, 2018. The sharp 86 million euro increase was mainly attributable to (i) consolidated net income for the period of 394 million euros, (ii) a capital increase of 19 million euros reserved for employees as part of the 2019 Shares4U employee share ownership plan, (iii) a translation gain of 62 million euros, and (iv) treasury share sales and share-based payments in an amount of 15 million euros and 24 million euros, respectively. These items were partially offset by the dividend paid to (i) Group shareholders in an amount of 297 million euros, and (ii) non-controlling interests in consolidated subsidiaries in an amount of 46 million euros, as well as by actuarial losses on pension obligations, net of deferred taxes, of 102 million euros.

Provisions

(in millions of euros)	December 31, 2019	December 31, 2018
Provisions for pensions and other employee benefits	1,254	1,155
Provisions for product warranties	266	309
Provisions for restructuring costs	45	42
Provisions for tax-related disputes	30	73
Environmental provisions	14	15
Provisions for onerous contracts	25	45
Provisions for employee-related and other disputes	134	146
PROVISIONS	**1,768**	**1,786**
Of which long-term portion (more than one year)	1,498	1,408

(1) *See financial glossary, page 48.*

Provisions for pensions and other employee benefits increased by 99 million euros between December 31, 2018 and December 31, 2019, mainly due to pre-tax actuarial losses net of returns on plan assets of 94 million euros. These actuarial losses were primarily attributable to the impacts of a decrease in the discount rates in the different regions of the world. Provisions for product warranties are computed either on a statistical basis or based on specific risks. Statistical provisions, which cover risks related to contractual warranty obligations, remained stable over the year. Provisions for specific risks decreased during the year, reflecting fewer quality issues and, to a lesser extent, costs relating to quality issues encountered by several customers being borne by the Valeo supplier responsible for the issue.

The total amount of provisions for restructuring costs increased by 3 million euros to 45 million euros at December 31, 2019 versus 42 million euros at December 31, 2018. In 2019, the Group initiated a number of restructuring plans: given the decline in automotive production, in February 2019 Valeo announced it was rolling out a program to reduce costs.

Provisions for tax-related disputes decreased during the year, amounting to 30 million euros at end-2019 versus 73 million euros one year earlier. Further to the application of IFRIC 23 – "Uncertainty over Income Tax Treatments", an amount of 39 million euros was reclassified from "Other provisions" to "Taxes payable". Group entities in France and abroad may be subject to tax audits and, in some cases, tax reassessments, by local tax authorities. Environmental provisions were stable year on year at 14 million euros, and provisions for onerous contracts, down 20 million euros, were utilized as planned. No material provisions were recognized during the year.

Provisions for employee-related and other disputes decreased by 12 million euros in 2019, mainly due to reduced commercial risks. At a total of 134 million euros at end-2019, said provisions cover risks arising in connection with former employees (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.

Cash flows and debt

(in millions of euros)	2019	2018
Gross operating cash flows	2,360	2,366
Income taxes paid	(292)	(267)
Change in operating working capital	396	71
NET CASH FLOWS FROM OPERATING ACTIVITIES	**2,464**	**2,170**
Net payments for purchases of intangible assets and property, plant and equipment	(1,906)	(2,025)
Net payments for the principal portion of lease liabilities(1)(4)	(84)	-
Elimination of change in non-recurring sales of accounts and notes receivable(2)	45	16
FREE CASH FLOW(3)	**519**	**161**
Change in non-recurring sales of accounts and notes receivable(2)	(45)	(16)
Net change in certain non-current financial asset items(4)	(274)	(212)
Acquisitions of investments with gain of control, net of cash acquired	19	(41)
Acquisitions of investments in associates and/or joint ventures	(5)	(2)
Disposals of investments with loss of control, net of cash transferred	(13)	(7)
Acquisitions of investments without gain of control	(29)	(2)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(343)	(324)
Capital increase in cash	19	26
Sale (purchase) of treasury stock	15	(118)
Net interest paid/received	(71)	(58)
Loan issue costs and premiums	(2)	(5)
NET CASH FLOW(3)	**(210)**	**(598)**

(1) See Note 1.1.1 "IFRS 16 – "Leases" to the consolidated financial statements, pages 305 to 308, effective as from January 1, 2019.
(2) Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. An agreement spanning one or more years is drawn up for recurring transactions. Each contract is analyzed in light of the principles set out in IFRS 9 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 2019 consolidated financial statements, pages 318 to 319).
(3) See financial glossary, page 48.
(4) The net cash inflow of 8 million euros in respect of lease receivables was set off against payments for the principal portion of lease liabilities.

Gross operating cash flows contracted slightly from 2,366 million euros in 2018 to 2,360 million euros in 2019. Conversely, net cash flows from operating activities rose sharply, coming out at 2,464 million euros in 2019 compared to 2,170 million euros in 2018, representing an increase of 14% on the previous year.

The Group recorded a significant positive change in working capital, particularly following the reduction in tooling inventories and unpaid receivables, contributing positively to free cash flow generation, which was up compared with the previous year. Income taxes paid rose to 292 million euros in 2019 from 267 million euros in 2018. Net payments for purchases of property, plant and equipment and intangible assets in 2019 generated a net cash outflow of 1,906 million euros, representing a sharp year-on-year decrease of 119 million euros (down 6%). Free cash flow amounted to 519 million euros in 2019, compared with 161 million euros in 2018.

EBITDA can be reconciled to free cash flow as follows:

(in millions of euros)	2019	2018
EBITDA[(1)]	2,496	2,410
Change in operating working capital*	302	(22)
Restructuring costs	(34)	(31)
Income tax	(292)	(267)
Provisions for pensions	(33)	(35)
Net payments for the principal portion of lease liabilities**	(84)	N/A
Other operating items	(70)	22
Investments in property, plant and equipment and intangible assets	(1,766)	(1,916)
FREE CASH FLOW[(1)]	**519**	**161**
Cash conversion rate (% EBITDA)	**21%**	**7%**

* *Change in working capital excluding (i) changes in non-recurring sales of accounts and notes receivable in a positive amount of 45 million euros in 2019 and a positive amount of 16 million euros in 2018 and (ii) the restatement of cash contributions to R&D reclassified within investments in property, plant and equipment and intangible assets.*

** *Following the decision to include net payments for the principal portion of lease liabilities in the definition of free cash flow, the impact of the application of IFRS 16 on this item is marginal at around 14 million euros.*

Valeo generated 519 million euros in free cash flow[(1)] in 2019, corresponding to a cash conversion rate[(1)] of 21%. This chiefly results from:

- an 86 million euro improvement in EBITDA[(1)] in value terms, including a 209 million euro increase in the second half of the year;
- a positive 302 million euro impact on free cash flow generation (including a positive 72 million euro impact in the second half) of the change in working capital, following the reduction in tooling inventories and in customer overdues; and
- a 150 million euro reduction in capital expenditure (including a 122 million euro reduction in the second half) resulting from the roll-out of the cost savings program and of new technological platforms.

The net change in non-current financial assets amounted to 274 million euros in 2019, primarily relating to additional loans granted during the year to equity-accounted companies and, more specifically, the Valeo Siemens Automotive venture in an amount of 276 million euros. The 19-million euro net cash inflow arising on acquisitions of investments with gain of control, net of cash acquired, relates mainly to the reimbursement in 2019 of a levy paid by Valeo in 2018 on behalf of the seller as part of an acquisition. In 2018, outflows of resources amounted to 41 million euros, mainly representing earnout payments and transaction costs relating to the acquisition of FTE automotive, peiker and Valeo-Kapec. In 2019, the Group recorded a net cash outflow of 13 million euros, chiefly relating to the additional impacts of disposals carried out in prior years (sale of the Passive Hydraulic Actuator business to the Italian group Raicam and sale of the Lighting business in Argentina).

In 2019, acquisitions or purchases of investments without gain of control represented an outflow of 29 million euros following the Group's acquisition of an additional 6.1% interest acquired in Ichikoh, which increased Valeo's total stake in the entity from 55.08% to 61.19%. This transaction between owners did not affect the control of Ichikoh, which continues to be fully consolidated in the Group's financial statements, mainly within the Visibility Systems Business Group.

In 2019, net cash flows from 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 46 million euros, net interest paid in an amount of 71 million euros, a capital increase carried out under the Shares4U employee share ownership plan in an amount of 19 million euros, and net treasury share sales in an amount of 15 million euros.

Net cash flow in 2019 represented an outflow of 210 million euros compared to an outflow of 598 million euros in 2018.

Net cash flows from financing activities in 2019 also included subscriptions of long-term loans and borrowings in an amount of 613 million euros (mainly corresponding to the issuance of a *Schuldschein* loan (German private placement) for a nominal amount of 548 million euros, as well as repayments of long-term debt in an amount of 447 million euros. Repayments made on long-term borrowings primarily concerned the 350 million euro bond issued in 2017 (see section 5.4.6, Note 8.1.2.1 to the consolidated financial statements, pages 352 to 355) and net lease liabilities recognized in accordance with IFRS 16 – "Leases" in an amount of 84 million euros. In all, net cash flows from financing activities were negative and represented a net outflow of 245 million euros, on a par with the 2018 outflow of 238 million euros. Net consolidated cash and cash equivalents rose 47 million euros, compared with a decrease of 315 million euros in 2018.

5

(1) See financial glossary, page 48.

Net debt stood at 2,817 million euros at December 31, 2019, after taking into account the impact of applying IFRS 16 – "Leases" as from January 1, 2019, up from 2,248 million euros at December 31, 2018, prior to the application of IFRS 16. The increase was mainly attributable to lease liabilities, which stood at 441 million euros at December 31, 2019. The leverage ratio (net debt/EBITDA) came out at 1.13, compared with 0.93 at end-2018, and the gearing ratio (net debt/stockholders' equity excluding non-controlling interests) stood at 61% compared to 49% at end-2018. Net debt at end-December 2019 includes 79 million euros of debt reflecting the value of the put options on its non-controlling interests granted to STEC, the Group's partner in the Chinese joint venture Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd, and Marco Polo, which owns a 40% interest in Spheros Climatizaçao Brazil SA alongside Valeo's 60%.

Investments over the past three years

Investments *(in millions of euros)*	**2019**	**2018**	**2017**
Property, plant and equipment	1,180	1,273	1,271
Intangible assets	806	780	631
Including capitalized development expenditure	*769*	*716*	*577*
TOTAL	**1,986**	**2,053**	**1,902**
as a % of sales	10.2%	10.7%	10.3%

Investments *(as a % of sales by geographic area)*	**2019**	**2018**	**2017**
Western Europe	36%	35%	32%
Central & Eastern Europe and Africa	19%	16%	16%
Asia	27%	27%	29%
North America	17%	19%	22%
South America	1%	3%	1%

The record level of order intake in 2017 was satisfied by a peak in investments in 2018. Investments were reduced in 2019 in parallel to the start of production on numerous projects and the acceleration in the Group's sales outperformance versus the market.

2019

Investments shrank by 67 million euros between 2018 and 2019. Following the application of IFRS 16 – "Leases", the Group recognized investments of 56 million euros during the year. Excluding the impact of IFRS 16, investments fell by 123 million euros. The decrease in investments forms part of the Group's plan to adapt to new market conditions.

Investments in 2019 were 3% lower (6% lower excluding the impact of IFRS 16) than in 2018, primarily in North and South America, Asia (mainly in China and South Korea) and Western Europe (mainly in Germany, Italy and Spain). In Eastern Europe, investments increased primarily in the Czech Republic and Poland.

Overall, capital expenditure was down primarily in the Comfort & Driving Assistance Systems Business Group and in the Transmission Systems, Thermal Powertrain and Lighting Systems Product Groups.

2018

Investments in 2018 were 8% higher than in 2017 and focused mainly on Western Europe, particularly France, Germany and Ireland, and on South America. In Eastern Europe, investments increased in the Czech Republic and Turkey. The most significant outlays in Asia were in Japan and South Korea, while China reduced its investments to adapt to the economic environment in the second half of the year.

Overall, capital expenditure was down at constant Group structure (i.e., excluding acquisitions and disposals), mainly in the Comfort & Driving Assistance Systems Business Group and in the Thermal Compressors and Transmissions Product Groups following significant investment in innovation, production capacity and vertical integration in 2018. The Electronics and Engine Cooling Product Groups, on the other hand, increased investment outlay in 2018 due to numerous vehicle electrification projects.

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 held 55.08% of **Ichikoh's** capital, equating to the cap set out in its bid, and therefore took control of Japan's leading automotive lighting company, which continues to be listed on the Tokyo Stock Exchange. Ichikoh has been consolidated by Valeo with effect from February 1, 2017;
- 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 November 30, 2016 after Valeo sold 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 yuan (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 formation of a joint venture with CloudMade on January 1, 2017;
- 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 carried out in 2017" to the 2017 consolidated financial statements. Financing for these investments is described in section 5.4.6 of this chapter, Note 8.1.2 "Gross debt" to the consolidated financial statements, pages 351 to 356 and Note 8.1.3 "Net debt" to the consolidated financial statements, pages 356 to 357.

Commitments

The table below shows the main commitments given:

(in millions of euros)	December 31, 2019	December 31, 2018	December 31, 2017
Lease commitments	80	474	347
Guarantees given	3	3	13
Non-cancelable asset purchase commitments	565	718	496
Other commitments given	42	52	31
TOTAL	**690**	**1,247**	**887**

IFRS 16 – "Leases" became mandatory on January 1, 2019. It requires lessees to recognize leases using a single accounting model, i.e., the same model as that used to recognize finance leases under IAS 17. The lessee recognizes (i) a non-current asset, representing its right to use the leased asset, on the assets side of the consolidated statement of financial position, and (ii) a liability, representing its obligation to pay for the right to use this asset, on the liabilities side of the consolidated statement of financial position. The impacts of IFRS 16 on the 2019 consolidated financial statements are described in section 5.4.6, Note 1.1.1 to the consolidated financial statements, pages 305 to 308. The main exemptions provided for under the standard and applied by the Group are the exclusion of short-term leases and the exclusion of leases of low-value assets. At December 31, 2019, future minimum commitments on outstanding leases excluded from the scope of IFRS 16 and on leases signed but not yet in force stood at 80 million euros (see section 5.4.6, Note 6.5.1 to the consolidated financial statements, page 347).

Binding asset purchase commitments given by the Group decreased from 718 million euros at December 31, 2018 to 565 million euros at December 31, 2019, reflecting the plan to adapt to new market conditions.

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 20 million euros at December 31, 2019 (33 million euros at December 31, 2018) and mainly include commitments given in connection with the creation of the joint venture with Siemens on December 1, 2016. Other commitments given as part of the Group's operating activities came to 22 million euros (19 million euros at December 31, 2018).

Commitments received totaled 486 million euros at December 31, 2019 (492 million euros at December 31, 2018) and chiefly correspond to guarantees received by Valeo in connection with the acquisitions of FTE automotive and gestigon, and in connection with the creation of the Valeo Siemens eAutomotive joint venture.

5.2 Subsequent events

- On February 20, 2020, Valeo's Board of Directors approved the project to transform Valeo into a European company (*Societas Europaea*, SE). The European company corporate form has the advantage of benefiting from a common regulatory framework, recognized within the European Union. The legal status of European company will better reflect the European dimension of the Group with regard to all stakeholders, in particular its employees and customers. Of the 114,717 employees of the Group, 47,479 are located throughout Europe, with a strong presence notably in France, Germany, Poland, Spain, the Czech Republic, Hungary and Romania. With respect to customers, Valeo is a partner to all European automakers. This transformation does not affect Valeo's stock market listing and does not change its governance.

  The transformation project will be submitted to Valeo's Shareholders Meeting to be held on June 25, 2020.
- On March 24, 2020, Valeo's Board of Directors made a unanimous decision to co-opt the Fonds Stratégique de Participations as a director, to replace Georges Pauget.

  The Fonds Stratégique de Participations will be represented on Valeo's Board of Directors by Julie Avrane-Chopard, Senior Partner at McKinsey & Company's Paris office. On the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors confirmed the independence of the Fonds Stratégique de Participations and its permanent representative.
- On April 23, 2020, Valeo published its first-quarter sales press release, in which it reported a 16 point outperformance in a market down 24%, with an acceleration in all geographic areas and Business Groups.

First-quarter 2020

Global automotive production

Automotive production *(year-on-year change)*	First-quarter 2020 IHS + CPCA*
Europe & Africa	-21%
Asia, Middle East & Oceania	-31%
▪ *o/w China*	*-49%*
▪ *o/w Japan*	*-8%*
▪ *o/w South Korea*	*-15%*
▪ *o/w India*	*-21%*
North America	-11%
South America	-17%
TOTAL	**-24%**

* *Based on IHS automotive production estimates released on April 17, 2020/CPCA estimates for data relating to China.*

Global automotive production fell 24% in the first quarter, mainly as a result of the Covid-19 pandemic:

- in China, automotive production slumped by 49% as a result of the health crisis and associated lockdowns in certain geographic areas;
- in Europe, automotive production fell by 21% due to sluggish business levels and production stoppages during the last fortnight of March.

Change in sales

Sales *(in millions of euros)*	As a % of Q1 2020 sales	First-quarter 2020	2019	Change	LFL* change
Original equipment	85%	3,797	4,121	-8%	-8%
Aftermarket	11%	491	501	-2%	-2%
Miscellaneous	4%	200	219	-9%	-9%
TOTAL	**100%**	**4,488**	**4,841**	**-7%**	**-8%**

* *Like for like (constant Group structure and exchange rates)(1).*

The impacts of **changes in exchange rates** and in **Group structure** were negligible in the first three months of the year.

Original equipment sales totaled 3,797 million euros (3,748 million euros excluding the Top Column Module business), down 8% on a like-for-like(1) basis versus the same prior-year period, with the outperformance as compared to global automotive production accelerating to 16 percentage points, and returning to previous highs.

Despite a challenging economic environment, **aftermarket sales** dipped by just 2% on a like-for-like basis(1), thanks to the resilience of the repair and maintenance services of certain workshops that have been able to continue operating.

"Miscellaneous" sales including tooling revenues (and revenues relating to customer contributions to R&D) fell by 9%, due to a lower number of new launches during the period compared to the first quarter of 2019.

Change in original equipment sales by region

Original equipment sales (in millions of euros)	First-quarter 2020	2019	LFL* change	Outperf. vs. IHS**
Europe and Africa	1,893	2,029	-7%	+14 pts
Asia, Middle East & Oceania	1,017	1,200	-16%	+15 pts
■ *o/w China*	*289*	*428*	*-33%*	*+16 pts*
■ *o/w Japan*	*324*	*331*	*-6%*	*+2 pts*
■ *o/w South Korea*	*290*	*321*	*-7%*	*+8 pts*
■ *o/w India*	*40*	*47*	*-15%*	*+6 pts*
North America	800	800	-3%	+8 pts
South America	87	92	+5%	+22 pts
TOTAL	**3,797**	**4,121**	**-8%**	**+16 PTS**

* *Like for like (constant Group structure and exchange rates)(1).*
** *Based on IHS automotive production estimates released on April 17, 2020/CPCA estimates for data relating to China.*

Boosted by a favorable product and customer mix, the outperformance in original equipment sales accelerated back up to previous highs in all production regions. Original equipment sales were down 8% like for like(1) in first-quarter 2020, outperforming global automotive production by 16 percentage points (IHS/CPCA estimates):

- in Europe (including Africa) (50% of original equipment sales), like-for-like(1) original equipment sales fell 7%, reflecting an outperformance of 14 percentage points over automotive production driven mainly by sales of driving assistance systems and 48V solutions;
- in Asia (27% of original equipment sales), like-for-like(1) original equipment sales fell 16%, reflecting an outperformance of 15 percentage points over automotive production.

The Group outpaced automotive production in all countries in the region:

  - in China, like-for-like(1) original equipment sales decreased by 33%, but outperformed the market by 16 percentage points led by sales in the Comfort & Driving Assistance Systems Business Group;
  - in Japan, like-for-like(1) original equipment sales retreated by 6% (outperformance of 2 percentage points);
  - in South Korea, like-for-like(1) original equipment sales decreased by 7% (outperformance of 8 percentage points);
- in North America (21% of original equipment sales), like-for-like(1) original equipment sales declined by 3%, reflecting an outperformance of 8 percentage points over automotive production fueled by sales in the Comfort & Driving Assistance Systems and Visibility Systems Business Groups;

(1) *See financial glossary, page 48.*

- in South America (2% of original equipment sales), like-for-like[1] original equipment sales grew by 5%, outpacing automotive production by 22 percentage points, buoyed by sales in the Thermal Systems Business Group.

Balanced geographic alignment of Valeo's businesses

Year-on-year changes in the share of original equipment sales in the four main production regions in first-quarter 2020 were as follows:

- a rise of 1 percentage point for Europe, accounting for 50% of original equipment sales;
- a rise of 2 percentage points for North America, accounting for 22% of original equipment sales;
- stable for South America, accounting for 2% of original equipment sales;
- a fall of 3 percentage points for Asia, accounting for 26% of original equipment sales, reflecting the impact of Covid-19 in China during the first quarter.

Balanced customer portfolio

Year-on-year changes in the share of original equipment sales among the Group's customers in first-quarter 2020 were as follows:

- stable for German customers, accounting for 30% of original equipment sales;
- stable for American customers, accounting for 19% of original equipment sales;
- stable for French customers, accounting for 14% of original equipment sales;
- a fall of 1 percentage point for Asian customers, accounting for 31% of original equipment sales.

Change in sales by Business Group

	FIRST-QUARTER				
Sales by Business Group *(in millions of euros)*	**2020**	**2019**	**Change in sales**	**Change in OE sales***	**Outperf. vs. IHS****
Comfort & Driving Assistance Systems	886	901	-2%	-2%	+22 pts
Powertrain Systems	1,185	1,266	-6%	-7%	+17 pts
Thermal Systems	1,000	1,143	-13%	-14%	+10 pts
Visibility Systems	1,390	1,502	-8%	-9%	+15 pts
Other***	27	29	-9%	N/A	N/A
TOTAL	**4,488**	**4,841**	**-7%**	**-8%**	**+16 PTS**

* *Like for like (constant Group structure and exchange rates)[1].*
** *Based on IHS automotive production estimates released on April 17, 2020/CPCA estimates for data relating to China.*
*** *Notably including the TCM business.*

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.

The Comfort & Driving Assistance Systems Business Group outperformed global automotive production by 22 percentage points, the highest outperformance among Valeo's Business Groups. This performance was driven by high content per vehicle (take rates) in the driving assistance segment as well as a favorable geographic mix.

The Powertrain Systems and Visibility Systems Business Groups recorded an outperformance in original equipment sales in line with the Group as a whole, driven by momentum in 48V electric motors and LED lighting systems.

Top Column Module (TCM) business

In 2019, the Group decided to withdraw from the TCM segment.

The following table reconciles reported consolidated data with data excluding the TCM business:

		Group	TCM	excluding TCM
Sales	*(in €m)*	4,488	53	4,435
Original equipment sales	*(in €m)*	3,797	49	3,748

(1) *See financial glossary, page 48.*

ADDITIONAL DISCLOSURES RELATING TO COVID-19

Valeo published its 2019 results on February 20, 2020. These results do not take into account the emergence of the Covid-19 pandemic, nor the press releases published by Valeo subsequent to February 20, 2020 concerning the impacts of the health crisis on the Group. Accordingly, section 2.1.1, paragraph "Risks related to the automotive equipment industry", page 87, section 4.3.3, paragraph "Health and safety risk", page 219, section 5.3 "Trends and outlook", page 297 and 6.3 "Dividends", page 425 must be read in conjunction with the additional information provided below.

On April 23, 2020, following the meeting of its Board of Directors, Valeo published a press release containing the following information:

During this worldwide pandemic, the Group's priority is to protect the health of its employees from the moment operations resume at our plants.

Reinforced safety protocol introduced to allow activity to resume in order to meet customer demand while ensuring maximum protection for employees

The Group has implemented a health protocol based on its own experience. The protocol combines proven best safety practices in China, South Korea and Japan where activity has resumed under optimal conditions.

The measures aimed at protecting personnel go beyond public local regulations and the recommendations of the health authorities.

The protocol is mandatory and will be applicable consistently across all Valeo sites worldwide, whether at plants, R&D centers or head offices.

The 30 or so mandatory measures include:

- daily body temperature checks;
- face masks to be worn at the workplace and during trips between home and the workplace;
- workspaces to be disinfected at the beginning and end of every shift;
- hydroalcoholic gel to be provided.

The safety protocol has been approved by the majority of employee representative organizations as part of a Group-wide agreement.

Gradual recovery in Valeo's sales in China, which should return to 2019 levels during the second quarter

Since February 10, production has gradually resumed at all 34 Group plants in China. Following very sluggish activity levels in February, sales in March climbed back to 60% of prior-period 2019 levels. Activity levels should return to those seen in 2019 during the second quarter.

In Europe and North America, Valeo has adjusted production levels in line with stoppages decided by automaker customers. Automaker production should resume progressively by the end of April in Europe and by end-April/early May in North America.

Financial objectives no longer valid due to the drop in business activity and lack of visibility regarding when the crisis will end

On April 14, 2020, Valeo announced that due to the drop in business activity impacting its plants and the lack of visibility regarding when the crisis will end, the 2020 financial objectives concerning profitability and free cash flow[1] are no longer valid.

Once the health situation stabilizes, the Group remains confident in its ability to maintain its growth momentum by leveraging its technological platforms and industrial expertise.

Variabilization of costs at production sites, head offices and R&D centers, including use of short-time working measures to address production stoppages at customer sites on our main markets

To mitigate the impacts of the crisis as far as possible, Valeo has implemented the following measures:

- variabilization of costs across all plants, particularly through short-time working arrangements;
- variabilization of costs for support activities such as R&D and at administrative centers;
- drastic reduction of all costs not essential for business continuity;
- strict control over working capital thanks to close monitoring of trade receivables and inventory levels;
- reduction of investments by more than 45% in the second quarter;
- strict monitoring of the Group's cash position.

Valeo Siemens eAutomotive has implemented the same measures as Valeo to mitigate the impact of the crisis as far as possible: cash consumption and net earnings show a performance slightly better than initial estimates.

Valeo will continue to maintain strict control over costs when operations resume.

2.3 billion euros available in undrawn credit lines

Valeo has negotiated credit lines for an additional 1 billion euros with its main banks, and therefore currently has 2.3 billion euros in undrawn credit lines, enabling it to withstand any prolongation of the current crisis.

The Group has a solid financial position:

- no debt falling due before June 2021;
- average debt maturity of 3.7 years;
- significant headroom under its bank covenant (net debt[1] to EBITDA[1] ratio calculated over a 12-month rolling period of <3.5).

(1) See financial glossary, page 48.

Dividend

In the current period of uncertainty, Valeo's Board of Directors has decided to ask shareholders to approve a dividend payout of 0.2 euros per share.

Credit ratings

On March 26, 2020, Moody's placed Valeo's "Baa3/P3" long- and short-term issuer ratings under review for downgrade.

On April 3, 2020, Standard & Poor's placed Valeo's "BBB-/A-3" long- and short-term issuer ratings on creditwatch with negative implications.

Shareholders' Meeting

On March 24, 2020, due to the exceptional and evolving context of the Covid-19 pandemic, Valeo's Board of Directors decided, at its meeting held on that date, to postpone the Annual Shareholders' Meeting, which was initially scheduled to be held on Tuesday May 26, 2020, until Thursday June 25, 2020, at 2:00 pm.

Other information

Since April 2020, Valeo has been putting its expertise and know-how at the service of a good cause by forming part of an international consortium led by Air Liquide in response to requests from the French government to supply 10,000 ventilators in 50 days between the beginning of April and mid-May. Within this task force, Valeo is supporting the Air Liquide teams by mobilizing buyers and R&D teams and engineers specialized in wide-scale industrial production.

The Group has also donated equipment to various hospitals and medical centers, including tens of thousands of face masks, goggles, gloves, medical caps and protective gowns. For example, Valeo donated 30,000 FFP2/FFP3 masks to French hospitals.

On April 14, 2020, Chairman and Chief Executive Officer Jacques Aschenbroich pledged to donate 25% of his compensation for the duration of the shutdown to support Covid-19-related solidarity initiatives. The members of the Board of Directors and the Operations Committee have unanimously decided to follow this initiative.

On April 21, 2020, the Group also appealed for solidarity among its French employees, including:

- an appeal for donations from employees. The funds raised are being paid over to the Fondation de France to support healthcare professionals and researchers, as well as people who are vulnerable and living in isolation;
- a Solidarity Fund to help compensate non-managerial staff currently on short-time working arrangements for lost pay. To build up the fund, all managerial staff in France are contributing one day's annual leave, and an appeal has been extended to all Group employees to donate some of their annual leave in the same spirit of solidarity.

Valeo is also getting behind various local solidarity initiatives. For example, the Group's sites in Zaragoza and Martos in Spain are manufacturing protective visors for hospitals, and nurses at French sites that are temporarily closed are making themselves available to local hospitals.

5.3 Trends and outlook

2020 outlook

When Valeo published its annual results for 2019 on February 20, 2020, it expected automotive production to be down by 2% in 2020.

Excluding the possible impact of the coronavirus in China, the Group has set the following objectives for 2020 in line with those presented at the Investor Day on December 10, 2019:

- outperformance of more than 5 percentage points;
- strict control over costs and capital expenditure;
- further increase in EBITDA[1] and improvement in operating margin excluding share in net earnings of equity-accounted companies (as a % of sales);
- significant free cash flow[1] generation.

On April 14, 2020, Valeo announced that, in the context of the Covid-19 pandemic, due to the drop in business activity impacting its plants and the lack of visibility regarding when the crisis will end, the 2020 financial objectives concerning profitability and free cash flow[1] were no longer valid.

Once the health situation stabilizes, the Group remains confident in its ability to maintain its growth momentum by leveraging its technological platforms and industrial expertise.

See section 5.2 of this Universal Registration Document for details of the impact of recent events relating to the Covid-19 pandemic on the Group as at the date of this document. The "Trends and outlook" section of the Management Report has not been amended since it was approved on February 20, 2020.

(1) See financial glossary, page 48.

5.4 2019 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 Universal Registration Document:

- the consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2018, set out on pages 281 to 369 and 370 to 373 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2019 under number D.19-0224;
- the consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2017, set out on pages 272 to 376 and 377 to 380 of the Registration Document registered with the AMF on March 29, 2018 under number D.18-0208.

5.4.1. Consolidated statement of income

(in millions of euros)	*Notes*	**2019(1)**	**2018**
SALES	*4.1*	**19,477**	**19,124**
Cost of sales	*4.3*	(16,023)	(15,450)
Research and Development expenditure	*4.5.1*	(1,550)	(1,560)
Selling expenses		(304)	(316)
Administrative expenses		(566)	(595)
OPERATING MARGIN		**1,034**	**1,203**
as a % of sales		5.3%	6.3%
Share in net earnings (losses) of equity-accounted companies	*4.5.3.1*	(237)	(111)
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	*4.5*	**797**	**1,092**
as a % of sales		4.1%	5.7%
Other income and expenses	*4.6.2*	(65)	(56)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	*4.6.1*	**732**	**1,036**
Cost of net debt	*8.2.1*	(73)	(66)
Other financial income and expenses	*8.2.2*	(2)	(25)
INCOME (LOSS) BEFORE INCOME TAXES		**657**	**945**
Income taxes	*9.1*	(263)	(303)
NET INCOME (LOSS) FOR THE YEAR		**394**	**642**
Attributable to:			
▪ Owners of the Company		313	546
▪ Non-controlling interests	*10.1.3*	81	96
Earnings per share:			
▪ Basic earnings per share *(in euros)*	*10.2*	1.31	2.30
▪ Diluted earnings per share *(in euros)*	*10.2*	1.31	2.28

(1) The consolidated statement of income for 2019 reflects the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1, pages 305 to 308).

The Notes are an integral part of the consolidated financial statements.

5.4.2. Consolidated statement of comprehensive income

(in millions of euros)	2019[1]	2018
NET INCOME (LOSS) FOR THE YEAR	**394**	**642**
Share of changes in comprehensive income from equity-accounted companies that may subsequently be recycled to income	(1)	1
o/w income taxes	-	-
Translation adjustment	62	62
Cash flow hedges:		
▪ Gains (losses) taken to equity	39	(7)
▪ (Gains) losses transferred to income for the year	(2)	(4)
o/w income taxes	*(4)*	*(4)*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY SUBSEQUENTLY BE RECYCLED TO INCOME	**98**	**52**
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	(102)	16
o/w income taxes	*(8)*	*34*
Remeasurement of long-term investments	1	(18)
o/w income taxes	*(2)*	*3*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY NOT SUBSEQUENTLY BE RECYCLED TO INCOME	**(102)**	**(2)**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(4)**	**50**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**390**	**692**
Attributable to:		
▪ Owners of the Company	295	589
▪ Non-controlling interests	95	103

(1) *The consolidated statement of comprehensive income for 2019 reflects the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1, pages 305 to 308).*

The Notes are an integral part of the consolidated financial statements.

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5.4.3. Consolidated statement of financial position

(in millions of euros)	*Notes*	December 31, 2019(1)	December 31, 2018
ASSETS			
Goodwill	*6.1*	2,571	2,550
Other intangible assets	*6.2*	2,694	2,419
Property, plant and equipment	*6.3*	5,346	4,621
Investments in equity-accounted companies	*4.5.3.2*	152	187
Other non-current financial assets	*8.1.1*	702	590
Assets relating to pensions and other employee benefits	*5.3*	13	4
Deferred tax assets	*9.2*	437	486
NON-CURRENT ASSETS		**11,915**	**10,857**
Inventories, net	*4.4*	1,896	1,906
Accounts and notes receivable, net	*4.2*	2,821	2,781
Other current assets		455	522
Taxes receivable		33	34
Other current financial assets	*8.1.1*	20	15
Cash and cash equivalents	*8.1.3.2*	1,773	2,357
CURRENT ASSETS		**6,998**	**7,615**
TOTAL ASSETS		**18,913**	**18,472**
EQUITY AND LIABILITIES			
Share capital	*10.1.1*	241	240
Additional paid-in capital	*10.1.1*	1,531	1,513
Translation adjustment	*10.1.2*	71	17
Retained earnings		2,786	2,801
STOCKHOLDERS' EQUITY		**4,629**	**4,571**
Non-controlling interests	*10.1.3*	835	807
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**5,464**	**5,378**
Provisions for pensions and other employee benefits – long-term portion	*5.3*	1,185	1,051
Other provisions – long-term portion	*7.1*	313	357
Long-term portion of long-term debt	*8.1.2*	4,417	3,466
Other financial liabilities – long-term portion	*8.1.1*	38	16
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.1.2.2*	20	17
Subsidies and grants – long-term portion		87	56
Deferred tax liabilities	*9.2*	76	89
NON-CURRENT LIABILITIES		**6,136**	**5,052**
Accounts and notes payable		4,762	4,475
Provisions for pensions and other employee benefits – current portion	*5.3*	69	104
Other provisions – current portion	*7.1*	201	273
Subsidies and grants – current portion		41	39
Taxes payable		124	125
Other current liabilities		1,578	1,569
Current portion of long-term debt	*8.1.2*	193	434
Other financial liabilities – current portion	*8.1.1*	14	42
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.1.2.2*	59	72
Short-term debt	*8.1.2.3*	269	900
Liabilities held for sale		3	9
CURRENT LIABILITIES		**7,313**	**8,042**
TOTAL EQUITY AND LIABILITIES		**18,913**	**18,472**

(1) The consolidated statement of financial position at December 31, 2019 reflects the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1, pages 305 to 308).

The Notes are an integral part of the consolidated financial statements.

5.4.4. Consolidated statement of cash flows

(in millions of euros)	*Notes*	2019[1]	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		394	642
Share in net (earnings) losses of equity-accounted companies		237	111
Net dividends received from equity-accounted companies		44	64
Expenses (income) with no cash effect	*11.1*	1,349	1,180
Cost of net debt		73	66
Income taxes (current and deferred)		263	303
GROSS OPERATING CASH FLOWS		**2,360**	**2,366**
Income taxes paid		(292)	(267)
Changes in working capital	*11.2*	396	71
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**2,464**	**2,170**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(812)	(777)
Acquisitions of property, plant and equipment		(1,154)	(1,291)
Investment subsidies and grants received		16	35
Disposals of property, plant and equipment and intangible assets		44	8
Net change in non-current financial assets		(266)	(212)
Acquisitions of investments with gain of control, net of cash acquired	*11.3*	19	(41)
Acquisitions of investments in associates and/or joint ventures		(5)	(2)
Disposals of investments with loss of control, net of cash transferred	*11.4*	(13)	(7)
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(2,171)**	**(2,287)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(297)	(296)
Dividends paid to non-controlling interests in consolidated subsidiaries		(46)	(28)
Capital increase		19	26
Sale (purchase) of treasury stock	*11.5*	15	(118)
Issuance of long-term debt	*11.6*	613	603
Loan issuance costs and premiums	*11.6*	(2)	(5)
Interest paid		(97)	(64)
Interest received		26	6
Repayment of long-term debt	*11.6*	(447)	(360)
Acquisitions of investments without gain of control	*11.7*	(29)	(2)
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**(245)**	**(238)**
CASH AND CASH EQUIVALENTS RELATING TO ASSETS HELD FOR SALE		**-**	**6**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(1)**	**34**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**47**	**(315)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,457**	**1,772**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,504**	**1,457**
Of which:			
▪ Cash and cash equivalents		1,773	2,357
▪ Short-term debt		(269)	(900)

(1) The consolidated statement of cash flows for 2019 reflects the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1, pages 305 to 308).

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
237,924,000	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2017[(1)]**	**240**	**1,487**	**(36)**	**2,696**	**4,387**	**719**	**5,106**
	Dividends paid[(2)]	-	-	-	(296)	(296)	(28)	**(324)**
(1,236,492)	Treasury shares[(3)]	-	-	-	(118)	(118)	-	**(118)**
599,979	Capital increase	-	26	-	-	26	-	**26**
	Share-based payment	-	-	-	3	3	-	**3**
	Put options granted[(5)]	-	-	-	(5)	(5)	(2)	**(7)**
	Other movements	-	-	-	(15)	(15)	15	**-**
	TRANSACTIONS WITH OWNERS	**-**	**26**	**-**	**(431)**	**(405)**	**(15)**	**(420)**
	Net income (loss) for the year	-	-	-	546	546	96	**642**
	Other comprehensive income (loss), net of tax	-	-	53	(10)	43	7	**50**
	TOTAL COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**53**	**536**	**589**	**103**	**692**
237,287,487	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2018**	**240**	**1,513**	**17**	**2,801**	**4,571**	**807**	**5,378**
	Dividends paid[(2)]	-	-	-	(297)	(297)	(46)	**(343)**
957,981	Treasury shares	-	-	-	15	15	-	**15**
783,643	Capital increase[(4)]	1	18	-	-	19	-	**19**
	Share-based payment	-	-	-	24	24	-	**24**
	Put options granted[(5)]	-	-	-	9	9	1	**10**
	Other movements[(6)]	-	-	-	(7)	(7)	(22)	**(29)**
	TRANSACTIONS WITH OWNERS	**1**	**18**	**-**	**(256)**	**(237)**	**(67)**	**(304)**
	Net income (loss) for the year	-	-	-	313	313	81	**394**
	Other comprehensive income (loss), net of tax	-	-	54	(72)	(18)	14	**(4)**
	TOTAL COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**54**	**241**	**295**	**95**	**390**
239,029,111	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2019**	**241**	**1,531**	**71**	**2,786**	**4,629**	**835**	**5,464**

(1) The consolidated statement of changes in stockholders' equity at December 31, 2017 differs from that presented in the 2017 consolidated financial statements published in February 2018, since it has been adjusted to reflect the impacts of retrospectively applying new standards IFRS 9 – "Financial Instruments" and IFRS 15 – "Revenue from Contracts with Customers" as from January 1, 2018 with restatement of comparative periods, and of allocating the purchase price for FTE automotive and Valeo-Kapec.
(2) A cash dividend of 1.25 euros per share was paid in 2019, representing a total payout of 297 million euros. The per-share amount was unchanged from June 2018.
(3) Changes in stockholders' equity attributable to treasury shares for 2018 included the impact of the share buyback program entered into with an investment services provider on March 7, 2018 in an amount of 100 million euros (see Note 10.1.1.3, pages 370 and 371).
(4) The terms and conditions of the June 27, 2019 capital increase reserved for employees are detailed in Note 10.1.1.1, page 370.
(5) 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 355).
(6) Other movements reflect the impacts of acquiring an additional interest in Ichikoh (see Note 2.2.1, page 312).

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, 2019 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, 2019 were authorized for issue by the Board of Directors on February 20, 2020.

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) *https://ec.europa.eu/info/law.*

1.1.1 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2019

The following standards, amendments and interpretations have been published by the IASB and adopted by the European Union:

Standards, amendments and interpretations	**IFRS 16 – "Leases"** Effective as from January 1, 2019
Presentation and accounting policies applied within the Group	On January 13, 2016, the IASB published IFRS 16 – "Leases". IFRS 16 replaces IAS 17 and the related IFRIC and SIC interpretations. IFRS 16 introduces major changes in the principles for measuring, recognizing and presenting leases in the financial statements of lessees. It requires lessees to recognize leases using a single accounting model, i.e., the same model as that used to recognize finance leases under IAS 17. The lessee recognizes: ■ a non-current asset representing its right to use the leased asset, in the consolidated statement of financial position; ■ a financial liability representing its obligation to pay for the right to use the asset, in the consolidated statement of financial position; ■ depreciation of the right-of-use asset and interest expenses on the lease liability, in the consolidated statement of income. At the lease commencement date, the lease liability is measured at the present value of the minimum lease payments outstanding at that date, plus payments under any options that the lessee is reasonably certain to exercise. This amount is then measured at amortized cost using the effective interest rate. The carrying amount of the lease liability is subsequently increased by the interest due on the lease liability and reduced by the lease payments made. At the same date, the right-of-use asset is measured at cost. The cost of the right-of-use asset comprises (i) the initial lease liability, (ii) any prepaid lease payments made, less any lease incentives received, (iii) any initial direct costs incurred by the lessee in establishing the lease, and (iv) an estimate of costs to be incurred by the lessee in dismantling or rehabilitating the underlying asset as required by the terms and conditions of the lease. It is subsequently reduced by depreciation and any impairment losses. Any non-removable leasehold improvements are depreciated over the shorter of the adopted lease term and the estimated period of use. The right-of-use asset is depreciated on a straight-line basis. If the lease transfers ownership of the underlying asset to the lessee or when the lease includes a purchase option that the lessee is reasonably certain to exercise, the right-of-use asset is depreciated over the useful life of the underlying asset under the same conditions as those applied to assets owned by the lessee. In all other cases, the right-of-use asset is depreciated over the reasonably certain useful life of the underlying asset. Payments for the interest portion of the lease liability and payments for the principal portion are recorded under cash flows from financing activities in the consolidated statement of cash flows. Payments for the principal portion of the lease liability are added back to calculate free cash flow. Subsequently, the lease liability and the right-of-use asset are remeasured to reflect the following: ■ changes in the lease term; ■ changes in the assessment of an option; ■ changes in the amounts expected to be payable under residual value guarantees; ■ changes in the rates or indexes used to determine the lease payments; ■ changes in the lease payments. The main exemptions provided under IFRS 16 and adopted by the Group are: ■ exclusion of short-term leases; ■ exclusion of leases of low-value assets. Lease payments on leases excluded from the scope of IFRS 16 and any variable payments not included in the initial measurement of the lease liability are recognized in operating expenses.

Standards, amendments and interpretations	IFRS 16 – "Leases" Effective as from January 1, 2019
Impacts and method of application at the transition date	Valeo mainly has lease contracts for land and buildings (production facilities, warehouses and offices), which were previously accounted for as operating leases under IAS 17 and for which a right-of-use asset is now recognized under IFRS 16.

Method used to apply IFRS 16 at the transition date

Valeo has applied IFRS 16 using the modified retrospective approach. Accordingly, the financial statements published before the date of the first-time application of IFRS 16 have not been restated.

Within the scope of its transition to IFRS 16, the Group elected the following main options to simplify application:

- exclusion of leases with a residual term of 12 months or less at the transition date, along with leases of low-value assets;
- application of IFRS 16 only to contracts previously identified as leases;
- use of the initial lease term to determine the discount rate at the transition date;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of first-time application;
- identification of onerous contracts at January 1, 2019 in accordance with IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets".

Any leases excluded from the scope of IFRS 16 are recognized directly in operating expenses.

The discount rates applied at the transition date were determined based on the Group's incremental borrowing rate, plus a spread to reflect the economic conditions in each country. The discount rates were determined taking into account the initial terms of the leases.

The Group's weighted average incremental borrowing rate stood at 3.44% at January 1, 2019.

Within the scope of its transition to IFRS 16, the Group applied the initial recognition exemption for deferred taxes provided under IAS 12.

Impacts of the application of IFRS 16 – "Leases" on the Group's consolidated financial statements at January 1, 2019

(in millions of euros)	December 31, 2018	IFRS 16	January 1, 2019
Property, plant and equipment	4,621	440	5,061
TOTAL ASSETS	**4,621**	**440**	**5,061**
Long-term portion of long-term debt	3,466	370	3,836
NON-CURRENT LIABILITIES	**3,466**	**370**	**3,836**
Current portion of long-term debt	434	70	504
CURRENT LIABILITIES	**434**	**70**	**504**
TOTAL EQUITY AND LIABILITIES	**3,900**	**440**	**4,340**

Future minimum lease payments on IAS 17 operating leases at December 31, 2018 and the lease liability recognized under IFRS 16 at January 1, 2019 can be reconciled as follows:

(in millions of euros)	Adoption of IFRS 16
COMMITMENTS GIVEN UNDER OPERATING LEASES AT DECEMBER 31, 2018	**474**
Discounting effect	(69)
Effects relating to optional periods and purchase options(1)	51
Other effects, primarily relating to exemptions	(16)
IMPACT ON FINANCIAL LIABILITIES AT JANUARY 1, 2019	**440**
Lease liability under IAS 17 finance leases at December 31, 2018(2)	32
LEASE LIABILITY AT JANUARY 1, 2019	**472**

(1) Commitments given under IAS 17 operating leases only included minimum payments on the non-cancelable period of the leases.
(2) See 2018 Registration Document, Chapter 5, section 5.4.6, Note 8.1.2.1 "Long-term debt", pages 338 to 340.

Standards, amendments and interpretations	IFRS 16 – "Leases" Effective as from January 1, 2019

Financial impacts at December 31, 2019

At December 31, 2019, the main impacts of the application of IFRS 16 – "Leases" are as follows:

- Consolidated statement of financial position

(in millions of euros)	December 31, 2019
Right-of-use assets	430
TOTAL ASSETS	**430**
Long-term lease liabilities – non-current portion	353
NON-CURRENT LIABILITIES	**353**
Long-term lease liabilities – current portion	88
CURRENT LIABILITIES	**88**
TOTAL EQUITY AND LIABILITIES	**441**

The rights to use the leased assets recorded within property, plant and equipment break down as follows:

	Right-of-use assets					
(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Total
GROSS CARRYING AMOUNT AT DECEMBER 31, 2018	**-**	**13**	**40**	**27**	**5**	**85**
Accumulated depreciation and impairment	-	(4)	(30)	(27)	(1)	**(62)**
NET CARRYING AMOUNT AT DECEMBER 31, 2018	**-**	**9**	**10**	**-**	**4**	**23**
Adoption of IFRS 16	8	377	9	-	46	**440**
NET CARRYING AMOUNT AT JANUARY 1, 2019	**8**	**386**	**19**	**-**	**50**	**463**
New contracts/Renewals/ Modifications	-	26	6	-	24	**56**
Depreciation	(1)	(64)	(5)	-	(25)	**(95)**
Translation adjustment	-	5	1	-	-	**6**
NET CARRYING AMOUNT AT DECEMBER 31, 2019	**7**	**353**	**21**	**-**	**49**	**430**

- Consolidated statement of cash flows

In 2019, the net cash outflow in respect of lease liabilities, classified in net cash flows from (used in) financing activities, amounted to 98 million euros, of which 14 million euros corresponded to the interest portion and 84 million euros corresponded to net payments for the principal portion of lease liabilities.

Net payments for the principal portion of the lease liability are added back to calculate free cash flow (see Note 11.8, pages 373 to 374).

- Key segment performance indicators

Depreciation of right-of-use assets in 2019 and the net carrying amount of right-of-use assets at end-December 2019 by segment were as follows:

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other(1)	Total
EBITDA	23	13	20	26	13	**95**
Segment assets	98	50	100	140	42	**430**

(1) The net carrying amount of right-of-use assets at December 31, 2019 (4 million euros) and the corresponding depreciation expense (1 million euros) relating to the Top Column Module business for 2019 are recorded within "Other" (see Note 3.1, pages 314 to 315).

The following standards, amendments and interpretations have also 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, 2019	
Annual Improvements to IFRSs 2015-2017 cycle	Various provisions
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features
IFRIC 23[(1)]	Uncertainty over Income Tax Treatments

(1) See Note 7.1, pages 348 to 349.

These new publications did not have a material impact on the Group's consolidated financial statements.

1.1.2 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on January 1, 2020 and early adopted by the Group as of January 1, 2019

Standards, amendments and interpretations	**Amendments to IFRS 9, IAS 39 and IFRS 7** Effective as of January 1, 2020 and early adopted by the Group as of January 1, 2019
Impacts for and application by the Group	The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the IBOR reform. They modify certain hedge accounting provisions and require entities to provide investors with additional information on hedging relationships that are directly affected by these uncertainties. These amendments were published on September 26, 2019 by the IASB. The European Union adopted them on January 16, 2020. The Group elected to early adopt, as of January 1, 2019, the amendments to IFRS 9, IAS 39 and IFRS 7 published by the IASB in September 2019 in the context of the interest rate benchmark reform. These amendments enable the Group to disregard the uncertainties arising from interest rate benchmark reform when measuring the effectiveness of hedging relationships and/or determining whether the hedged risk is highly probable, ensuring that existing or future hedging relationships are secured until this uncertainty is no longer present.

1.1.3 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2020 and not early adopted by the Group

Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2020	
Amendments to IAS 1 and IAS 8	Definition of Material

1.1.4 Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union

The IASB has also published the following guidance, which is not expected to have a material impact on the Group's consolidated financial statements at the date of this document:

Standards, amendments and interpretations		Effective date[(1)]
Revised Conceptual Framework for Financial Reporting	Amendments to references to the Conceptual Framework in IFRS Standards	January 1, 2020
Amendments to IFRS 3	Definition of a Business	January 1, 2020

(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 all 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, 2019 chiefly concern:

- the conditions for capitalizing development expenditure (see Note 4.5.1.1, page 321);
- estimates of provisions, particularly provisions for pensions and other employee benefits and provisions for risks linked to product warranties (see Notes 5.3, pages 329 to 335 and 7.1, pages 348 to 349);
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6, pages 338 to 347);
- lease terms, as regards optional periods, and determination of discount rates (see Note 6.3, pages 341 to 344);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9.2, pages 368 to 369).

NOTE 2 CHANGES IN THE 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. An arrangement in which the parties have rights to the net assets of that arrangement is called a joint venture. An arrangement in which the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, is known as a joint operation.

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 "Investments in equity-accounted companies".

The procedure used to measure investments in equity-accounted companies for impairment is governed by IFRS 9 – "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. After the measurement period, 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 and trademarks. 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 relating to operations that have not been classified as discontinued, 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 change that impacted the Group's structure and consolidated financial statements during the year was the acquisition of an additional 6.1% interest in Ichikoh, which increased Valeo's shareholding in the company from 55.08% to 61.19%. This transaction between owners did not affect the control of Ichikoh, which continues to be fully consolidated in the Group's financial statements, mainly within the Visibility Systems Business Group.

Based on a 29 million euro transaction price, the acquisition resulted in (i) a 22 million euro reduction in reserves attributable to non-controlling interests and (ii) a 7 million euro reduction in reserves attributable to the Group.

2.2.2 Subsequent events

None

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, 2019, Valeo and V. Johnson Enterprises had respective 49% and 51% interests 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 sells 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 20 million euros at December 31, 2019 (33 million euros at December 31, 2018) and mainly include commitments given on the creation of the joint venture with Siemens on December 1, 2016.

2.3.2 Commitments received

Commitments received totaled 486 million euros at December 31, 2019 (492 million euros at December 31, 2018) and correspond primarily to guarantees granted to Valeo in connection with the acquisition of FTE automotive and gestigon, and in connection with the creation of the Valeo Siemens eAutomotive joint venture.

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, Connected Cars and Intuitive Interior Controls. 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 connected and more autonomous;
- Powertrain Systems, comprising four Product Groups: Electrification and Powertrain Systems, Transmission Systems, Combustion Engine Systems and Active Hydraulic Actuator Systems. This Business Group is at the heart of the vehicle electrification revolution. Combining the expertise of the Business Group's four Product Groups, Valeo manufactures comprehensive, integrated electric powertrain solutions as well as a range of products for cleaner thermal engines;
- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Commercial Vehicles. The strategic objectives of the Thermal Systems Business Group are two-fold: intelligent management of thermal systems for all vehicles, and passenger health and well-being. Vehicle electrification calls for new thermal management solutions capable of ensuring a comfortable cabin temperature without reducing driving range. These solutions are also designed to maintain the battery cells in hybrid and electric vehicles at optimum operating temperature and to enhance vehicle performance through their lightweight and aerodynamic design;
- Visibility Systems, comprising two Product Groups and one Product Line: the Lighting Systems and Wiper Systems Product Groups and the Electronics for Visibility Systems Product Line. This Business Group designs and produces innovative and efficient exterior and interior lighting, wiper and sensor cleaning systems to support the driver. These systems enable automated vehicles to drive in all conditions and thereby improve the travel experience for all vehicle passengers.

Each of these Business Groups is also responsible for production and for some of the distribution of products in the aftermarket segment. A significant portion of income and expenses for Valeo Service, which almost exclusively sells products manufactured by the Group, is reallocated among the Business Groups identified. The external trading operations of Valeo Service are presented within "Other", along with the holding companies and eliminations between the four operating segments. Following the announcement in 2019 of the Group's decision to withdraw from the Top Column Module business, "Other" now also includes this product line.

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 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;
- 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.

2019

(in millions of euros)	Comfort and Driving Assistance Systems(2)	Powertrain Systems	Thermal Systems	Visibility Systems	Other(2)	Total
Sales:						
▪ segment (excluding Group)	3,591	4,998	4,516	5,923	449	**19,477**
▪ intersegment (Group)	58	123	66	91	(338)	**-**
EBITDA(1)	**599**	**685**	**502**	**660**	**50**	**2,496**
Research and Development expenditure	(579)	(293)	(274)	(360)	(44)	**(1,550)**
Investments in property, plant and equipment and intangible assets	534	418	460	522	52	**1,986**
Segment assets(1)	2,813	3,561	2,861	3,124	300	**12,659**

(1) The data for 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1, pages 305 to 308).
(2) Following the announcement in 2019 of the Group's decision to withdraw from the Top Column Module business, "Other" now includes this product line.

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
▪ segment (excluding Group)	3,873	4,998	4,516	5,923	167	**19,477**
▪ intersegment (Group)	28	123	66	91	(308)	**-**
EBITDA(1)	**594**	**685**	**502**	**660**	**55**	**2,496**
Research and Development expenditure	(603)	(293)	(274)	(359)	(21)	**(1,550)**
Investments in property, plant and equipment and intangible assets	566	418	460	522	20	**1,986**
Segment assets(1)	2,940	3,561	2,861	3,124	173	**12,659**

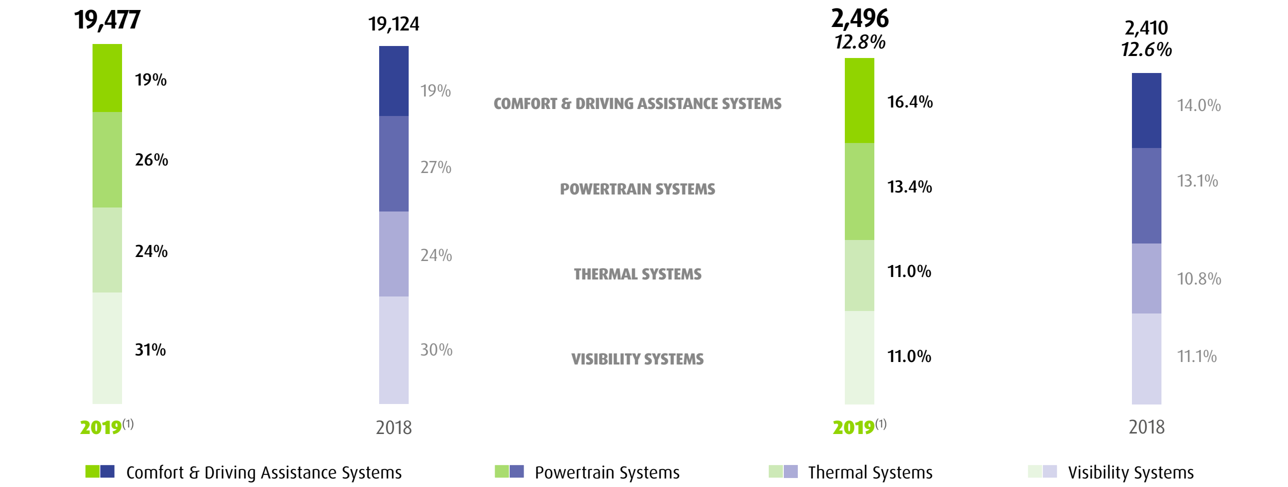
(1) The data for 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1, pages 305 to 308).

2018

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
▪ segment (excluding Group)	3,741	5,036	4,517	5,699	131	**19,124**
▪ intersegment (Group)	25	105	52	84	(266)	**-**
EBITDA	**528**	**674**	**495**	**642**	**71**	**2,410**
Research and Development expenditure	(556)	(319)	(285)	(377)	(23)	**(1,560)**
Investments in property, plant and equipment and intangible assets	582	458	454	538	21	**2,053**
Segment assets	2,683	3,495	2,526	2,838	141	**11,683**

Sales by Business Group including intersegment sales
(in millions of euros and as a % of sales)

EBITDA by Business Group
(in millions of euros and as a % of sales)



(1) *The 2019 data for the Comfort & Driving Assistance Systems Business Group are presented excluding the data for the Top Column Module business, which is now included in "Other".*

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	2019	2018
Operating margin	**1,034**	**1,203**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses[(1)(2)]	1,433	1,156
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(15)	(13)
Dividends paid by equity-accounted companies	44	64
EBITDA[(2)]	**2,496**	**2,410**
as a % of sales	*12.8%*	*12.6%*

(1) *Impairment losses recorded in operating margin only.*
(2) *The data for 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1, pages 305 to 308).*

This indicator is used by Management to monitor and track Business Group performance and to decide on the allocation of resources.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	December 31, 2019	December 31, 2018
Segment assets[(1)]	**12,659**	**11,683**
Accounts and notes receivable	2,821	2,781
Other current assets	455	522
Taxes receivable	33	34
Financial assets	2,508	2,966
Deferred tax assets	437	486
TOTAL GROUP ASSETS[(1)]	**18,913**	**18,472**

(1) *The data for 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1, pages 305 to 308).*

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 that operate in several geographic areas.

2019

(in millions of euros)	External sales by market	Sales by production area	Non-current assets[1]
France	1,285	2,981	937
Other European countries and Africa	8,080	6,765	3,043
North America	3,721	3,851	1,321
South America	489	412	113
Asia	5,902	6,215	2,781
Eliminations	-	(747)	(3)
TOTAL	**19,477**	**19,477**	**8,192**

(1) The data for 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1, pages 305 to 308).

2018

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	1,334	2,983	834
Other European countries and Africa	7,950	6,709	2,609
North America	3,373	3,476	1,148
South America	485	405	103
Asia	5,982	6,295	2,535
Eliminations	-	(744)	(2)
TOTAL	**19,124**	**19,124**	**7,227**

NOTE 4 OPERATING DATA

4.1 Sales

For each automotive project, the three main typically identified promises made by Valeo to an automaker are:

- Product Development, which includes determining the intrinsic technical features of parts and those related to the relevant production process. This promise is usually considered to be related to the Supply of Parts; any contributions from customers in respect of Product Development are therefore recognized in sales over the period of series production as the promise to deliver the parts is fulfilled, within a period of four years. However, the accounting treatment applied may vary based on each project's specific contractual or operational features;
- 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 are recognized at the start of series 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 are therefore deferred and recognized over the duration of the manufacturing phase of the project as the promise to deliver the parts is fulfilled, within a period of four years;
- Supply of Parts, sales of which are recognized when control of the parts is transferred to the customer, i.e., generally upon delivery.

In this respect, sales primarily include sales of finished goods and all tooling revenues and customer contributions to Research and Development expenditure and prototypes. 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.

Under specific contracts, analysis of the relationship with the end customer leads Valeo to consider that it acts as agent when it supplies said end customer with "imposed" components. As such, the transactions in which Valeo acts as agent are recognized based on their net amount. This business model primarily concerns the Thermal Front-End operations of the Thermal Systems Business Group.

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.

Valeo generally has a contractual right to supply parts for a specific project on an exclusive basis. Estimated future volumes cannot be included in the order book as defined by IFRS 15 until the customer has placed an order for a firm volume. Accordingly, this information is not considered relevant.

Group sales rose 1.8% to 19,477 million euros in 2019 from 19,124 million euros in 2018.

Changes in exchange rates had a positive 1.7% impact, relating mainly to the appreciation of the US dollar and Japanese yen, while changes in the scope of consolidation during the year had a negative 0.2% impact. Like for like (comparable Group structure and exchange rate basis), consolidated sales for 2019 rose 0.3% on 2018.

4.1.1 Sales by type

Sales can be analyzed by type as follows:

(in millions of euros)	2019	2018
Original equipment	16,360	16,146
Aftermarket	1,990	2,010
Other	1,127	968
SALES	**19,477**	**19,124**

4.1.2 Original equipment sales by customer portfolio

Original equipment sales can be analyzed by customer portfolio as follows:

(in millions of euros)	2019	%	2018	%
German automakers	4,947	30%	4,812	30%
Asian automakers	5,299	33%	5,348	33%
US automakers	3,003	18%	2,830	17%
French automakers	2,163	13%	2,192	14%
Other	948	6%	964	6%
ORIGINAL EQUIPMENT SALES	**16,360**	**100%**	**16,146**	**100%**

4.2 Accounts and notes receivable

Accounts and notes receivable are current financial assets that 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. The Group uses two impairment testing methods:

- impairment estimated taking into account historical loss experience, the age of the receivables, and a detailed risk assessment;
- impairment estimated taking into account customer credit risk.

Impairment losses are recognized in operating income or in other financial income and expenses if they relate to a credit risk on a 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 for derecognizing 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.

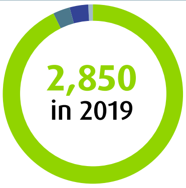
Accounts and notes receivable can be analyzed as follows:

(in millions of euros)	December 31, 2019	December 31, 2018
Accounts and notes receivable, gross	2,850	2,814
Impairment	(29)	(33)
ACCOUNTS AND NOTES RECEIVABLE, NET	**2,821**	**2,781**

At December 31, 2019, Valeo's largest automotive customer accounted for 12% of the Group's accounts and notes receivable (14% at December 31, 2018).

The average days' sales outstanding stood at 48 days at December 31, 2019, compared to 50 days at December 31, 2018.

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, 2019	December 31, 2018
93.0%	▪ Not yet due	2,650	2,541
2.9%	▪ Less than 1 month past due	84	121
3.3%	▪ More than 1 month but less than 1 year past due	93	130
0.8%	▪ More than 1 year past due	23	22
	ACCOUNTS AND NOTES RECEIVABLE, GROSS	**2,850**	**2,814**

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2019 totaled 2,650 million euros and 84 million euros, respectively, and represented 96% of total gross accounts and notes receivable (95% at end-December 2018). Past due receivables were written down in an amount of 29 million euros at December 31, 2019 (33 million euros at December 31, 2018).

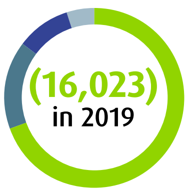
Accounts and notes receivable falling due after December 31, 2019, for which substantially all of the risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, represented an amount of 290 million euros at December 31, 2019 versus 368 million euros at December 31, 2018. A total of 132 million euros out of the 290 million euros relates to recurring sales of receivables (165 million euros at December 31, 2018). The financial cost of these transactions, recognized in cost of net debt, was around 3 million euros in 2019, stable compared with 2018.

4.3 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.

Cost of sales can be analyzed as follows:



(in millions of euros)		2019	2018
57.2%(1)	▪ Raw materials consumed	(11,145)	(10,741)
13.1%(1)	▪ Labor	(2,546)	(2,476)
7.9%(1)	▪ Direct production costs and production overheads(2)	(1,535)	(1,567)
4.1%(1)	▪ Depreciation and amortization(2)(3)	(797)	(666)
	COST OF SALES	**(16,023)**	**(15,450)**

(1) As a % of sales.
(2) The data for 2019 reflect the impacts of applying IFRS 16 – "Leases" as from January 1, 2019 using the modified retrospective approach (see Note 1.1.1, pages 305 to 308).
(3) This amount does not include amortization charged against capitalized development costs, which is recognized in Research and Development expenditure. It includes the impact of government subsidies and grants on non-current production assets (excluding Research and Development) recognized in the statement of income for the year.

4.4 Inventories

Inventories are stated at the lower of cost and net realizable value. Impairment losses are booked when the probable realizable value of inventories is lower than their cost price.

Inventories of raw materials and goods for resale are carried at purchase cost.

Inventories of finished products and work-in-progress are carried at production cost. Production cost includes the cost of raw materials, supplies and labor used in production, and other direct production and indirect plant costs, excluding overheads not related to production. These costs are determined by the "First-in-First-out" (FIFO) method which, due to the rapid inventory turnover rate, approximates the latest cost at the end of the reporting period.

Tooling specific to a given project is subject to an economic analysis of the contractual relationship with the automaker in order to determine if control of the tooling is transferred to that automaker. Tooling is capitalized in the consolidated statement of financial position (see Note 6.3 "Property, plant and equipment", pages 341 to 344) when Valeo has control of the tooling, or is otherwise carried in inventories (until control is transferred). 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, 2019, inventories break down as follows:

	December 31, 2019			December 31, 2018
(in millions of euros)	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	892	(137)	**755**	720
Work-in-progress	230	(30)	**200**	171
Finished goods and supplies	705	(119)	**586**	546
Specific tooling	359	(4)	**355**	469
INVENTORIES, NET	**2,186**	**(290)**	**1,896**	**1,906**

Impairment losses taken against inventories amounted to 290 million euros at December 31, 2019 (255 million euros at December 31, 2018), including an allowance (net of reversals) of 27 million euros during the year. Allowances to provisions for impairment of inventories net of reversals amounted to 24 million euros in 2018.

4.5 Operating margin including share in net earnings of equity-accounted companies

Operating margin is equal to sales less costs to sell, 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 2019, operating margin including share in net earnings of equity-accounted companies totaled 797 million euros, or 4.1% of sales (5.7% of sales in 2018).

Share in net earnings (losses) of equity-accounted companies represented a loss of 237 million euros in 2019 and a loss of 111 million euros in 2018. See Note 4.5.3, pages 323 to 326 for 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 that 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 2018 and 2019 are analyzed below:

(in millions of euros)	2019	2018
GROSS CARRYING AMOUNT AT JANUARY 1	**3,359**	**2,734**
Accumulated amortization and impairment	(1,639)	(1,432)
NET CARRYING AMOUNT AT JANUARY 1	**1,720**	**1,302**
Capitalized development expenditure	769	716
Disposals	(4)	(1)
Impairment	(14)	(8)
Amortization	(403)	(302)
Translation adjustment	11	8
Reclassifications	1	5
NET CARRYING AMOUNT AT DECEMBER 31	**2,080**	**1,720**

4.5.1.2 Research and Development expenditure

Research and Development expenditure comprises the costs incurred during the period, including amortization charged against capitalized development costs, less research tax credits and the portion of Research and Development subsidies granted to the Group and taken to income.

Research and Development expenditure can be analyzed as follows for 2018 and 2019:

(in millions of euros)	**2019**	**2018**
Gross Research and Development expenditure	(2,054)	(2,073)
Subsidies and grants, and tax credits	143	107
Capitalized development expenditure	769	716
Amortization and impairment of capitalized development expenditure	(408)	(310)
RESEARCH AND DEVELOPMENT EXPENDITURE	**(1,550)**	**(1,560)**

The Group continued its Research and Development efforts in 2019 in order to fulfill the order intake recorded 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 59 million euros in respect of 2019 (53 million euros in 2018).

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*) may be discounted and sold to banks. By analogy, the Group has applied the principles for derecognizing 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, 2019, amounts receivable in France in respect of the CICE tax credit for 2016, 2017 and 2018 and the research tax credit for 2016, 2017, 2018 and 2019 are no longer carried in the consolidated statement of financial position.

These receivables were transferred as follows:

- 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 2017 research tax credit receivable on June 27, 2018 for 63 million euros;
- the 2018 CICE tax credit receivable on December 19, 2018 for 16 million euros;
- the 2018 research tax credit receivable on June 25, 2019 for 63 million euros;
- the prospective 2019 research tax credit receivable on December 17, 2019 for 60 million euros.

The CICE tax credit was replaced by a reduction in social security contributions as from January 1, 2019. Accordingly, no receivables in respect of the CICE tax credit were transferred during the year.

The cost of the transfers made in 2019, recognized in cost of net debt for the year, was 1 million euros for the Group, stable compared to 2018.

At December 31, 2018, only the 2018 research tax credit receivable was still carried on the consolidated statement of financial position for an estimated 58 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)	2019	2018
Share in net earnings of associates	7	3
Share in net earnings (losses) of joint ventures	(244)	(114)
SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	**(237)**	**(111)**

All investments accounted for 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)	2019	2018
Detroit Thermal Systems	6	3
Other investments in associates	1	-
SHARE IN NET EARNINGS OF ASSOCIATES	**7**	**3**

Share in net earnings (losses) of joint ventures

(in millions of euros)	2019	2018
Valeo Siemens eAutomotive	(260)	(147)
CloudMade	(4)	(3)
Chinese joint ventures	19	33
Other	1	3
SHARE IN NET EARNINGS (LOSSES) OF JOINT VENTURES	**(244)**	**(114)**

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)	2019	2018
INVESTMENTS IN ASSOCIATES AT JANUARY 1	**29**	**34**
Share in net earnings of associates	7	3
Dividend payments	(4)	(9)
Other movements	-	-
Translation adjustment	-	1
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	**32**	**29**

The Group's investments in associates are detailed below:

	Percentage interest (in %)		Carrying amount (in millions of euros)	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Detroit Thermal Systems	49.0	49.0	17	14
APG-FTE automotive Co. Ltd	49.0	49.0	9	9
Kuantic	33.3	33.3	4	5
Other investments in associates	N/A	N/A	2	1
INVESTMENTS IN ASSOCIATES			**32**	**29**

Investments in joint ventures

Changes in the "Investments in joint ventures" caption can be analyzed as follows:

(in millions of euros)	2019	2018
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	**158**	**325**
Share in net earnings (losses) of joint ventures[1]	(2)	(114)
Dividend payments	(40)	(55)
Impact of changes in scope of consolidation	5	-
Other movements	(1)	1
Translation adjustment	-	1
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	**120**	**158**

(1) As its share in the losses of Valeo Siemens eAutomotive exceeds its interest in the joint venture, the Group has discontinued recognizing its share of further losses in accordance with IAS 28 and allocates them to other assets held by the Group in the joint venture.

The Group's investments in joint ventures are detailed below:

	Percentage interest (in %)		Carrying amount (in millions of euros)	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Valeo Siemens eAutomotive[1]	50.0	50.0	-	23
Chinese joint ventures	N/A	N/A	84	100
CloudMade	50.0	50.0	17	22
Other	N/A	N/A	19	13
INVESTMENTS IN JOINT VENTURES			**120**	**158**

(1) As its share in the losses of Valeo Siemens eAutomotive exceeds its interest in the joint venture, the Group has discontinued recognizing its share of further losses in accordance with IAS 28 and allocates them to other assets held by the Group in the joint venture.

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 and joint ventures is provided on an aggregate basis since the entities are not material taken individually, with the exception of the Valeo Siemens eAutomotive joint venture, for which information is presented separately below.

Associates

Aggregate financial data in respect of associates are set out below:

(in millions of euros)	December 31, 2019	December 31, 2018
Non-current assets	73	73
Current assets	101	88
Non-current liabilities	47	48
Current liabilities	82	74

(in millions of euros)	2019	2018
Sales	351	324
Operating expenses	(335)	(328)

Valeo Siemens eAutomotive

Condensed financial data in respect of the Valeo Siemens eAutomotive joint venture are set out below. These data were taken from the joint venture's IFRS financial statements, as adjusted by the Group for the purposes of equity accounting.

(in millions of euros)	December 31, 2019	December 31, 2018
Non-current assets	713	447
Current assets	286	218
Non-current liabilities	(1,285)	(580)
Current liabilities	(313)	(259)

(in millions of euros)	2019	2018
Sales	290	235
Income (loss) from continuing operations	(520)	(294)
Post-tax income (loss) from discontinued operations	-	-
NET INCOME (LOSS) FOR THE YEAR	**(520)**	**(294)**
Other comprehensive income (loss) attributable to owners of the Company	-	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**(520)**	**(294)**

As its share in the losses of Valeo Siemens eAutomotive exceeds its interest in the joint venture, the Group allocates it to the other components of its share in the joint venture, in accordance with IAS 28. Accordingly, the Group charged 242 million euros against the loans granted to the joint venture in 2019. There was no uncertainty as regards the recoverability of these financial assets at December 31, 2019: an independent expert assessed the joint venture based on the discounted future cash flows projected by its general management in its multi-year business plan (discount rate of 9.7%). A 100-basis point increase in the discount rate used would have no impact on the positions reflected in the Group's financial statements at December 31, 2019.

5

Joint ventures excluding Valeo Siemens eAutomotive

Aggregate financial data in respect of joint ventures excluding Valeo Siemens eAutomotive are set out below:

(in millions of euros)	December 31, 2019	December 31, 2018
Non-current assets	153	156
Current assets	293	299
Non-current liabilities	48	23
Current liabilities	294	289

(in millions of euros)	2019	2018
Sales	638	743
Operating expenses	(598)	(664)

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, 2019	December 31, 2018
Accounts and notes receivable	4	4
Accounts and notes payable	6	6
Net debt (cash)	(6)	(4)

(in millions of euros)	2019	2018
Sales of goods and services	33	33
Purchases of goods and services	(41)	(42)

Transactions with joint ventures

(in millions of euros)	December 31, 2019	December 31, 2018
Accounts and notes receivable	67	46
Accounts and notes payable	12	21
Net debt (cash)	(558)	(260)

(in millions of euros)	2019	2018
Sales of goods and services	177	114
Purchases of goods and services	(23)	(32)

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 732 million euros in 2019 versus 1,036 million euros in 2018.

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 fixed 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 2018 and 2019:

(in millions of euros)	*Notes*	2019	2018
Transaction costs and capital gains and losses arising on changes in the scope of consolidation:			
■ Acquisition fees		-	(2)
■ Sale of the Lighting business in Argentina		-	(30)
■ Sale of the Passive Hydraulic Actuator business		-	(5)
■ Other		(1)	-
Claims and litigation	*4.6.2.1*	(21)	(4)
Restructuring plans	*4.6.2.2*	(36)	(15)
Impairment of fixed assets	*4.6.2.3*	(7)	-
OTHER INCOME AND EXPENSES		**(65)**	**(56)**

4.6.2.1 Claims and litigation

In 2019, this item includes the impacts of various disputes and the related legal advisory costs.

4.6.2.2 Restructuring plans

Restructuring costs for 2019 primarily include the impacts of a Group cost reduction plan launched in first-half 2019 in light of the downturn in the automotive market, and expenses relating to early retirement plans in Germany.

Restructuring costs for 2018 chiefly included expenses relating to early retirement plans in Germany, and additional costs in connection with a restructuring plan in South Korea.

4.6.2.3 Impairment of fixed assets

An impairment loss of 9 million euros was recognized in 2019 following the impairment test carried out on the Air Charging Systems Product Line CGU (see Note 6.4.4, page 346). Following the merger of the Electronic Systems Product Group CGU into the Electrical Systems Product Group CGU, an impairment loss previously recognized in 2016 was reversed in an amount of 2 million euros, thereby increasing the carrying amount of the assets concerned to the value that would have been determined (net of depreciation/amortization) had no impairment loss been recognized (see Note 6.4.4, page 346).

NOTE 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

5.1 Headcount

Including temporary staff, the Group's headcount is as follows:

	2019	2018
Total employees at December 31	114,700	113,600
Average employees during the year	114,525	114,125

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.

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, pages 329 to 335) 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)	2019	2018
Wages and salaries[(1)]	3,551	3,450
Social security charges	690	675
Share-based payment	26	3
Pension expenses under defined contribution plans	118	112
TOTAL	**4,385**	**4,240**

(1) Including temporary staff.

Pension expenses under defined benefit plans are set out in Note 5.3, pages 329 to 335.

Provisions for restructuring plans and employee disputes are set out in Note 7.1, pages 348 to 349.

5.3 Provisions for pensions and other employee benefits

As indicated in Note 5.2, page 328, 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 amendments to 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, amendments or settlements;
- net interest cost on pension obligations recognized in financial income (including the impact of discount unwinding) and the expected yield on hedging assets.

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) vary depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2019, 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 Italy, Mexico and South Korea;
- health cover during retirement in the United States:
  - Valeo pays into health plans and life insurance plans for certain retired employees in the United States. These plans are not funded and have all been frozen (the last plan was frozen as of January 1, 2012). Accordingly, no additional benefits have since been offered by these plans to plan participants still working for the Group;
- top-up retirement plans for certain Group managers and executives in France:
  - these plans are now closed to new entrants (the last plan in force concerning a specific level of Valeo management (*cadres hors catégorie*) was closed to new entrants on June 30, 2017). With effect from July 3, 2019, no further conditional top-up pension rights may accrue under these defined benefit plans in respect of employment periods beyond January 1, 2020. A provision has been recognized in respect of the related obligation based on the probable present value of the future benefits payable, determined considering the number of years' service at the year-end relative to the number of years' service at retirement, it being specified that the beneficiaries must still finish their careers at Valeo. The portion of the obligation relating to the Group's executive managers is detailed in Note 5.5, pages 337 to 338.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each region at December 31, 2019:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,983	22,246	11,405	11,058	**57,692**
Active employees having left the Group	-	2,228	929	589	**3,746**
Retirees	6	4,979	5,171	1,619	**11,775**
TOTAL EMPLOYEES	**12,989**	**29,453**	**17,505**	**13,266**	**73,213**
Average duration of post-employment benefit plans *(years)*	**12**	**20**	**12**	**10**	**15**

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 benefit payments 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 to measure obligations in the countries representing the Group's most significant obligations were as follows:

Country	December 31, 2019	December 31, 2018
Eurozone	1.15	1.90
United Kingdom	1.80	2.50
United States	3.15	4.05
Japan	0.50	0.45
South Korea	2.65	3.25

The weighted average long-term salary inflation rate was around 2.5% at December 31, 2019, down on 2018.

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 334.

5.3.3 Breakdown and movements in obligations

Pension obligations and provisions break down as follows by major geographic area:

2019

(in millions of euros)	France	Other European countries	North America(1)	Asia	Total
Present value of unfunded obligations	249	573	107	138	**1,067**
Present value of funded obligations	34	193	415	224	**866**
Market value of plan assets	(11)	(99)	(365)	(217)	**(692)**
NET PROVISIONS RECOGNIZED AT DECEMBER 31, 2019	**272**	**667**	**157**	**145**	**1,241**
Permanent employees at December 31, 2019(2)	12,939	31,794	15,948	22,543	**83,224**

(1) Unfunded pension obligations in North America include medical plans in the United States representing 68 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.

2018

(in millions of euros)	France	Other European countries	North America[(1)]	Asia	Total
Present value of unfunded obligations	227	484	97	125	**933**
Present value of funded obligations	46	163	392	234	**835**
Market value of plan assets	(8)	(84)	(327)	(198)	**(617)**
NET PROVISIONS RECOGNIZED AT DECEMBER 31, 2018	**265**	**563**	**162**	**161**	**1,151**
Permanent employees at December 31, 2018[(2)]	13,242	31,691	14,641	22,285	**81,859**

(1) Unfunded pension obligations in North America include medical plans in the United States representing 71 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 2019 and 2018 are shown in the tables below by major geographic area:

2019

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2019	**273**	**647**	**489**	**359**	**1,768**
Actuarial gains and losses recognized in other comprehensive income	22	107	51	(15)	**165**
Benefits paid	(13)	(20)	(50)	(25)	**(108)**
Translation adjustment	-	5	9	7	**21**
Expenses (income) for the year:	1	27	23	36	**87**
▪ *Service cost*	*21*	*16*	*3*	*26*	***66***
▪ *Interest cost*	*5*	*11*	*19*	*5*	***40***
▪ *Other[(1)]*	*(25)*	*-*	*1*	*5*	***(19)***
BENEFIT OBLIGATIONS AT DECEMBER 31, 2019	**283**	**766**	**522**	**362**	**1,933**

(1) "Other" mainly includes actuarial gains and losses recognized immediately in income, the impacts of past service costs and gains on settlements as well as the impacts in France of amendments to top-up retirement plans under the PACTE law.

Actuarial losses totaling 165 million euros in 2019 primarily reflect the impacts of a decrease in discount rates in the different regions of the world.

2018

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2018	**261**	**643**	**504**	**342**	**1,750**
Actuarial gains and losses recognized in other comprehensive income	6	6	(27)	(1)	**(16)**
Benefits paid	(17)	(20)	(34)	(34)	**(105)**
Translation adjustment	-	(3)	23	18	**38**
Expenses (income) for the year:	23	21	23	34	**101**
▪ *Service cost*	*21*	*15*	*3*	*27*	***66***
▪ *Interest cost*	*5*	*13*	*18*	*5*	***41***
▪ *Other[(1)]*	*(3)*	*(7)*	*2*	*2*	***(6)***
BENEFIT OBLIGATIONS AT DECEMBER 31, 2018	**273**	**647**	**489**	**359**	**1,768**

(1) "Other" mainly includes actuarial gains and losses recognized immediately in income, as well as the impacts of past service costs and gains on settlements.

Actuarial gains totaling 16 million euros in 2018 primarily reflected the impact of the rise in discount rates in the United States and United Kingdom, partially offset by the fall in discount rates in eurozone countries.

5.3.4 Movements in provisions

Movements in provisions in 2019 and 2018, including assets 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
NET PROVISIONS AT JANUARY 1, 2018	**255**	**556**	**168**	**152**	**1,131**
Actuarial gains and losses recognized in other comprehensive income	6	10	(1)	3	**18**
Amounts utilized during the year	(19)	(21)	(23)	(34)	**(97)**
Translation adjustment	-	(1)	7	9	**15**
Expenses (income) for the year:	23	19	11	31	**84**
▪ *Service cost*	*21*	*15*	*3*	*27*	***66***
▪ *Net interest cost*	*5*	*11*	*6*	*2*	***24***
▪ *Other*	*(3)*	*(7)*	*2*	*2*	***(6)***
NET PROVISIONS AT DECEMBER 31, 2018	**265**	**563**	**162**	**161**	**1,151**
Actuarial gains and losses recognized in other comprehensive income	22	100	(6)	(22)	**94**
Amounts utilized during the year	(16)	(21)	(13)	(31)	**(81)**
Translation adjustment	-	-	3	4	**7**
Expenses (income) for the year:	1	25	11	33	**70**
▪ *Service cost*	*21*	*16*	*3*	*26*	***66***
▪ *Net interest cost*	*5*	*9*	*7*	*2*	***23***
▪ *Other*	*(25)*	-	*1*	*5*	***(19)***
NET PROVISIONS AT DECEMBER 31, 2019	**272**	**667**	**157**	**145**	**1,241**
Of which current portion (less than one year)	17	23	8	21	**69**

An expense of 70 million euros was recognized in 2019 in respect of pensions and other employee benefits (down compared to 2018), of which 47 million euros was included in operating margin and 23 million euros in other financial income and expenses. The year-on-year decrease is primarily attributable to 25 million euro reversal recognized for France in connection with the reform of top-up retirement plans in the country under the PACTE law.

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2019 and 2018 is shown in the tables below:

2019

(in millions of euros)	France	Other European countries	North America	Asia[1]	Total
Cash at bank	-	1	4	65	**70**
Shares	11	37	142	57	**247**
Government bonds	-	40	164	66	**270**
Corporate bonds	-	18	55	26	**99**
Real estate	-	3	-	3	**6**
Other	-	-	-	-	**-**
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2019	**11**	**99**	**365**	**217**	**692**

(1) At December 31, 2019, four Japanese plans and two South Korean plans were overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized non-current financial assets for the amount of the surplus, i.e., 13 million euros, as it considers the right to a refund is unconditional for each plan within the meaning of IFRIC 14.

2018

(in millions of euros)	France	Other European countries	North America	Asia[1]	Total
Cash at bank	-	-	-	41	**41**
Shares	8	31	196	63	**298**
Government bonds	-	34	66	57	**157**
Corporate bonds	-	16	65	34	**115**
Real estate	-	-	-	-	**-**
Other	-	3	-	3	**6**
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2018	**8**	**84**	**327**	**198**	**617**

(1) At December 31, 2018, 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., 4 million euros, as it considers the right to a refund is unconditional within the meaning of IFRIC 14.

These assets are managed by specialized asset management companies.

In managing the risk arising on these assets, the diversification of the funds among the different asset classes (equities, bonds, cash equivalents or other) 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 2019 and 2018 can be analyzed as follows:

2019

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2019	**8**	**84**	**327**	**198**	**617**
Expected return on plan assets	-	2	12	3	**17**
Contributions paid to external funds	4	4	5	20	**33**
Benefits paid	(1)	(3)	(42)	(14)	**(60)**
Actuarial gains and losses	-	7	57	7	**71**
Translation adjustment	-	5	6	3	**14**
PLAN ASSETS AT DECEMBER 31, 2019	**11**	**99**	**365**	**217**	**692**

The increase in the fair value of plan assets in 2019 is attributable to actuarial gains, in particular on funds in the United States.

Contributions totaling 33 million euros were paid to external funds in 2019, down 24 million euros compared to estimates. Contributions are estimated at 57 million euros for 2020.

2018

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2018	**6**	**87**	**336**	**190**	**619**
Expected return on plan assets	-	2	12	3	**17**
Contributions paid to external funds	4	4	15	20	**43**
Benefits paid	(2)	(3)	(26)	(20)	**(51)**
Actuarial gains and losses	-	(4)	(26)	(4)	**(34)**
Translation adjustment	-	(2)	16	9	**23**
PLAN ASSETS AT DECEMBER 31, 2018	**8**	**84**	**327**	**198**	**617**

The relative stability in the fair value of plan assets in 2018 was chiefly attributable to the favorable impact of the US dollar and Japanese yen, offset by the actual return on plan assets for the year representing a loss of 17 million euros.

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)	2019	2018	2017	2016	2015
Benefit obligations	1,933	1,768	1,750	1,582	1,526
Financial assets	(692)	(617)	(619)	(510)	(526)
NET BENEFIT OBLIGATIONS	**1,241**	**1,151**	**1,131**	**1,072**	**1,000**
Actuarial (losses) gains recognized in other comprehensive income	(94)	(18)	69	(92)	93

Actuarial gains and losses recognized in other comprehensive income in 2019 include:

- 168 million euros in actuarial losses on changes in financial assumptions, chiefly due a decrease in discount rates in all regions;
- 5 million euros in actuarial gains on changes in demographic assumptions, chiefly in the United States, and 2 million euros in actuarial losses resulting from experience adjustments;
- 71 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, 2019:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5-point increase	(15)	(75)	(29)	(17)	**(136)**
Impact of a 0.5-point decrease	16	81	31	17	**145**
Salary inflation rate					
Impact of a 0.5-point increase	16	2	2	6	**26**
Impact of a 0.5-point decrease	(14)	(2)	(2)	(6)	**(24)**

At December 31, 2019, 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 that have now been frozen and that only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2019 service cost. A 0.5-point decrease in the discount rate would lead to an additional expense of 4 million euros, while a 0.5-point increase in the discount rate would reduce the expense by 4 million euros.

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
2020	12	16	7	9	**44**
2021	7	18	7	9	**41**
2022	15	19	7	11	**52**
2023	28	20	7	12	**67**
2024	12	21	7	10	**50**
2025/2029	94	118	39	60	**311**
TOTAL	**168**	**212**	**74**	**111**	**565**

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 remit 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 vesting period of the rights. The Group periodically reviews the number of free shares to be allotted in light of expectations as regards the achievement of performance conditions. Where appropriate, the consequences of revising the number of free shares are reflected in the statement of income. The number of free shares that may be allotted based on total shareholder return (TSR) is determined on the date on which the plan is approved by the Board of Directors.

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 372.

An expense of 26 million euros was recognized in 2019 in respect of stock purchase option and free share plans, compared to an expense of 3 million euros in 2018. The lower expense in 2018 was primarily attributable to changes in the share price and to revised estimates of the number of instruments that Valeo expected to remit to beneficiaries.

5.4.1 Free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by the Valeo Group at December 31, 2019 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, 2019	Year of vesting[2]
2014	970,440	*316,770*	3,000[3]	2017/2019
2015	957,027	*260,805*	379,260	2018/2020
2016	1,267,022	*573,522*	216,676[4]	2019/2021
2017	1,012,043	*466,551*	628,489	2020/2021/2022
2018	1,234,623	*570,123*	835,659	2021/2022/2023
2019	1,699,281	*1,049,381*	1,406,951	2022/2024
TOTAL	**7,140,436**	**3,237,152**	**3,470,035**	

(1) These free shares are subject to the Group meeting performance conditions over the three years following their allotment, with the exception of the 2017 and 2018 plans, for which it has been decided that the assessment period for the performance conditions subject to which the performance shares will vest to their beneficiaries will only be effective after a period of four years following their allotment, with no holding period.
(2) The vesting year varies depending on the country in which the beneficiaries of plans set up prior to 2019 are resident. For the 2019 plan, only free shares allotted to the Chairman and Chief Executive Officer are subject to a two-year holding period.
(3) These free shares will be remitted in 2020.
(4) All free shares that were subject to the Group meeting performance conditions set out in this plan have been canceled.

The main data and assumptions underlying the valuation of the 2019 free share plan at fair value were as follows:

Free shares	Chairman and Chief Executive Officer	Other employees
Share price at authorization date *(in euros)*	25.8	25.8
Risk-free rate *(%)*	0.2	(0.2)
Dividend rate *(%)*	4.6	N/A
FAIR VALUE OF EQUITY INSTRUMENTS *(IN EUROS)*	**20.9**	**22.1**

5.4.2 Stock purchase option plans

The terms and conditions of the employee stock purchase option plan operated by the Valeo Group at December 31, 2019 were as follows:

Year in which plan was set up	Number of shares under option	*of which subject to conditions*[1]	Option exercise price[2] *(in euros)*	Number of options not yet exercised at December 31, 2019	Expiration date
2012	1,101,480	*795,690*	13.59	82,150	2020

(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 2019 are detailed below:

	Number of options and free shares	Weighted average exercise price
OPTIONS NOT EXERCISED/FREE SHARES OUTSTANDING AT JANUARY 1, 2019	**2,425,668**	**1.01**
Options/free shares granted	1,607,533	-
Options/free shares canceled	(114,869)	-
Options/free shares expired	(48,257)	3.46
Options exercised/free shares remitted	(467,302)	2.50
Free shares – Changes related to performance conditions	149,412	-
OPTIONS NOT EXERCISED/FREE SHARES OUTSTANDING AT DECEMBER 31, 2019	**3,552,185**	**0.31**
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2019	**82,150**	**13.59**

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 eligible employees the opportunity to become shareholders through an employee share issue carried out specifically for this purpose.

As has been the case since 2016, a new standard plan was offered to employees during first-half 2019, 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 May 2, 2019. The subscription price of 23.72 euros corresponds to 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'Epargne de Groupe* – PEG), employees can benefit from a contribution from their employer. Outside France, employees are allotted free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan. The free shares allotted are existing Valeo shares repurchased on the market.

In all, 783,643 shares were subscribed at a price of 23.72 euros each, representing a 19 million euro capital increase on June 27, 2019 (see Note 10.1, pages 370 to 371).

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:

	2019	2018
Date rights granted	May 2	May 2
Reference price *(in euros)*	29.64	54.47
Face value discount *(%)*	20	20
Subscription price *(in euros)*	23.72	43.58
Beneficiary's 5-year interest rate *(%)*	3.84	3.83
Risk-free interest rate *(%)*	(0.03)	0.37
Repo rate *(%)*	0.440	0.350

Including a discount to reflect the lock-up period requirement, the total cost of the Shares4U 2019 plan is 10 million euros, of which 5 million euros were recognized in personnel expenses for 2019 (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, 2019, 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 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. In accordance with the PACTE law, no additional rights may vest under this defined benefit plan as from January 1, 2020. The beneficiary remains subject to a presence condition and will only receive benefits in respect of the rights vested under the plan until that date if he finishes his career at Valeo.

The non-competition agreement no longer provides for the payment of any compensation, following the Chairman and Chief Executive Officer's decision to waive his right to such compensation in 2019. A prior decision of the Board of Directors is required to decide whether or not the 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.

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)	2019	2018
SHORT-TERM BENEFITS		
■ Fixed, variable, exceptional and other compensation	10	14
■ Attendance fees	1	1
OTHER BENEFITS		
■ Post-employment benefits[1]	(7)	2
■ Share-based compensation[2]	3	(5)

(1) The 7 million euro gain from post-employment benefits in 2019 is primarily attributable to the impact of the PACTE law on defined benefit plans.
(2) The 5 million euro gain from share-based payments in 2018 was primarily attributable to the impact of the failure to meet some or all of the performance obligations.

At December 31, 2019, provisions included in the Group's statement of financial position in respect of pension obligations accruing to executive managers amounted to 15 million euros, compared with 24 million euros in 2018.

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, pages 311 to 312.

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 2018 and 2019 were carried out as described in Note 6.4, pages 344 to 347.

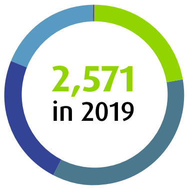
Changes in goodwill in 2019 and 2018 are analyzed below:

(in millions of euros)	2019	2018
NET CARRYING AMOUNT AT JANUARY 1	**2,550**	**2,512**
Acquisitions during the year	1	3
Translation adjustment	20	35
NET CARRYING AMOUNT AT DECEMBER 31	**2,571**	**2,550**
Including accumulated impairment losses at December 31	-	-

The increase in goodwill in 2019 mainly reflects the appreciation in the Japanese yen (9 million euros) and the US dollar (7 million euros) against the euro between the two periods.

The increase in goodwill in 2018 mainly reflected the appreciation in the Japanese yen (20 million euros) and the US dollar (16 million euros) against the euro between the two periods.

Goodwill can be broken down by Business Group as follows:



(in millions of euros)		December 31, 2019	December 31, 2018
22%	Comfort & Driving Assistance Systems	573	566
35%	Powertrain Systems	910	912
24%	Thermal Systems	607	597
18%	Visibility Systems	474	468
1%	Other	7	7
	GOODWILL	**2,571**	**2,550**

6.2 Other intangible assets

Separately acquired intangible assets are initially recognized at cost. Intangible assets acquired as part of a business combination are recognized at fair value, separately from goodwill. Intangible assets are subsequently carried at cost, less accumulated amortization and impairment losses. They are tested for impairment using the methodology described in Note 6.4, pages 344 to 347.

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 321. 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, 2019			December 31, 2018
(in millions of euros)	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	416	(335)	**81**	97
Patents and licenses	251	(142)	**109**	127
Capitalized development expenditure	4,070	(1,990)	**2,080**	1,720
Customer relationships and other intangible assets	700	(276)	**424**	475
OTHER INTANGIBLE ASSETS	**5,437**	**(2,743)**	**2,694**	**2,419**

Changes in intangible assets in 2019 and 2018 are analyzed below:

2019

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2019	**396**	**246**	**3,359**	**700**	**4,701**
Accumulated amortization and impairment	(299)	(119)	(1,639)	(225)	**(2,282)**
NET CARRYING AMOUNT AT JANUARY 1, 2019	**97**	**127**	**1,720**	**475**	**2,419**
Acquisitions	23	3	769	11	**806**
Disposals	(2)	-	(4)	-	**(6)**
Impairment	-	-	(14)	1	**(13)**
Amortization	(39)	(21)	(403)	(48)	**(511)**
Translation adjustment	-	-	11	2	**13**
Reclassifications	2	-	1	(17)	**(14)**
NET CARRYING AMOUNT AT DECEMBER 31, 2019	**81**	**109**	**2,080**	**424**	**2,694**

2018

(in millions of euros)	Software	Patents and licenses[(1)]	Capitalized development expenditure[(1)]	Customer relationships and other intangible assets[(1)]	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2018	**364**	**239**	**2,734**	**672**	**4,009**
Accumulated amortization and impairment	(269)	(91)	(1,432)	(175)	**(1,967)**
NET CARRYING AMOUNT AT JANUARY 1, 2018	**95**	**148**	**1,302**	**497**	**2,042**
Acquisitions	34	9	716	21	**780**
Disposals	-	-	(1)	-	**(1)**
Impairment	-	1	(8)	2	**(5)**
Amortization	(39)	(21)	(302)	(48)	**(410)**
Translation adjustment	-	1	8	9	**18**
Reclassifications	7	(11)	5	(6)	**(5)**
NET CARRYING AMOUNT AT DECEMBER 31, 2018	**97**	**127**	**1,720**	**475**	**2,419**

(1) The amounts shown for other intangible assets differ from the amounts presented in the 2017 consolidated financial statements published in February 2018 since they have been adjusted to reflect the impacts of the allocation of goodwill to FTE automotive and Valeo-Kapec.

6.3 Property, plant and equipment

Separately acquired property, plant and equipment are initially recognized at cost. Cost includes expenses directly attributable to the acquisition of the asset and the estimated cost of the Group's obligation to rehabilitate certain assets, where appropriate. Property, plant and equipment acquired as part of a business combination are recognized at fair value, separately from goodwill.

Property, plant and equipment are subsequently carried at cost, less accumulated depreciation and impairment losses. Material revaluations, recorded in accordance with laws and regulations applicable in countries in which the Group operates, have been eliminated in order to ensure that consistent valuation methods are used for all capital assets in the Group.

Any subsequent costs incurred in respect of property, plant and equipment are expensed as incurred, unless they are designed to extend the asset's useful life.

Property, plant and equipment are tested for impairment using the methodology described in Note 6.4, pages 344 to 347.

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

Depending on its nature, tooling specific to a given project is subject to an economic analysis of the contractual relationship with the automaker in order to determine if control of the tooling is transferred to that automaker. Tooling is capitalized in the consolidated statement of financial position when Valeo has control of the tooling, or is otherwise carried in inventories (until control is transferred).

Any financing received from customers in respect of capitalized tooling is recognized under liabilities in the statement of financial position and taken to income under sales in line with the depreciation charged against the related assets.

Tooling is depreciated on a straight-line basis over its estimated useful life, not exceeding four years.

Tax credits

In certain countries, the government can contribute to the Group's investment expenditure in the form of tax credits. The tax credits received are analyzed to determine whether they fall within the scope of IAS 12 – "Income Taxes" or whether they should be considered as a government subsidy. In the latter case, the tax credit is recognized in income over the period during which the subsidized assets are depreciated, as a deduction from depreciation expense.

Property, plant and equipment can be analyzed as follows:

	December 31, 2019			December 31, 2018
(in millions of euros)	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	359	(15)	**344**	337
Buildings	2,343	(1,223)	**1,120**	741
Machinery and industrial equipment	8,380	(5,239)	**3,141**	2,801
Specific tooling	2,339	(1,912)	**427**	400
Other property, plant and equipment	860	(585)	**275**	292
Property, plant and equipment in progress	39	-	**39**	50
PROPERTY, PLANT AND EQUIPMENT	**14,320**	**(8,974)**	**5,346**	**4,621**

Certain items of property, plant and equipment were pledged as security at December 31, 2019 (see Note 6.5.2, page 347).

Changes in property, plant and equipment in 2019 and 2018 are analyzed below:

2019

(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 DECEMBER 31, 2018	**352**	**1,815**	**7,635**	**2,181**	**821**	**50**	**12,854**
Accumulated depreciation and impairment	(15)	(1,074)	(4,834)	(1,781)	(529)	-	**(8,233)**
NET CARRYING AMOUNT AT DECEMBER 31, 2018	**337**	**741**	**2,801**	**400**	**292**	**50**	**4,621**
Adoption of IFRS 16	8	377	9	-	46	-	**440**
NET CARRYING AMOUNT AT JANUARY 1, 2019	**345**	**1,118**	**2,810**	**400**	**338**	**50**	**5,061**
Acquisitions	3	125	755	162	123	12	**1,180**
Disposals	(2)	(16)	(6)	(6)	(5)	(3)	**(38)**
Impairment	-	-	2	1	-	-	**3**
Depreciation	(2)	(146)	(545)	(148)	(78)	-	**(919)**
Translation adjustment	5	15	23	3	1	-	**47**
Reclassifications	(5)	24	102	15	(104)	(20)	**12**
NET CARRYING AMOUNT AT DECEMBER 31, 2019	**344**	**1,120**	**3,141**	**427**	**275**	**39**	**5,346**

2018

(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, 2018(1)	**338**	**1,664**	**6,931**	**1,983**	**792**	**37**	**11,745**
Accumulated depreciation and impairment	(15)	(996)	(4,432)	(1,645)	(547)	-	**(7,635)**
NET CARRYING AMOUNT AT JANUARY 1, 2018(1)	**323**	**668**	**2,499**	**338**	**245**	**37**	**4,110**
Acquisitions	12	128	754	183	165	31	**1,273**
Disposals	-	(1)	(35)	(2)	(1)	(3)	**(42)**
Impairment	(1)	-	(6)	3	1	-	**(3)**
Depreciation	-	(76)	(479)	(135)	(48)	-	**(738)**
Translation adjustment	9	5	11	-	(3)	-	**22**
Reclassifications	(6)	17	57	13	(67)	(15)	**(1)**
NET CARRYING AMOUNT AT DECEMBER 31, 2018	**337**	**741**	**2,801**	**400**	**292**	**50**	**4,621**

(1) The amounts shown for land, buildings, machinery and industrial equipment and specific tooling differ from the amounts presented in the 2017 consolidated financial statements published in February 2018 since they have been adjusted to reflect the impacts of the allocation of goodwill to FTE automotive and Valeo-Kapec.

Leases

For leases falling within the scope of IFRS 16 – "Leases", the lessee recognizes:

- a financial liability representing its obligation to pay for the right to use the asset, in the consolidated statement of financial position;
- a non-current asset representing its right to use the leased asset, in the consolidated statement of financial position;
- depreciation of the right-of-use asset and interest expenses on the lease liability, in the consolidated statement of income.

Lease liabilities

At the lease commencement date, the lease liability is measured at the present value of the minimum lease payments outstanding at that date, plus payments under any options that the lessee is reasonably certain to exercise.

The lease term used to calculate the lease liability is determined based on an economic analysis of any early termination, extension or renewal options or any options to purchase the underlying asset included in the enforceable term of the lease.

This amount is then measured at amortized cost using the effective interest rate. The carrying amount of the lease liability is subsequently increased by the interest due on the lease liability and reduced by the lease payments made.

The discount rates are determined based on the Group's incremental borrowing rate, plus a spread to reflect the economic conditions in each country. They are determined taking into account the duration of the lease.

Right-of-use assets

At the lease commencement date, the right-of-use asset is measured at cost. The cost of the right-of-use asset comprises (i) the initial lease liability, (ii) any prepaid lease payments made, less any lease incentives received, (iii) any initial direct costs incurred by the lessee in establishing the lease, and (iv) an estimate of costs to be incurred by the lessee in dismantling or rehabilitating the underlying asset as required by the terms and conditions of the lease.

It is subsequently reduced by depreciation and any impairment losses. The right-of-use asset is depreciated on a straight-line basis. Any non-removable leasehold improvements are depreciated over either the adopted lease term or the estimated period of use, whatever is shorter.

If the lease transfers ownership of the underlying asset to the lessee or when the lease includes a purchase option that the lessee is reasonably certain to exercise, the right-of-use asset is depreciated over the useful life of the underlying asset under the same conditions as those applied to assets owned by the lessee. In all other cases, the right-of-use asset is depreciated over the reasonably certain useful life of the underlying asset.

Subsequently, the lease liability and the right-of-use asset are remeasured to reflect the following:

- changes in the lease term;
- changes in the assessment of an option;
- changes in the amounts expected to be payable under residual value guarantees;
- changes in the rates or indexes used to determine the lease payments;
- changes in the lease payments.

The main exemptions provided under IFRS 16 and adopted by the Group are:

- exclusion of short-term leases;
- exclusion of leases of low-value assets.

Lease payments on leases excluded from the scope of IFRS 16 and any variable payments not included in the initial measurement of the lease liability are recognized in operating expenses and presented within net cash flows from operating activities in the consolidated statement of cash flows.

For leases falling within the scope of IFRS 16, payments for the interest portion of the lease liability and payments for the principal portion are recorded under cash flows from financing activities in the consolidated statement of cash flows. Payments for the principal portion of the lease liability are added back to calculate free cash flow.

Movements in right-of-use assets included within property, plant and equipment can be analyzed as follows:

	Right-of-use assets					
(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Total
GROSS CARRYING AMOUNT AT DECEMBER 31, 2018	**-**	**13**	**40**	**27**	**5**	**85**
Accumulated depreciation and impairment	-	(4)	(30)	(27)	(1)	**(62)**
NET CARRYING AMOUNT AT DECEMBER 31, 2018	**-**	**9**	**10**	**-**	**4**	**23**
Adoption of IFRS 16	8	377	9	-	46	**440**
NET CARRYING AMOUNT AT JANUARY 1, 2019	**8**	**386**	**19**	**-**	**50**	**463**
New contracts/Renewals/Modifications	-	26	6	-	24	**56**
Depreciation	(1)	(64)	(5)	-	(25)	**(95)**
Translation adjustment	-	5	1	-	-	**6**
NET CARRYING AMOUNT AT DECEMBER 31, 2019	**7**	**353**	**21**	**-**	**49**	**430**

In 2019, the expenses recorded with the respect to payments on leases excluded from the scope of IFRS 16 and any variable payments amounted to 74 million euros in 2019.

6.4 Impairment of fixed 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, 2019, there was a total of 27 CGUs.

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 "Segment reporting". 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 fixed 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 CGU and goodwill impairment tests to determine the recoverable amount of an asset or group 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 reflecting 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.

Following the application of IFRS 16 – "Leases", the Group applied the following methodology at December 31, 2019:

- the capital employed tested does not include right-of-use assets and lease liabilities;
- recoverable amount is calculated based on post-tax cash flows, including payments for the principal portion of lease liabilities (corresponds to the Group's definition of cash flow);
- post-tax WACC does not include the impact of IFRS 16.

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 intake and products under development;
- a perpetuity growth rate of 1.5%, which is the same as that used in 2018 and is in line with the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 9.5% (stable compared to 2018), 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 1.13 (1.15 in 2018).

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 the medium-term business plans and the budget used to perform impairment tests on CGUs and goodwill, the Group based itself on projected data for the automotive market, as well as its order intake 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 official and potential order intake.

The medium-term business plans for 2020-2024 are underpinned by the following assumptions:

- global automotive production, excluding commercial vehicles in China, of 91 million in 2022 and 96 million in 2024, representing average annual growth of 2.1% for 2019-2022 and 2.4% for 2019-2024. This assumption is consistent with several independent external forecasts and has been revised downwards compared with the forecasts used one year earlier. At the end of the period covered by the new business plan, Asia and the Middle East should represent 53% of global production, Europe and Africa 25%, North America 18% and South America 4%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.25 US dollars, 9.00 Chinese renminbi, 134 Japanese yen, 1,400 South Korean won and 4.75 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 around 25% of cumulative original equipment sales over the five-year forecast period and approximately 50% of original equipment sales for the final year.

6.4.2 Goodwill

No impairment losses were recognized against goodwill in 2019 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 2018.

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;
- 0.7-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 2019 assumptions	WACC of 10.5% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.7-pt decrease in the operating income used to calculate the terminal value	Combination of all three factors
Comfort & Driving Assistance Systems Business Group	1,682	(472)	(204)	(246)	(828)
Powertrain Systems Business Group	1,073	(470)	(185)	(284)	(840)
Thermal Systems Business Group	661	(331)	(140)	(251)	(641)
Visibility Systems Business Group	1,537	(444)	(191)	(292)	(827)

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 2019, a fall of more than 20% in 2019 sales compared to 2018, 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 December 2019. Five CGUs were selected:

- the Electrical 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 Top Column Module Product Line, which now forms a separate CGU following the Group's decision to withdraw from this business;
- the Compressors Product Group (part of the Thermal Systems Business Group).

The impairment test carried out on the Air Charging Systems CGU in 2019 led to the recognition of an impairment loss of 9 million euros in other income and expenses (see Note 4.6.2.3, page 327), reflecting the Group's decision to stop investing in this business and to focus its resources on other high potential products.

The Electronic Systems Product Group CGU was merged into the Electrical Systems Product Group CGU in 2019. The merged CGU no longer indicates any risk of impairment and is therefore no longer tested. The impairment loss recognized in 2016 was reversed during the year in an amount of 2 million euros (see Note 4.6.2.3, page 327).

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;
- 0.7-point decrease in the rate of operating income over sales used to calculate the terminal value.

The impact on this headroom of changes in key assumptions is set out in the following table for each of the five CGUs tested for impairment:

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on 2019 assumptions	WACC of 10.5% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.7-pt decrease in the operating income used to calculate the terminal value	Combination of all three factors
Electrical Systems Product Group CGU	1,157	(214)	(92)	(117)	(379)
Air Charging Systems Product Line CGU[(1)]	1	-	N/A	N/A	N/A
Active Safety Systems Product Line CGU	307	(108)	(41)	(63)	(190)
Top Column Modules Product Line CGU[(1)]	11	(4)	N/A	N/A	N/A
Compressors Product Group CGU	25	(30)	(12)	(35)	(67)

(1) The impairment tests on the Air Charging Systems Product Line CGU and the Top Column Module Product Line CGU assume a finite time period.

6.5 Off-balance sheet commitments relating to leases and investments

6.5.1 Leases

At December 31, 2019, future minimum commitments on outstanding leases excluded from the scope of IFRS 16 and on leases signed but not yet in force are as follows:

(in millions of euros)	December 31, 2019
Less than 1 year	11
1 to 5 years	68
More than 5 years	1
TOTAL	**80**

The main lease signed in 2019 but not yet in force concerns a turnkey commercial lease for the new Group headquarters in Paris, which is still under construction. The lease represents an estimated commitment of 62 million euros.

The reconciliation between future minimum lease payments on IAS 17 operating leases at December 31, 2018 (which amounted to 474 million euros) and the lease liability recognized under IFRS 16 at January 1, 2019 is presented in Note 1.1.1, pages 305 to 308.

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6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 565 million euros at December 31, 2019, versus 718 million euros at December 31, 2018, as well as other commitments relating to operating activities in the amount of 22 million euros.

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, 2019	December 31, 2018
Property, plant and equipment	1	1
Financial assets	2	2
TOTAL	**3**	**3**

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 intended to cover commercial, tax and employee-related 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 2019 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, 2019	**309**	**42**	**279**	**630**
Additions	113	19	35	**167**
Amounts utilized during the year	(114)	(16)	(41)	**(171)**
Reversals	(44)	-	(31)	**(75)**
Changes in scope	-	-	-	**-**
Reclassifications[1]	-	-	(39)	**(39)**
Translation adjustment and other movements	2	-	-	**2**
PROVISIONS AT DECEMBER 31, 2019	**266**	**45**	**203**	**514**
Of which current portion (less than one year)	114	22	65	**201**

(1) Further to the application of IFRIC 23, an amount was reclassified from "Other provisions" to "Taxes payable" (see Note 1.1.1, pages 305 to 308).

In 2019, the Group did not recognize any other individually material income items offsetting expected outflows of resources in respect of the other provisions mentioned above.

At December 31, 2019 and 2018, provisions break down as follows:

(in millions of euros)		December 31, 2019	December 31, 2018
52%	Provisions for product warranties	266	309
9%	Provisions for restructuring costs	45	42
6%	Provisions for tax-related disputes	30	73
3%	Provisions for environmental risks	14	15
4%	Provisions for onerous contracts	25	45
26%	Provisions for employee-related and other disputes	134	146
	PROVISIONS FOR OTHER CONTINGENCIES	**514**	**630**

Provisions for employee-related and other disputes, which totaled 134 million euros at December 31, 2019, 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 advice of the Group's legal counsel, the provisions deemed necessary were set aside to cover the estimated outflows of resources, taking into account any compensation agreements signed between the various stakeholders.

In its decision of November 20, 2018, the Nancy Administrative Court of Appeal ordered the French Ministry of Labor to list the Reims site as a facility which may give rise to rights to benefits under the French early retirement scheme for asbestos workers (*Allocation de Cessation Anticipée d'Activité des Travailleurs de l'Amiante* – ACAATA). The site was added to the list on January 7, 2020 and the impacts of the decision are reflected in the Group's financial statements.

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 related to components and systems supplied to the automotive industry.

In the United States, the Department of Justice and Valeo's Japanese subsidiary, Valeo Japan Co. Ltd, reached a settlement of the Department of Justice's investigation into conduct involving climate control products on September 20, 2013 as part of which Valeo Japan Co. Ltd agreed to pay a fine of 13.6 million US dollars. This settlement 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. Separately, the Department of Justice investigated conduct involving access mechanism products, but granted Valeo amnesty and so did not fine Valeo for this conduct.

Also in the United States, three class actions were filed by automotive dealers, direct purchasers, and automotive endpayers against Valeo Group companies with the United States District Court for the Eastern District of Michigan, for alleged antitrust violations involving the sale of climate control products. Each of these class actions was settled with court approval. Separately, Valeo reached court-approved settlement agreements in connection with two prospective actions relating to access mechanisms over which automotive dealers and end customers were threatening to file claims. Certain customers opted out of the aforementioned US settlement agreements, and Valeo has reached settlements with some of these customers.

In Europe, the European Commission issued a decision on March 8, 2017, fining certain automotive air conditioning and engine cooling suppliers for conduct involving thermal systems products. Valeo was fined a total of 26.8 million euros. On June 21, 2017, the European Commission issued a further decision fining automotive lighting system suppliers and marking an end to all its investigations involving Valeo. Valeo was among those identified by the Commission in the automotive lighting systems case, but was granted immunity and was therefore not fined.

Valeo is in contact with a number of European automakers regarding claims for damages resulting from the European Commission's proceedings. One of those, BMW on November 25, 2019, filed a complaint with the Munich Regional Court in Germany, naming Denso and Valeo and seeking compensation for alleged damages based, in Valeo's view, on unfounded claims related to conduct identified in the European Commission's March 2017 Thermal Systems decision.

In Canada, certain class actions remain ongoing.

Additional actions for damages can or may be brought further to the aforementioned antitrust investigations. The Group sets aside provisions whenever the payment of compensation is likely and can be quantified.

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 associated with 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, pages 351 to 356);
- loans and other non-current financial assets (see Note 8.1.3.1, page 356);
- cash and cash equivalents (see Note 8.1.3.2, page 357);
- derivative instruments (see Note 8.1.4, pages 358 to 364);
- other current and non-current financial assets and liabilities (see Note 8.1.5, pages 364 to 365);
- accounts and notes receivable (see Note 4.2, pages 318 to 319) and payable.

8.1.1 Fair value of financial assets and liabilities

	2019 carrying amount under IFRS 9			December 31, 2019	December 31, 2018
(in millions of euros)	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
▪ Long-term investments	-	62	170	**232**	217
▪ Long-term loans and receivables (including accrued interest)	344	-	-	**344**	295
▪ Deposits and guarantees	28	-	-	**28**	32
▪ Other non-current financial assets	6	-	-	**6**	5
▪ Hedging derivatives	-	61	-	**61**	25
▪ Trading derivatives	-	-	31	**31**	16
Assets relating to pensions and other employee benefits	-	13	-	**13**	4
Accounts and notes receivable	2,821	-	-	**2,821**	2,781
Other current financial assets:					
▪ Hedging derivatives	-	13	-	**13**	6
▪ Trading derivatives	-	-	4	**4**	7
▪ Accrued interest	-	-	3	**3**	2
Cash and cash equivalents	-	-	1,773	**1,773**	2,357
LIABILITIES					
Non-current financial liabilities:					
▪ Hedging derivatives	-	3	-	**3**	9
▪ Trading derivatives	-	-	35	**35**	7
Bonds	3,429	-	-	**3,429**	3,745
Schuldschein loan (German private placement)	547			**547**	-
Other long-term debt	634	-	-	**634**	155
Liabilities associated with put options granted to holders of non-controlling interests	-	79	-	**79**	89
Accounts and notes payable	4,762	-	-	**4,762**	4,475
Other current financial liabilities:					
▪ Hedging derivatives	-	2	-	**2**	10
▪ Trading derivatives	-	-	12	**12**	32
Short-term debt	269	-	-	**269**	900

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.

For the *Schuldschein* loan, the fair value of the fixed portion is measured by discounting future cash flows at the market interest rate at the reporting date. This method corresponds to Level 2 in the fair value hierarchy.

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, 2019			December 31, 2018		
(in millions of euros)	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	1,773	1,773	1	2,357	2,357	1
Derivative financial instruments(1)	109	109	2-3	54	54	2-3
LIABILITIES						
Bonds	3,429	3,411	1	3,745	3,598	1
Schuldschein loan (German private placement)	547	552	2	-	-	-
Other long-term debt	634	634	2	155	155	2
LOANS RECOGNIZED AT AMORTIZED COST	**4,610**	**4,597**		**3,900**	**3,753**	
Short-term debt	269	269	1-2	900	900	1-2
Derivative financial instruments(1)	52	52	2-3	58	58	2-3
Put options granted to holders of non-controlling interests	79	79	3	89	89	3

(1) *The method used to estimate the fair value of derivative financial instruments recorded in assets and liabilities corresponds to Level 2 in the fair value hierarchy for derivatives hedging foreign currency, commodity and interest rate risks. 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.*

IFRS 13 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 credit risk on derivatives is calculated according to historical probabilities of default and a recovery rate, as observed on the market.

At December 31, 2018 and 2019, this has only a minimal impact on the Group.

8.1.2 Gross debt

Gross debt includes long-term debt, liabilities associated with put options granted to holders of non-controlling interests, and short-term debt and bank overdrafts.

At December 31, 2019, the Group's gross debt can be analyzed as follows:

	December 31, 2019			December 31, 2018		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	4,417	193	**4,610**	3,466	434	**3,900**
Put options granted to holders of non-controlling interests	20	59	**79**	17	72	**89**
Short-term debt	-	269	**269**	-	900	**900**
GROSS DEBT	**4,437**	**521**	**4,958**	**3,483**	**1,406**	**4,889**

8.1.2.1 Long-term debt

This caption primarily includes bonds, lease liabilities 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.

Lease liabilities are measured in accordance with Note 6.3, pages 341 to 344.

Analysis of long-term debt

(in millions of euros)	December 31, 2019	December 31, 2018
Bonds	3,429	3,745
Schuldschein loan (German private placement)	547	-
Lease liabilities(1)	441	32
Other borrowings	147	84
Accrued interest	46	39
LONG-TERM DEBT	**4,610**	**3,900**

(1) *The modified retrospective application of IFRS 16 – "Leases" had a 440 million euro impact on long-term debt at the transition date. Lease liabilities totaled 472 million euros at January 1, 2019 (see Note 1.1.1, pages 305 to 308).*

Change in and characteristics of long-term debt

(in millions of euros)	Bonds	*Schuldschein* loan (German private placement)	Other loans and lease liabilities	Accrued interest	Total
CARRYING AMOUNT AT DECEMBER 31, 2018	**3,745**	**-**	**116**	**39**	**3,900**
Adoption of IFRS 16	-	-	440	-	**440**
CARRYING AMOUNT AT JANUARY 1, 2019	**3,745**	**-**	**556**	**39**	**4,340**
Increases/Subscriptions	-	548	65	-	**613**
New contracts/Renewals/Modifications	-	-	53	-	**53**
Redemptions/Repayments	(350)	-	(97)	-	**(447)**
Value adjustments	25	(1)	1	-	**25**
Translation adjustment	9	-	9	-	**18**
Other movements	-	-	1	7	**8**
CARRYING AMOUNT AT DECEMBER 31, 2019	**3,429**	**547**	**588**	**46**	**4,610**

In April 2019, the Group issued a *Schuldschein* loan (a German private placement) for a nominal amount of 548 million euros, breaking down as follows:

- a 115 million euro tranche maturing in 2023 and paying a fixed coupon of 0.95%;
- a 221 million euro tranche maturing in 2023 and paying a variable coupon of 6-month Euribor (with a floor of 0%) +0.95%;
- a 90 million euro tranche maturing in 2025 and paying a fixed coupon of 1.29%;
- a 122 million euro tranche maturing in 2025 and paying a variable coupon of 6-month Euribor (with a floor of 0%) +1.15%.

The two variable-rate tranches are hedged by floored interest rate swaps (the floor only applies for the first two years), which exchange the variable coupon with a 0% floor for a fixed rate. The swaps have been classified as cash flow hedges.

In addition, the Group redeemed the 350 million euro bond issued in 2017 under the Euro Medium Term Note financing program.

At December 31, 2019, the key terms and conditions of long-term debt were as shown below:

Type	Outstanding at December 31, 2019 *(in millions of euros)*	Issuance	Maturity	Nominal *(in millions)*	Nominal amount outstanding *(in millions)*	Currency	Nominal interest rate	Other information
Convertible bond	495	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)	598	September 2017	September 2022	600	600	EUR	0.3752%	-
Bond (EMTN program)	498	January 2017	January 2023	500	500	EUR	0.625%	-
Bond (EMTN program)	648	January 2014	January 2024	700	700	EUR	3.25%	-
Bond (EMTN program)	596	June 2018	June 2025	600	600	EUR	1.5%	-
Bond (EMTN program)	594	March 2016	March 2026	600	600	EUR	1.625%	-
Schuldschein loan (German private placement)	115	April 2019	April 2023	115	115	EUR	0.95%	-
Schuldschein loan (German private placement)	220	April 2019	April 2023	221	221	EUR	6-month Euribor +0.95%	Floored swap, exchanging the variable coupon with a 0% floor for a fixed rate of -0.041%
Schuldschein loan (German private placement)	90	April 2019	April 2025	90	90	EUR	1.291%	-
Schuldschein loan (German private placement)	122	April 2019	April 2025	122	122	EUR	6-month Euribor +1.15%	Floored swap, exchanging the variable coupon with a 0% floor for a fixed rate of 0.145%
Lease liabilities	441	-	-	-	441	-	-	-
Other long-term debt(1)	193	-	-	-	193	-	-	-
LONG-TERM DEBT	**4,610**							

(1) *Other long-term debt chiefly comprises debt contracted by Ichikoh entities in an amount of 74 million euros and debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.*

At December 31, 2019, the Group had drawn an amount of 3 billion euros under its Euro Medium Term Note financing program capped at 5 billion euros (versus 3.3 billion euros drawn at December 31, 2018).

The Group also has confirmed bank credit lines with an average maturity of 3.0 years, representing an aggregate amount of 1.1 billion euros. None of these credit lines had been drawn down at December 31, 2019. These bilateral credit lines were taken out with ten leading banks with an average rating of A from S&P and A1 from Moody's.

Maturity of long-term debt

(in millions of euros)	Carrying amount	Maturity					
		< 1 year	≥ 1 year and ≤ 5 years				> 5 years
			2021	2022	2023	2024	2025 and beyond
Bonds	**3,429**	-	495	598	498	648	1,190
Schuldschein loan (German private placement)	**547**	-	-	-	335	-	212
Lease liabilities	**441**	88	76	60	56	44	117
Other borrowings	**147**	59	23	26	21	12	6
Accrued interest	**46**	46	-	-	-	-	-
LONG-TERM DEBT	**4,610**	**193**	**594**	**684**	**910**	**704**	**1,525**

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, 2019, the average maturity of Valeo's (the parent company) debt was 4 years, down from 4.6 years at December 31, 2018.

The future cash flows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2019 was used for variable-rate interest.

(in millions of euros)	Carrying amount	Contractual cash flows						
		< 1 year	≥ 1 year and ≤ 5 years				> 5 years	Total
			2021	2022	2023	2024	2025 and beyond	
Bonds	3,429	47	559	647	545	742	1,229	**3,767**
Schuldschein loan (German private placement)	547	5	5	6	340	3	214	**573**
Other long-term debt	634	193	99	86	77	56	123	**634**
LONG-TERM DEBT	**4,610**	**245**	**663**	**739**	**962**	**800**	**1,566**	**4,974**

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 covenant:

Financing agreements	Ratios	Thresholds	Ratio at December 31, 2019[(1)]
Credit lines	Consolidated net debt/consolidated EBITDA	< 3.5	1.1

(1) Calculated over 12 months.

The early repayment clauses were renegotiated with all banks to reflect the application of IFRS 16 – "Leases".

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).

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 these 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 are as follows:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	January 13, 2020	BBB-	Stable	A-3
Moody's	March 22, 2019	Baa3	Stable	P-3

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.

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 recorded in stockholders' equity as a deduction from 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, 2018	**82**	**65**	**17**
Fair value adjustments recognized against non-controlling interests	**2**	(1)	3
Fair value adjustments recognized in retained earnings	**5**	8	(3)
LIABILITIES AT DECEMBER 31, 2018	**89**	**72**	**17**
Fair value adjustments recognized against non-controlling interests	**(1)**	(1)	-
Fair value adjustments recognized in retained earnings	**(9)**	(12)	3
LIABILITIES AT DECEMBER 31, 2019	**79**	**59**	**20**

At December 31, 2019, 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, 2019, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. Marco Polo has been granted a put option which it may exercise at any time following an agreed period of one year.

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	2021	2022	2023	2024	2025 and beyond
Liabilities associated with put options granted to holders of non-controlling interests	79	59	-	20	-	-	-	-

8.1.2.3 Short-term debt

Short-term debt mainly includes credit balances with banks as well as Negotiable European Commercial Paper (NEU CP) (previously "commercial paper") issued by Valeo for its short-term financing needs. Commercial paper has a maturity of between three and six months and is valued at amortized cost.

(in millions of euros)	December 31, 2019	December 31, 2018
Negotiable European Commercial Paper	243	814
Short-term loans and overdrafts	26	86
SHORT-TERM DEBT	**269**	**900**

Valeo has a short-term Negotiable European Commercial Paper (NEU CP) financing program for a maximum amount of 2 billion euros. At December 31, 2019, a total of 243 million euros (814 million euros at December 31, 2018) had been drawn on this program.

The 26 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 associated with put options granted to non-controlling interests (see Note 8.1.2.2, pages 351 to 356), 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, pages 358 to 364).

	December 31, 2019			December 31, 2018		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	4,417	193	**4,610**	3,466	434	**3,900**
Put options granted to holders of non-controlling interests	20	59	**79**	17	72	**89**
Short-term debt	-	269	**269**	-	900	**900**
GROSS DEBT	**4,437**	**521**	**4,958**	**3,483**	**1,406**	**4,889**
Long-term loans and receivables (including accrued interest)	(336)	(8)	**(344)**	(295)	-	**(295)**
Accrued interest	-	(3)	**(3)**	-	(2)	**(2)**
Cash and cash equivalents	-	(1,773)	**(1,773)**	-	(2,357)	**(2,357)**
Derivative instruments associated with interest rate and foreign currency risks(1)	**(26)**	**5**	**(21)**	**5**	**8**	**13**
NET DEBT	**4,075**	**(1,258)**	**2,817**	**3,193**	**(945)**	**2,248**

(1) At end-December 2019 and end-December 2018, the fair value of derivative instruments associated with an item of net debt comprises the fair value of derivatives hedging financial currency risk and the fair value of derivatives hedging interest rate 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, 2019	December 31, 2018
Marketable securities	102	738
Cash	1,671	1,619
CASH AND CASH EQUIVALENTS	**1,773**	**2,357**

Cash and cash equivalents totaled 1,773 million euros at December 31, 2019, consisting of 102 million euros of marketable securities with a low price volatility risk, and 1,671 million euros in cash. Marketable securities consist solely of 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 such cases, subsidiaries' surplus cash or financing requirements are pooled and invested or funded by Valeo, the parent company. The Group has set up a cross-border, multi-currency cash pooling arrangement in euros, Hungarian forint and Czech koruna for European subsidiaries, in US dollars for US subsidiaries, and in Chinese renminbi for Chinese subsidiaries. This arrangement enables 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, 2019	December 31, 2018
Euro	2,396	2,624
US dollar	554	391
Japanese yen	89	(109)
Brazilian real	(52)	(19)
South Korean won	(116)	(117)
Chinese renminbi	(39)	(451)
Other currencies	(15)	(71)
TOTAL	**2,817**	**2,248**

8.1.4 Derivative financial instruments

The Group uses derivative financial instruments to manage and reduce its exposure to foreign exchange and commodity 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 the 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 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 financial income and expenses and are generally offset by changes in the fair value of the underlying receivables and payables. However, foreign currency hedges of foreign currency financing are designated as fair value hedges in order to be eligible for the option available under IFRS 9, whereby forward points are amortized (on a straight-line basis over the term of the hedge) and recognized in the statement of income within cost of net debt.

Foreign currency derivatives hedging highly probable future transactions that are generally material and will impact 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 margin 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

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.

The Group elected to early adopt, as of January 1, 2019, the amendments to IFRS 9, IAS 39 and IFRS 7 published by the IASB in September 2019 in the context of the interest rate benchmark reform.

These amendments enable the Group to disregard the uncertainties arising from benchmark rate reform when measuring the effectiveness of hedging relationships and/or determining whether the hedged risk is highly probable, ensuring that existing or future hedging relationships are secured until this uncertainty is no longer present.

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.

Level 2 in the fair value hierarchy is used to measure the fair value of the Group's derivative financial instruments.

Interest rate derivatives designated as hedges of borrowings indexed to a benchmark rate are presented in Note 8.1.4.3, pages 362 to 363. The impacts of the upcoming benchmark rate reform are currently being analyzed by the Group.

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, 2019 and 2018:

(in millions of euros)	Accounting classification	Nominal purchase price[(1)]	Nominal sale price[(1)]	OCI reserves	Other financial assets Non-current	Other financial assets Current	Other financial liabilities Non-current	Other financial liabilities Current	December 31, 2019 Total	December 31, 2018 Total
Forward foreign currency contracts	Cash flow hedge	791	(217)	38	31	11	-	(2)	**40**	**21**
Forward foreign currency contracts	Trading	356	(198)	-	-	1	-	(2)	**(1)**	**-**
Total operating foreign currency derivatives		**1,147**	**(415)**	**38**	**31**	**12**	**-**	**(4)**	**39**	**21**
Swaps	Fair value hedge	468	468	(4)	29	-	(1)	-	**28**	**(1)**
Swaps	Trading	228	228	-	-	3	(1)	(9)	**(7)**	**(12)**
Total financial foreign currency derivatives		**696**	**696**	**(4)**	**29**	**3**	**(2)**	**(9)**	**21**	**(13)**
Swaps - Purchases	Cash flow hedge	104	-	3	-	2	-	-	**2**	**(8)**
Total commodity derivatives		**800**	**696**	**3**	**-**	**2**	**-**	**-**	**2**	**(8)**
Floored swaps	Cash flow hedge	343	343	(1)	-	-	(2)	-	**(2)**	**-**
Cross-currency swap	Cash flow hedge	159	159	3	1	-	-	-	**1**	**-**
Cross-currency swap	Trading	14	14	-	-	-	1	(1)	**-**	**-**
Total interest rate derivatives		**516**	**516**	**2**	**1**	**-**	**(1)**	**(1)**	**(1)**	**-**
Convertible bond options	Trading	59	59	-	2	-	(2)	-	**-**	**-**
Cross options	N/A	N/A	N/A	N/A	29	-	(33)	-	**(4)**	**(4)**
Total other derivatives				**-**	**31**	**-**	**(35)**	**-**	**(4)**	**(4)**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS				**39**	**92**	**17**	**(38)**	**(14)**	**57**	**(4)**

(1) The nominal amounts of the derivatives are expressed in euros.

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 IFRS 9 – "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 IFRS 9. The principal hedging instruments used by the Group are forward purchases and sales of foreign currencies.

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.

As in 2018, the ineffective portion of these hedges of operational currency risk was not material in 2019.

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 financing program.

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, is hedged by EUR/USD currency swaps through to maturity. These swaps have been documented as fair value hedges.

The unrealized gain of 22 million euros mainly includes currency swaps relating to hedges of intragroup loans and borrowings.

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, 2019					December 31, 2018
(in millions of euros)	USD	JPY	EUR	Other currencies	Total	Total
Accounts and notes receivable	156	18	521	24	**719**	**725**
Other financial assets	350	71	111	779	**1,311**	**641**
Accounts and notes payable	(221)	(66)	(710)	(69)	**(1,066)**	**(1,091)**
Long-term debt	(1,095)	(79)	(263)	(596)	**(2,033)**	**(1,299)**
GROSS EXPOSURE	**(810)**	**(56)**	**(341)**	**138**	**(1,069)**	**(1,024)**
Forward sales	(311)	(97)	(68)	(706)	**(1,182)**	**(540)**
Forward purchases	1,056	130	79	412	**1,677**	**1,117**
NET EXPOSURE	**(65)**	**(23)**	**(330)**	**(156)**	**(574)**	**(447)**

In the table above, the EUR column represents the net euro exposure of Group entities whose functional currency is not the euro. Exposure arises chiefly on subsidiaries based in Central Europe and the Mediterranean area which are financed in euros by Valeo.

Analysis of the sensitivity of net foreign currency risk exposure

The sensitivity analysis was based on an exchange rate of 1.1234 US dollars and 121.94 Japanese yen to 1 euro at December 31, 2019 (1.145 and 125.85, respectively, at December 31, 2018).

An increase of 10% in the value of the euro against these currencies at December 31, 2019 and 2018 would have had the following pre-tax impacts:

	December 31, 2019		December 31, 2018	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Exposure to US dollar	7	(14)	(23)	(28)
Exposure to Japanese yen	2	(8)	(3)	(7)
Exposure to euro	(33)	5	(10)	(6)
TOTAL	**(24)**	**(17)**	**(36)**	**(41)**

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, 2019 would have had the opposite impacts to the ones shown above.

Remaining contractual maturities of foreign currency derivatives

The European Central Bank (ECB) closing rates and forward rates at December 31, 2019 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	2021	2022	2023	2024	2025 and beyond	Total
Forward foreign currency contracts used as hedges:								
■ Assets	43	11	6	6	9	4	7	**43**
■ Liabilities	(4)	(4)	-	-	-	-	-	**(4)**
Currency swaps used as hedges:								
■ Assets	32	3	29	-	-	-	-	**32**
■ Liabilities	(11)	(9)	(1)	(1)	-	-	-	**(11)**

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 IFRS 9.

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, 2019 and 2018 break down as follows:

(in metric tons)	December 31, 2019	December 31, 2018
Aluminum	36,536	39,158
Secondary aluminum	9,881	8,840
Copper	10,100	8,890
Zinc	588	895
Polypropylene	268	4,189
TOTAL	**57,373**	**61,972**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 3 million euros relating to existing hedges was recognized in other comprehensive income for 2019.

An unrealized loss of 8 million euros recognized in other comprehensive income in 2018 and arising on existing commodity hedges was reclassified in full to operating income in 2019.

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, 2019 and 2018:

	December 31, 2019		December 31, 2018	
(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	-	9	-	10
Impact of a 10% fall in metal futures prices	-	(9)	-	(10)

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, 2019 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	2021	2022	2023	2024	2025 and beyond	Total
Commodity derivatives:								
■ Assets	2	2	-	-	-	-	-	**2**
■ Liabilities	-	-	-	-	-	-	-	**-**

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, 2019, 99% of long-term debt (i.e., due in more than one year) was at fixed rates (91% at December 31, 2018).

In March 2019, the Group converted the 159 million euro loan granted to one of its Czech subsidiaries into Czech koruna. At the same time, the Group set up a cross currency swap in Czech koruna for the same amount and with the same maturity. The swap has been classified as a cash flow hedge.

In May 2019, a Group subsidiary in Japan converted the 1.7 billion Japanese yen loan granted to one of its Indonesian subsidiaries into Indonesian rupiah. At the same time, the Japanese subsidiary set up a cross currency swap in Indonesian rupiah for the same amount and with the same maturity. The swap has not been classified as a hedge.

The two variable-rate tranches of the *Schuldschein* loan issued in April 2019 are hedged by floored interest rate swaps, which exchange the variable coupon with a 0% floor for a fixed rate. The swaps have been classified as cash flow hedges.

The Group had no outstanding interest rate swaps at December 31, 2018.

	December 31, 2019		December 31, 2018	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
■ Loan in Czech koruna	159	1	-	-
■ Loan in Indian rupees	14	(1)	-	-
Floored interest rate swaps:				
■ *Schuldschein* loan (German private placement)	343	(2)	-	-
TOTAL LIABILITIES	**516**	**(2)**	**-**	**-**

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:

2019

	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	436	26	2,672	220	1,403	122	4,511	368	4,879
Loans	-	(8)	-	(336)	-	-	-	(344)	(344)
Accrued interest	-	(3)	-	-	-	-	-	(3)	(3)
Cash and cash equivalents	-	(1,773)	-	-	-	-	-	(1,773)	(1,773)
NET POSITION BEFORE HEDGING	**436**	**(1,758)**	**2,672**	**(116)**	**1,403**	**122**	**4,511**	**(1,752)**	**2,759**
Derivative instruments	-	-	221	(221)	122	(122)	343	(343)	-
NET POSITION AFTER HEDGING	**436**	**(1,758)**	**2,893**	**(337)**	**1,525**	**-**	**4,854**	**(2,095)**	**2,759**

2018

	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	898	436	1,654	-	1,915	-	4,467	436	4,903
Loans	-	-	-	(295)	-	-	-	(295)	(295)
Cash and cash equivalents	-	(2,357)	-	-	-	-	-	(2,357)	(2,357)
NET POSITION BEFORE HEDGING	**898**	**(1,921)**	**1,654**	**(295)**	**1,915**	**-**	**4,467**	**(2,216)**	**2,251**
Derivative instruments	-	-	-	-	-	-	-	-	-
NET POSITION AFTER HEDGING	**898**	**(1,921)**	**1,654**	**(295)**	**1,915**	**-**	**4,467**	**(2,216)**	**2,251**

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, 2019, almost all long-term debt was at fixed rates. 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, 2019		December 31, 2018	
(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	21	-	23	-

Similarly, at December 31, 2019, a sudden 1% fall in interest rates would have had the opposite impact for the same amount.

8.1.4.4 Fair value of other derivative financial instruments

At December 31, 2019, 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 2 million euros at December 31, 2019, unchanged versus end-December 2018.
- Put and call options granted by Valeo and Siemens on the creation of their joint venture:
  - 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 27 million euros at December 31, 2019 and 12 million euros at December 31, 2018;
  - 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, 2019 and 16 million euros at December 31, 2018.

  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.

Contractual maturities of other material derivative financial instruments

(in millions of euros)	Carrying amount	Contractual cash flows					
			≥ 1 year and ≤ 5 years				> 5 years
		< 1 year	2021	2022	2023	2024	2025 and beyond
Convertible bond options							
■ Assets	2	-	2	-	-	-	-
■ Liabilities	(2)	-	(2)	-	-	-	-
Put and call options relating to the Valeo-Siemens joint venture[(1)]	-						
■ Assets	27	-	27	-	-	-	-
■ Liabilities	(31)	-	(31)	-	-	-	-

(1) Options that can be exercised as from the date indicated if certain contractually specified criteria are met.

8.1.5 Other financial assets and liabilities

8.1.5.1 Other non-current financial assets and liabilities

This caption primarily includes guarantee deposits and long-term investments.

Guarantee deposits are valued at amortized cost.

Long-term investments primarily include investments in non-consolidated companies and mutual funds, which are measured at fair value.

Changes in the fair value of investments in non-consolidated companies are recorded in the statement of income, unless the investment is neither held for trading nor contingent consideration recognized by an acquirer as part of a business combination. In such cases, the Group may make an irrevocable election at initial recognition of each investment to present subsequent changes in fair value in other comprehensive income, and dividend income in the statement of income. Once this election has been made, unrealized gains and losses recognized in other comprehensive income may not subsequently be recycled to the statement of income, even in the event of disposal of the related investment.

The election described above for equity instruments is not available for mutual funds. Accordingly, changes in fair value are recognized under other financial income and expenses in the consolidated statement of income.

The fair value of securities listed on an active market is their stock market value.

Long-term investments totaled 232 million euros at end-December 2019 and can be analyzed as follows:

(in millions of euros)	2019	2018
LONG-TERM INVESTMENTS AT JANUARY 1	**217**	**172**
Acquisitions	13	43
Disposals	(8)	-
Changes in fair value recognized in equity	3	(21)
Changes in fair value recognized in income	29	22
Dividends paid by Company mutual funds	(24)	-
Translation adjustment	2	1
LONG-TERM INVESTMENTS AT DECEMBER 31	**232**	**217**

They mainly comprise investments in the following companies:

(in millions of euros)	2019	2018
Hubei Cathay China	49	47
Sino-French Innovation Fund (Cathay)	50	47
Sino-French Innovation Fund II (Cathay)	25	25
Toyota	31	25
Other long-term investments(1)	77	73
LONG-TERM INVESTMENTS AT DECEMBER 31	**232**	**217**

(1) Other investments for less than 25 million euros each in investment funds and in listed companies over which Valeo exercises neither control nor significant influence.

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, pages 318 to 319. 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, 2019, these instruments represented 119 million euros of accounts and notes receivable and 155 million euros of accounts and notes payable (102 million euros and 102 million euros, respectively, at December 31, 2018).

Valeo also operates a reverse factoring program, which has been in place since 2014. This program involves the 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)	2019	2018
Interest expense(1)	(118)	(89)
Interest income	45	23
COST OF NET DEBT	**(73)**	**(66)**

(1) Including, in 2019, finance costs for 1 million euros on undrawn credit lines and financial expenses for 4 million euros arising on discounting arrangements for accounts and notes receivable and amounts receivable under French research tax credits.

8.2.2 Other financial income and expenses

Other financial income and expenses notably include:

- the ineffective portion of 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 of 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;
- changes in the fair value of long-term investments held for trading.

(in millions of euros)	2019	2018
Net interest cost on provisions for pensions and other employee benefits(1)	(23)	(24)
Currency gains (losses)	(7)	(21)
Gains (losses) on commodity derivatives (trading and ineffective portion)	-	(1)
Gains (losses) on interest rate derivatives (ineffective portion)	(1)	-
Gains (losses) on long-term investments held for trading	29	22
Other	-	(1)
OTHER FINANCIAL INCOME AND EXPENSES	**(2)**	**(25)**

(1) See Note 5.3.4, page 332.

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)	2019	2018
Current taxes	(231)	(319)
Deferred taxes	(32)	16
INCOME TAXES	**(263)**	**(303)**

The Group recognized income tax expense of 263 million euros for 2019, corresponding to an effective tax rate of 29.4%, in particular reflecting deferred taxes recognized.

9.1.2 Tax proof

(in millions of euros)	2019	2018
NET INCOME (LOSS) BEFORE INCOME TAXES EXCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	894	**1,056**
Standard tax rate in France	34.43%	34.43%
THEORETICAL INCOME TAX EXPENSE	**(308)**	**(364)**
Impact of:		
■ Unrecognized deferred tax assets and unused tax losses (current year)	(21)	(22)
■ Recognition of previously unrecognized deferred tax assets	-	35
■ Other income tax rates	81	98
■ Utilization of prior-year tax losses	3	6
■ Permanent differences between accounting income and taxable income	1	(39)
■ Tax credits	2	2
■ *Cotisation sur la valeur ajoutée des entreprises* (CVAE)	(21)	(19)
GROUP INCOME TAX EXPENSE	**(263)**	**(303)**

- In 2019, unrecognized deferred tax assets and unused tax losses by main country chiefly relate to Germany, Brazil and China.

- The favorable 81 million euros impact relating to tax rates that are different from the standard tax rate breaks down as follows:

Country	Current tax rate(1)	2019	2018
China	25.0%	25	21
South Korea	24.2%	17	25
Poland	19.0%	10	13
United States	21.0%	11	26
Germany	27.8%	(10)	(8)
Spain	25.0%	7	7
Turkey	22.0%	6	6
Czech Republic	19.0%	2	3
Japan	31.8%	3	2
Other countries		10	3
TOTAL		**81**	**98**

(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.

- Permanent differences between accounting income and taxable income comprise withholding tax not deducted and forfeited, non-deductible interest expense and the impact of the Base Erosion and Anti-Abuse Tax (BEAT) introduced in the 2017 US tax reform.
- 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 2019 therefore includes a net expense of 21 million euros in respect of the CVAE tax (19 million euros in 2018).

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. Each entity or tax consolidation group assesses the recoverability of its tax loss carryforwards annually using future taxable profit projections covering a period of five years, prepared on the basis of medium-term business plans drawn up by Group entities and approved by General Management. Where an entity or tax consolidation group reports a net deferred tax asset position, tax loss carryforwards may generally be recognized in the statement of financial position for a maximum period of five years. 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 when 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 has 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, 2019	December 31, 2018
Loss carryforwards	715	655
Capitalized development expenditure	(357)	(293)
Pensions and other employee benefits	260	244
Other provisions	119	126
Inventories	77	67
Provisions for restructuring costs	9	7
Tooling	(1)	-
Non-current assets	(33)	(66)
Other	158	181
TOTAL DEFERRED TAXES, GROSS	**947**	**921**
Unrecognized deferred tax assets	(586)	(524)
TOTAL DEFERRED TAXES	**361**	**397**
Of which:		
▪ Deferred tax assets	437	486
▪ Deferred tax liabilities	(76)	(89)

At December 31, 2019, the main countries for which deferred tax assets were recognized in the statement of financial position for tax loss carryforwards are as follows:

(in millions of euros)	Loss carryforwards	Potential tax saving
United States	677	144
Germany[1]	272	75
France	160	25
MAIN COUNTRIES	**1,109**	**244**
Other countries		36
DEFERRED TAX ASSETS RECOGNIZED FOR TAX LOSS CARRYFORWARDS		**280**

(1) Tax loss carryforwards are recognized up to the amount of deferred tax liabilities.

For each of the above-mentioned countries, tax losses can be carried forward indefinitely.

At December 31, 2019, 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 2020 through 2024	56	(12)
Tax losses available for carryforward in 2024 and thereafter	64	(15)
Tax losses available for carryforward indefinitely	1,596	(408)
CURRENT TAX LOSS CARRYFORWARDS	**1,716**	**(435)**
Unrecognized deferred tax assets on temporary differences		(151)
TOTAL		**(586)**

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, 2019 can be analyzed as follows:

	2019	2018
NUMBER OF SHARES OUTSTANDING AT JANUARY 1	**237,287,487**	**237,924,000**
Number of treasury shares purchased/sold under the liquidity agreement(1) or delivered following the exercise of stock options or free shares granted	957,981	600,925
Number of shares purchased under the share buyback program(2)	-	(1,837,417)
Number of shares issued under employee stock ownership plans: Shares4U(3)	783,643	599,979
NUMBER OF SHARES OUTSTANDING AT DECEMBER 31	**239,029,111**	**237,287,487**
Number of treasury shares held by the Group	2,007,632	2,965,613
NUMBER OF SHARES REPRESENTING THE COMPANY'S SHARE CAPITAL AT DECEMBER 31(4)	**241,036,743**	**240,253,100**

(1) See Note 10.1.1.2, page 370.
(2) See Note 10.1.1.3, pages 370 to 371.
(3) As part of the Shares4U 2019 plan (see Note 5.3, pages 329 to 335), a 19 million euro capital increase reserved for employees took place on June 27, 2019, issuing 783,643 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 May 2, 2019, at 23.72 euros. This gave rise to 18 million euros in additional paid-in capital.
(4) At December 31, 2019 and December 31, 2018, each share had a par value of 1 euro and was fully paid up.

10.1.1.2 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, which is consistent with the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI), was signed with an investment services provider on March 21, 2019, replacing the previous liquidity agreement signed on April 22, 2004. At December 31, 2019, 100,000 shares and 14,610,641 euros had been allocated to the liquidity agreement compared with 591,500 shares and 997,523 euros at December 31, 2018.

10.1.1.3 Share buyback program

In 2018, Valeo requested the assistance of an investment services provider to meet certain objectives of its 2018 share buyback program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2017.

Pursuant to the agreement signed on March 7, 2018, the parties agreed that the investment services provider would sell a certain quantity of Valeo shares to Valeo, which undertook to acquire them at term, within the limit of 100 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 23, 2017.

Under the program, Valeo bought back a total of 1,837,417 shares in 2018. They have been 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.

The main features of the 2018 share buyback programs are as follows:

	2018 program
Date agreement took effect	March 8, 2018
Expiration date	May 29, 2018
Maximum nominal amount of buyback *(in millions of euros)*	100
Treasury shares delivered *(in number of shares)*	1,837,417
Average share price *(in euros per share)*	54.42

10.1.2 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized gain of 54 million euros (unrealized gain of 53 million euros at December 31, 2018). In 2019, this essentially reflected the rise in the value of the US dollar (29 million euros) and the Japanese yen (23 million euros), partially offset by the fall in the value of the Korean won (12 million euros) and the Turkish lira (9 million euros).

10.1.3 Non-controlling interests

Changes in non-controlling interests can be analyzed as follows:

(in millions of euros)	2019	2018
NON-CONTROLLING INTERESTS AT JANUARY 1	**807**	**719**
Share in net earnings	81	96
Dividends paid	(45)	(28)
Changes in scope of consolidation[(1)]	(21)	15
Fair value adjustments to put options granted to holders of non-controlling interests[(2)]	1	(2)
Other movements	10	(3)
Translation adjustment	2	10
NON-CONTROLLING INTERESTS AT DECEMBER 31	**835**	**807**

(1) Changes in the scope of consolidation in 2019 primarily reflect the impacts of acquiring an additional 6.1% interest in Ichikoh during the year (see Note 2.2.1, page 312).
(2) See Note 8.1.2.2, page 355.

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, 2019	December 31, 2018	2019	2018
Pyeong Hwa Company[(1)]	50	50.0	608	585
Ichikoh China Alliance entities	5.8	6.7	27	27
Other Ichikoh entities	38.8	44.9	146	140
Other individually non-material interests	N/A	N/A	54	55
NON-CONTROLLING INTERESTS			**835**	**807**

(1) Pyeong Hwa Company is our longstanding partner in Valeo Pyeong Hwa entities in South Korea and our partner in Valeo-Kapec.

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.

	2019	2018
Net income attributable to owners of the Company *(in millions of euros)*	313	546
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	238,170	237,613
BASIC EARNINGS PER SHARE *(in euros)*	**1.31**	**2.30**

	2019	2018
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	238,170	237,613
Dilutive effect from *(in thousands)*:		
▪ Stock options	59	209
▪ Free shares	1,350	1,575
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES *(in thousands of shares)*	**239,579**	**239,397**
DILUTED EARNINGS PER SHARE *(in euros)*	**1.31**	**2.28**

NOTE 11 BREAKDOWN OF CASH FLOWS

11.1 Expenses (income) with no cash effect

Expenses and income with no cash effect can be analyzed as follows in 2019 and 2018:

(in millions of euros)	2019	2018
Depreciation, amortization and impairment of fixed assets	1,425	1,143
Net additions to (reversals from) provisions	(82)	(2)
Losses (gains) on sales of fixed assets	12	11
Expenses related to share-based payment	24	3
Losses (gains) on long-term investments	(29)	(22)
Losses (gains) on previously held interests	-	36
Other losses (gains) with no cash effect	(1)	11
TOTAL	**1,349**	**1,180**

11.2 Changes in working capital

Changes in the main components of working capital in 2019 and 2018 are shown in the table below:

(in millions of euros)	2019	2018
Inventories	29	(200)
Accounts and notes receivable	(14)	124
Accounts and notes payable	248	80
Other receivables and payables	133	67
TOTAL	**396**	**71**

Accounts and notes receivable falling due after December 31, 2019, 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", pages 318 to 319 and in Note 4.5.2 "Amounts receivable under French research and CICE tax credits", page 322.

11.3 Acquisitions of investments with gain of control, net of cash acquired

The net cash inflow of 19 million euros relates mainly to the reimbursement in 2019 of a levy paid by Valeo in 2018 on behalf of the seller as part of an acquisition.

11.4 Disposals of investments with loss of control, net of cash transferred

In 2019, the Group recorded a net cash outflow of 13 million euros, chiefly relating to the additional impacts of disposals carried out in prior years (sale of the Passive Hydraulic Actuator business to the Italian group Raicam and sale of the Lighting business in Argentina).

11.5 Sale (purchase) of treasury stock

In 2018, the Group recorded a net cash outflow of 118 million euros, chiefly relating to the impact of the share buyback program implemented during the year, giving rise to a cash outflow of 100 million euros (see Note 10.1.1.3, pages 370 to 371).

11.6 Issuance and repayment of long-term debt

In 2019, the Group issued a *Schuldschein* loan, a German private placement, in a nominal amount of 548 million euro (see Note 8.1.2.1, pages 352 to 355). Repayments made on long-term borrowings primarily concerned the 350 million euro bond issued in 2017 (see Note 8.1.2.1, pages 352 to 355) and net lease liabilities recognized in accordance with IFRS 16 – "Leases" in an amount of 84 million euros.

11.7 Acquisitions of investments without gain of control

In 2019, the Group recorded a net cash outflow of 29 million euros, chiefly relating to the impacts of increasing its shareholding in Ichikoh during the first half of the year (see Note 2.2.1, page 312).

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11.8 Free cash flow and net cash flow

Free cash flow corresponds to net cash from operating activities (excluding changes in non-recurring sales of accounts and notes receivable) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets and payments for the principal portion of lease liabilities. 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 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 share capital, dividends paid, treasury share purchases and sales, interest paid and received, loan issuance 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 2019 and 2018:

(in millions of euros)	2019	2018
Gross operating cash flows	2,360	2,366
Income taxes paid	(292)	(267)
Changes in working capital	396	71
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	**2,464**	**2,170**
Net payments for purchases of intangible assets and property, plant and equipment	(1,906)	(2,025)
Net payments for the principal portion of lease liabilities(1)	(84)	-
Elimination of change in non-recurring sales of accounts and notes receivable(2)	45	16
FREE CASH FLOW	**519**	**161**
Change in non-recurring sales of accounts and notes receivable(2)	(45)	(16)
Net change in non-current financial assets(1)	(274)	(212)
Acquisitions of investments with gain of control, net of cash acquired	19	(41)
Acquisitions of investments in associates and/or joint ventures	(5)	(2)
Disposals of investments with loss of control, net of cash transferred	(13)	(7)
Acquisitions of investments without gain of control	(29)	(2)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(343)	(324)
Capital increase in cash	19	26
Sale (purchase) of treasury stock	15	(118)
Net interest paid/received	(71)	(58)
Loan issue costs and premiums	(2)	(5)
NET CASH FLOW	**(210)**	**(598)**

(1) The net cash inflow of 8 million euros in respect of lease receivables was set off against payments for the principal portion of lease liabilities.
(2) Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. An agreement spanning one or more years is drawn up for recurring transactions. Each contract is analyzed in light of IFRS 9 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, pages 318 to 319).

NOTE 12 FEES PAID TO THE STATUTORY AUDITORS

Fees paid to the Group's Statutory Auditors (excluding their network) and recognized in the consolidated statement of income for the Valeo parent company and the French subsidiaries, are as follows:

	Ernst & Young		Mazars	
(in millions of euros)	2019	2018	2019	2018
AUDIT				
Statutory audit, certification and review of the individual and consolidated financial statements	1.8	1.8	1.3	1.4
Non-audit services	-	0.1	-	0.1
TOTAL FEES	**1.8**	**1.9**	**1.3**	**1.5**

Non-audit services provided by Ernst & Young et Autres and Mazars to the Group and the entities it controls concern (i) comfort letters in connection with bond issues, and (ii) statements issued to validate information presented in expenditure reports relating to subsidized projects.

NOTE 13 LIST OF CONSOLIDATED COMPANIES

Company	December 31, 2019 Consolidation method	% interest	December 31, 2018 Consolidation method	% 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
Valeo Siemens eAutomotive France SAS	EM	50	EM	50
Spheros Climatechnics France SAS(4)	-	-	FC	100
Kuantic	EM	33	EM	33
SPAIN				
Valeo Climatización, SAU	FC	100	FC	100
Valeo España, SAU	FC	100	FC	100
Valeo Iluminación, SAU	FC	100	FC	100
Valeo Service España, SAU	FC	100	FC	100
Valeo Termico, SAU	FC	100	FC	100
ITALY				
Valeo Service Italia, SpA	FC	100	FC	100
Valeo, SpA	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 310 to 312).
(1) See Note 2.2.1, page 312.
(2) Acquisition during the year with no material impact on the consolidated financial statements.
(3) Disposals.
(4) Mergers and liquidations.
(5) 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 the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2019 Consolidation method	% interest	December 31, 2018 Consolidation method	% interest
EUROPE				
GERMANY				
Valeo Auto-Electric GmbH[(5)]	FC	100	FC	100
Valeo GmbH[(5)]	FC	100	FC	100
Valeo Holding GmbH[(5)]	FC	100	FC	100
Valeo Klimasysteme GmbH[(5)]	FC	100	FC	100
Valeo Schalter und Sensoren GmbH[(5)]	FC	100	FC	100
Valeo Service Deutschland GmbH[(5)]	FC	100	FC	100
Valeo Wischersysteme GmbH[(5)]	FC	100	FC	100
peiker acustic GmbH[(5)]	FC	100	FC	100
CloudMade Deutschland GmbH	EM	50	EM	50
Valeo Thermal Commercial Vehicles Germany GmbH[(5)]	FC	100	FC	100
Valeo Siemens eAutomotive GmbH	EM	50	EM	50
Valeo Siemens eAutomotive Germany GmbH	EM	50	EM	50
Valeo Siemens eAutomotive BSAES Holding GmbH	EM	50	EM	50
FTE Group Holding GmbH[(5)]	FC	100	FC	100
FTE Verwaltungs GmbH[(5)]	FC	100	FC	100
FTE Asia GmbH[(5)]	FC	100	FC	100
FTE automotive GmbH[(5)]	FC	100	FC	100
FTE automotive systems GmbH[(5)]	FC	100	FC	100
FTE automotive Möve GmbH[(5)]	FC	100	FC	100
gestigon GmbH[(5)]	FC	100	FC	100
Asaphus[(2)]	EM	50	-	-
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	EM	50	EM	50
CloudMade Limited	EM	50	EM	50
FTE automotive UK Limited[(4)]	-	-	FC	100
IRELAND				
Connaught Electronics Limited	FC	100	FC	100
HI-KEY Limited	FC	100	FC	100
Valeo Ichikoh Holding Limited[(1)]	FC	94.2	FC	93

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 310 to 312).
(1) See Note 2.2.1, page 312.
(2) Acquisition during the year with no material impact on the consolidated financial statements.
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Company	December 31, 2019 Consolidation method	% interest	December 31, 2018 Consolidation method	% interest
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	EM	50	EM	50
DENMARK				
FTE automotive Denmark ApS	FC	100	FC	100
SWEDEN				
Valeo Climate Control Sweden	FC	100	FC	100
FINLAND				
Valeo Thermal Commercial Vehicles Finland Oy (Ltd) (formerly Spheros-Parabus Oy)	FC	100	FC	100
NETHERLANDS				
Valeo CV (Netherlands)	FC	100	FC	100
Valeo Holding Netherlands BV	FC	100	FC	100
Valeo International Holding BV	FC	100	FC	100
Valeo Service Benelux BV(4)	-	-	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 s.r.o. (formerly Valeo Vymeniky Tepla k.s.)	FC	100	FC	100
FTE automotive Czechia s.r.o.	FC	100	FC	100
SLOVAKIA				
FTE automotive Slovakia s.r.o.	FC	100	FC	100
POLAND				
Valeo Autosystemy SpZOO	FC	100	FC	100
Valeo Electric and Electronic Systems SpZOO	FC	100	FC	100
Valeo Service Eastern Europe SpZOO	FC	100	FC	100
Valeo Siemens eAutomotive Poland SpZOO	EM	50	EM	50
HUNGARY				
Valeo Auto-Electric Hungary LLC	FC	100	FC	100
Valeo Siemens eAutomotive Hungary Kft.	EM	50	EM	50
ROMANIA				
Valeo Lighting Injection SA	FC	100	FC	100
Valeo Sisteme Termice SRL	FC	100	FC	100
RUSSIA				
Valeo Technology Rus Limited Liability Company (formerly Valeo Climate Control Tomilino LLC)	FC	100	FC	100
Valeo Service Limited Liability Company	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 310 to 312).
(1) See Note 2.2.1, page 312.
(2) Acquisition during the year with no material impact on the consolidated financial statements.
(3) Disposals.
(4) Mergers and liquidations.
(5) 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 the identified entities. They will be published in the German Federal Gazette.

	December 31, 2019		December 31, 2018	
Company	Consolidation method	% interest	Consolidation method	% interest
UKRAINE				
CloudMade Ukraine LLC	EM	50	EM	50
Spheros-Elektron TzOV	EM	20	EM	20
TURKEY				
Valeo Otomotiv Sanayi ve Ticaret AS	FC	100	FC	100
Valeo Ticari Tasitlar Termo Sistemleri AS (formerly Spheros Termo Sistemleri AS)	FC	100	FC	100
AFRICA				
TUNISIA				
DAV Tunisie SA	FC	100	FC	100
Valeo Embrayages Tunisie SA	FC	100	FC	100
Valeo Tunisie SA	FC	100	FC	100
MOROCCO				
Cablinal Maroc, SA(4)	-	-	FC	100
Valeo Vision Maroc, SA	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
Mornay Trading (Proprietary) Limited (formerly Transfrig)	FC	100	FC	100
Valeo Thermal Systems East London (Pty) Ltd(2)	FC	51	-	-
Valeo Thermal Commercial vehicles SA (Pty) Ltd (formerly Spheros SA (Pty) Ltd)	FC	100	FC	100
NORTH AMERICA				
UNITED STATES				
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.	EM	50	EM	50
ValeoThermal Commercial Vehicles North America, Inc. (formerly Spheros North America, Inc.)	FC	100	FC	100
PIAA Corp., USA(1)	FC	61.2	FC	55
Valeo Kapec North America, Inc.	FC	50	FC	50
FTE automotive USA Inc.	FC	100	FC	100
FTE automotive North America Inc.	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 310 to 312).
(1) See Note 2.2.1, page 312.
(2) Acquisition during the year with no material impact on the consolidated financial statements.
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(5) 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 the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2019		December 31, 2018	
	Consolidation method	% interest	Consolidation method	% interest
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 Mexico Tech Center, SA de CV (formerly Valeo Technical Center)	FC	100	FC	100
Valeo Thermal Commercial Vehicles Mexico, SA de CV (formerly Spheros Mexico, SA de CV)	FC	60	FC	60
peiker acustic de Mexico, SA de CV	FC	100	FC	100
Valeo Kapec, SA de CV	FC	50	FC	50
FTE Mexicana, SA de CV	FC	100	FC	100
SOUTH AMERICA				
BRAZIL				
Valeo Sistemas Automotivos Ltda	FC	100	FC	100
Valeo climatizacao do Brasil – veiculos comerciais S/A (formerly Spheros Climatização do Brasil S/A)	FC	60	FC	60
Reparts Comercia de Peças para veiculos Ltda (formerly Reparts Industria E Comercio de Peças para veiculos Ltda)	FC	60	FC	60
Setbus Soluções Automotivas Eireli	FC	60	FC	60
FTE Indústria e Comércio Ltda(4)	-	-	FC	100
ARGENTINA				
Emelar Sociedad Anonima	FC	100	FC	100
Valeo Embragues Argentina, SA	FC	100	FC	100
Valeo Termico Argentina, SA(4)	-	-	FC	100
Valeo Climatizacion de vehiculos comerciales SAS	FC	100	FC	100
COLOMBIA				
Spheros Thermosystems Colombia SAS	FC	60	FC	60
ASIA PACIFIC				
THAILAND				
Valeo Automotive (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(4)	-	-	FC	74.9
Valeo Comfort and Driving Assistance Systems (Thailand) Ltd	FC	100	FC	100
Ichikoh Industries (Thailand) Co. Ltd(1)	FC	61.2	FC	55

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 310 to 312).
(1) See Note 2.2.1, page 312.
(2) Acquisition during the year with no material impact on the consolidated financial statements.
(3) Disposals.
(4) Mergers and liquidations.
(5) 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 the identified entities. They will be published in the German Federal Gazette.

	December 31, 2019		December 31, 2018	
Company	Consolidation method	% interest	Consolidation method	% interest
SOUTH KOREA				
Valeo Automotive Korea Co. Ltd	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	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	FC	50	FC	50
PHVS Co. Ltd	FC	49	FC	49
INDONESIA				
PT Valeo AC Indonesia	FC	100	FC	100
PH Asean Transmission (formerly VPH Indonesia Ltd)	FC	50	FC	50
PT. Ichikoh Indonesia(1)	FC	61.2	FC	55
MALAYSIA				
Valeo Malaysia SDN BHD	FC	100	FC	100
Ichikoh (Malaysia) SDNBHD(1)	FC	42.8	FC	38.6
Valeo Malaysia CDA SDNBHD	FC	100	FC	100
Spheros SDN BHD	FC	100	FC	100
UNITED ARAB EMIRATES				
Valeo Thermal Commercial Vehicles Middle East FZE (formerly Spheros Middle East FZE)	FC	100	FC	100
HONG KONG				
Spheros Ltd	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)	FC	100	FC	100
JAPAN				
Ichikoh Industries Limited(1)	FC	61.2	FC	55.1
Life Elex. Inc.(1)	FC	36.2	FC	32.6
Kyushu Ichikoh Industries Ltd(1)	FC	61.2	FC	55.1
Hakuden Ltd(1)	FC	61.2	FC	55.1
Misato Industries Ltd(1)	FC	61.2	FC	55.1
PIAA Corporation(1)	FC	61.2	FC	55.1
Valeo Japan Co. Ltd	FC	100	FC	100
Valeo Kapec Japan K,K (formerly Valeo Unisia Transmissions K.K.)	FC	50	FC	50
Cloud Made Japan	EM	50	EM	50
Nitto Manufacturing Co. Ltd	FC	98.0	FC	98.0

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 310 to 312).
(1) See Note 2.2.1, page 312.
(2) Acquisition during the year with no material impact on the consolidated financial statements.
(3) Disposals.
(4) Mergers and liquidations.
(5) 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 the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2019		December 31, 2018	
	Consolidation method	% interest	Consolidation method	% interest
CHINA				
Faw-Valeo Climate Control Systems Co. Ltd	EM	36.5	EM	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd(1)	FC	94.2	FC	93.3
Fuzhou Niles Electronic Co. Ltd(4)	-	-	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	37.5	FC	37.5
Shanghai Valeo Automotive Electrical Systems Company Ltd	EM	50	EM	50
Shenyang Valeo Auto Lighting Co. Ltd(1)	FC	94.2	FC	93.3
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	FC	50	FC	50
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)	FC	50	FC	50
Valeo Engine Cooling (Foshan) 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(1)	FC	94.2	FC	93.3
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(1)	FC	94.2	FC	93.3
Valeo Management (Beijing) Co. Ltd	FC	100	FC	100
Valeo Management (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Comfort Driving Assistance Systems (Guangzhou) 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(1)	FC	94.2	FC	93.3
Wuxi Valeo Automotive Components and System Co. Ltd	FC	100	FC	100
Changshu Valeo Automotive Wiper System Co. Ltd	FC	73	FC	73
Shanghai VPHI Co. Ltd	FC	50	FC	50
Valeo ePowertrain (Shenzhen) Co. Ltd	EM	50	EM	50
Valeo Siemens eAutomotive Shanghai Co. Ltd	EM	50	EM	50

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 310 to 312).
(1) See Note 2.2.1, page 312.
(2) Acquisition during the year with no material impact on the consolidated financial statements.
(3) Disposals.
(4) Mergers and liquidations.
(5) 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 the identified entities. They will be published in the German Federal Gazette.

Company	December 31, 2019		December 31, 2018	
	Consolidation method	% interest	Consolidation method	% interest
Beijing Valeo Siemens Automotive E-Drive Systems Co. Ltd Changzhou	EM	30	EM	30
Foshan Valeo Electronic Auto Parts Co. Ltd	FC	100	FC	100
Valeo Thermal Commercial Vehicles System (Suzhou) Co. Ltd (formerly Spheros (Suzhou) Co. Ltd)	FC	100	FC	100
Spheros (Yangzhou) Limited	FC	100	FC	100
peiker (Shanghai) Automotive Technology Co. Ltd	FC	100	FC	100
Ichikoh (Wuxi) Automotive Parts Co. Ltd(1)	FC	61.2	FC	55
Roncheng Life(1)	EM	11.3	EM	10
Valeo Powertrain (Nanjing) Co. Ltd	FC	100	FC	100
Valeo Powertrain (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Siemens eAutomotive (Tianjin) Co. Ltd	EM	50	EM	50
Valeo Siemens eAutomotive (Changshu) Co. Ltd	EM	50	EM	50
APG-FTE automotive Co. Ltd	EM	49	EM	49
Fawer Valeo Siemens eAutomotive	EM	24.8	EM	24.8
FTE automotive (Taicang) Co. Ltd	FC	100	FC	100
Suzhou Valeo PyeongHwa Dongfeng Clutch CO, Ltd(2)	FC	26.3	-	-
INDIA				
Amalgamations Valeo Clutch Private Ltd	EM	50	EM	50
Valeo Friction Materials India Ltd	FC	60	FC	60
Valeo India Private Ltd	FC	100	FC	100
Valeo Service India Auto Parts Private Ltd	FC	100	FC	100
Valeo Motherson Thermal Commercial Vehicles India Ltd (formerly Spheros Motherson Thermal Systems Ltd)	EM	51	EM	51

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 310 to 312).
(1) See Note 2.2.1, page 312.
(2) Acquisition during the year with no material impact on the consolidated financial statements.
(3) Disposals.
(4) Mergers and liquidations.
(5) 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 the identified entities. They will be published in the German Federal Gazette.

5.4.7 Statutory auditors' report on the consolidated financial statements

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 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 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, 2019.

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, 2019 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, 2019 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.

Emphasis of Matter

We draw attention to the following matter described in Note 1.1.1 to the consolidated financial statements outlining the change in accounting method relating to IFRS 16 – "Leases". Our opinion is not modified in respect of this matter.

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 at December 31, 2019, goodwill amounted to 2,571 million euros and other intangible assets and properties, plants and equipment amounted to 8,040 million euros.

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 presented in Notes 6.1, 6.2, 6.3 and 6.4 of the consolidated 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, is 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 perpetuity growth rate), which we compared with the values provided by the main financial analysts;
- evaluated the impact of variations in discount rate and perpetuity growth 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 of the consolidated financial statements.

Evaluation of the share in the joint venture VSeA

Risk identified

As at December 31, 2019, your Company has an investment in the joint venture Valeo Siemens eAutomotive ("VSeA"), which is accounted for using the equity method.

As described in Note 4.5.3.3. of the consolidated financial statements, the share in net losses of the joint venture being higher than the net carrying amount of its investment, the Group allocates them to other elements of its share in the joint venture applying IAS 28. As such, for the year 2019, 242 million euros were allocated to the long-term loans granted by the Group to the joint venture.

Through the expertise of an external expert, Valeo management conducts an evaluation of these financial assets, to assess their recoverability. The preferred method for this evaluation and the hypothesis of discount rate are presented in Notes 4.5.3.3 of the consolidated financial statements.

We considered the evaluation of the share in the joint venture VSeA and the recoverability of the related financial assets to be a key audit matter as they are based on the discounted value of future cash flows and are, as such, based on significant estimates, judgments and assumptions of the management.

Our response

With the help of the auditors of the joint venture, we:

- conducted an analysis of the business plan prepared by the management of the joint venture, including by comparing with the financial performance of the fiscal year and with the previous business plans and conducted an analysis of the main underlying assumptions by conducting interviews with the management of the joint venture;
- evaluated the consistency of the cash flow projections with the latest estimates of the management of the joint venture, as they were reported to the board of directors of the joint venture during the preparation process of the medium-term business plan.

Through the expertise of our valuation specialists, we:

- reconciled the net carrying amount of the assets related to the joint venture VSeA with the consolidated accounts;
- conducted an analysis of the main underlying assumptions of the business plan by conducting interviews with your Company's management;
- examined the valuation method of the recoverable value and corroborated the result with another valuation method also based on the discounted value of future cash flows;
- analyzed the main valuation hypotheses (discount rate and perpetuity growth rate), which we compared with the values used for the Group;
- evaluated the impact of variations in discount rate, normative operating margin and normative investment outflow through sensitivity analyses.

Finally, we assessed the content of the disclosures in the consolidated financial statements regarding the impairment losses on goodwill and CGUs' assets in Note 4.5.3.3 of the consolidated financial statements.

Provisions for specific quality risks

Risk identified

Provisions for customer warranties are set aside to cover the estimated cost of future returns of the 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 of the consolidated financial statements.

We considered the evaluation of provisions for specific quality risk to be a key audit matter as it requires significant estimates and judgments of management.

Our response

We got acquainted with the identification and assessment process of these provisions.

As part of our audit work we also:

- examined the Group's valuation methodology;
- 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 the site financial controllers and by examining the Group's internal reporting procedures;
- 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 the site financial controllers and with the financial direction of the Business Groups on specific quality risks, in order to assess the main hypotheses underlying the estimation of the risk.

Finally, we assessed the content of the disclosures in the financial statements regarding the customer's warranties provisions in Note 7.1 of the consolidated financial statements.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to their fair presentation and their consistency with the consolidated financial statements.

We attest that the consolidated non-financial statement required by article L. 225-102-1 of the French Commercial Code (*Code de commerce*) is included in the Group's information given in the management report, it being specified that, in accordance with article L. 823-10 of this Code, we have verified neither the fair presentation nor the consistency with the consolidated financial statements of the information contained therein. This information should be reported on by an independent third party.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

- We were appointed as statutory auditors of Valeo by the Annual General Meeting held on June 3, 2010.
- As at December 31, 2019, our firms were in the tenth 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 to the Audit Committee a report 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) 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, February 20, 2020

The Statutory Auditors
French original signed by

MAZARS		ERNST & YOUNG et Autres	
Thierry Colin	Jean-Marc Deslandes	Jean-François Ginies	Guillaume Rouger

5.5 Analysis of Valeo's results AFR

Following the creation of subsidiaries for its industrial activities in 2002, Valeo SA 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 42 million euros in 2019, compared to net operating income of 4 million euros in 2018. The decrease is almost entirely due to the cost of stock purchase option and free share plans. Income from brand royalties billed to subsidiaries remained stable year on year.

An amount of 15 million euros was set aside during the year to the provision for charges relating to stock purchase option and free share plans, compared to a net reversal of 51 million in 2018. Expenses recognized in respect of the net carrying amount of treasury shares delivered in the year decreased by 22 million euros in 2019. The overall increase of 44 million euros in the net cost of stock purchase option and free share plans chiefly results from the change in the reference period used to assess performance criteria for the March 22, 2017 and March 22, 2018 free share plans, which led to an 18 million euro accrual to the provision in 2019. In 2018, Valeo had written back an unutilized provision for 17 million euros following changes in the number of shares it expected to remit to beneficiaries under its May 26, 2016 free share plan.

Net financial income came in at 311 million euros for 2019, up 87 million euros on 2018 (224 million euros). Dividends received or receivable by the Company rose sharply, to 234 million euros from 143 million euros one year earlier. In 2019, Valeo collected 200 million euros in dividends from its holding company, Valeo International Holding BV, compared to 115 million euros in 2018. Net financial income also includes a 72 million euro net addition to the impairment provision for investments in subsidiaries and affiliates, compared to a net addition of 35 million euros in 2018. Valeo's cash management activities generated a 23 million euro rise in net interest income in 2019.

Non-recurring items represented an expense of 1 million euros in the year. No non-recurring items were recognized in 2018.

Income tax for 2019 represented a tax benefit of 14 million euros arising on tax consolidation, a decrease of 16 million euros on 2018.

Net income came in at 282 million euros for 2019, compared with 258 million euros in 2018.

At December 31, 2019, Valeo's stockholders' equity stood at 3,796 million euros, stable compared with the end-2018 figure (3,792 million euros). This 4 million euro net increase reflects net income of 282 million euros for the year, the 19 million euro share capital increase reserved for employees as part of the Group's 2019 employee share ownership plan (Shares4U), and the June 2019 payment to shareholders of a dividend totaling 297 million euros in respect of 2018 earnings. Valeo paid 296 million euros in dividends in 2018.

The employee share subscription offers, available since 2016 for employees in the Group's main countries, are 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 2019. No overheads were added back to income for tax purposes in the year.

At December 31, 2019, trade payables due by that date excluding accrued payables totaled 1 million euros. At December 31, 2018, trade payables due by that date also totaled 1 million euros.

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, 2019.

Trade payables

	Article D.441 I. – 1° of the French Commercial Code: Outstanding incoming invoices as of December 31, 2019					
(in thousands of euros)	0 days (indicative)	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	9	17	10	2	20	49
Total amount of invoices (incl. VAT)	676	235	80	69	8	392
Percentage of total amount of purchases over the period (incl. VAT)	3.2%	1.1%	0.4%	0.3%	0.0%	1.9%
(B) INVOICES EXCLUDED FROM (A) RELATING TO DISPUTED OR UNRECOGNIZED PAYABLES AND RECEIVABLES						
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

	Article D.441 I – 2° of the French Commercial Code: Outstanding outgoing invoices as of December 31, 2019					
(in thousands of euros)	0 days (indicative)	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	9	1	1	-	7	9
Total amount of invoices (incl. VAT)	1,577	3	3	0	36	42
Percentage of total sales over the period (incl. VAT)	4.2%	0.0%	0.0%	0.0%	0.1%	0.1%
(B) INVOICES EXCLUDED FROM (A) RELATING TO DISPUTED OR UNRECOGNIZED PAYABLES AND RECEIVABLES						
Number of invoices excluded	None					
Total amount of invoices excluded	None					
(C) STANDARD PAYMENT TERMS USED						
Payment terms used to calculate late payments	Contractual and statutory terms of 0 to 60 days					

Covid-19

The drop in business activity linked to the Covid-19 pandemic began to impact Valeo's plants in Europe and North America in the last two weeks of March 2020. Based on the production shutdowns put in place by each of its carmaker customers, and in compliance with regulatory measures taken in each country where the Group has operations, Valeo has adapted its production capacity:

- firstly, in China, where all 34 Valeo plants have gradually begun to resume production since February 10, 2020. In March, sales reached 60% of their 2019 level and should be back to normal in the coming months;
- since mid-March 2020, European plants have adapted their production to customer demand and have also gradually shut down production, except at sites that manufacture goods for export;
- in North America, plants have progressively shut down based on customer decisions to shut down production.

To address this situation, Valeo has adopted the following measures:

- variabilization of costs across all plants, particularly through short-time working arrangements;
- variabilization of costs for support activities such as R&D and at administrative centers;

- drastic reduction of all investments and costs not essential for business continuity;
- strict daily monitoring of the Group's cash position.

A reinforced safety protocol designed to guarantee the utmost protection for Group employees has been adopted worldwide across all plants, R&D centers and other Group facilities.

In terms of cash flow, the Group has 2.3 billion euros in undrawn credit lines, enabling it to withstand any prolongation of the current crisis. This cash position demonstrates that the use of the going concern basis of accounting by the Company was appropriate at the 2019 reporting date.

Once the health situation stabilizes, the Group remains confident in its ability to maintain its growth momentum by leveraging its industrial expertise and the innovations generated through its research.

5.6 2019 parent company financial statements AFR

In accordance with Article 28 of Commission Regulation (EC) no. 809/2004 dated April 29, 2004, the following information is incorporated by reference in this Universal Registration Document:

- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2018, set out on pages 376 to 397 and 398 to 401 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2019 under number D.19-0224;
- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2017, set out on pages 381 to 404 and 405 to 408 of the Registration Document registered with the AMF on March 29, 2018 under number D.18-0208.

5.6.1 Income statement

(in millions of euros)	*Notes*	**2019**	**2018**
Provision reversals	*3.1.2*	22	69
Other operating income	*4.1.1*	31	36
Expense transfers	*4.1.2*	2	2
TOTAL OPERATING INCOME		**55**	**107**
Other purchases and external charges	*4.1.3*	(23)	(24)
Personnel expenses	*3.2*	(25)	(48)
Other taxes		(1)	(2)
Depreciation and amortization	*4.1.4*	(11)	(11)
Provisions	*3.1.2*	(37)	(18)
TOTAL OPERATING EXPENSES		**(97)**	**(103)**
OPERATING INCOME (LOSS)		**(42)**	**4**
Net financial income	*7*	311	224
INCOME BEFORE TAX AND NON-RECURRING ITEMS		**269**	**228**
Non-recurring income (expense)		(1)	-
Income tax	*8.2*	14	30
NET INCOME FOR THE YEAR		**282**	**258**

The Notes are an integral part of these financial statements.

5.6.2 Balance sheet

(in millions of euros)	*Notes*	December 31, 2019 Gross	December 31, 2019 Depr., amort. & impairment losses	December 31, 2019 Net	December 31, 2018 Net
ASSETS					
Intangible assets		-	-	-	-
Property, plant and equipment		5	(4)	1	1
Long-term financial assets	*5*	8,188	(531)	7,657	7,534
TOTAL NON-CURRENT ASSETS		**8,193**	**(535)**	**7,658**	**7,535**
Prepaid and recoverable taxes	*8.4/10.1*	23	-	23	92
Other operating receivables		2	-	2	13
Financial receivables	*6.1.4*	2,892	-	2,892	1,981
Marketable securities and cash and cash equivalents	*6.1.5*	1,406	-	1,406	1,561
Accrued assets	*4.2.2*	53	-	53	89
TOTAL CURRENT ASSETS		**4,376**	**-**	**4,376**	**3,736**
TOTAL ASSETS		**12,569**	**-**	**12,034**	**11,271**

(in millions of euros)	*Notes*	December 31, 2019	December 31, 2018
EQUITY AND LIABILITIES			
Share capital	*9.1*	241	240
Additional paid-in capital	*9.2*	1,531	1,513
Legal reserve		25	25
Untaxed reserves		4	4
Other reserves		263	263
Retained earnings		1,450	1,489
Net income for the year		282	258
STOCKHOLDERS' EQUITY	*9*	**3,796**	**3,792**
Provisions for contingencies arising on stock purchase option and free share plans	*3.1.2*	75	60
Provisions for pensions and other employee benefits	*3.3*	1	1
Other provisions for contingencies and charges	*4.2.1*	39	15
PROVISIONS FOR CONTINGENCIES AND CHARGES		**115**	**76**
Long-term portion of long-term debt	*6.1.2*	4,060	3,502
Current portion of long-term debt	*6.1.2*	40	388
Short-term debt	*6.1.3*	3,722	3,213
Operating payables	*10.1*	7	6
Other payables	*8.5/10.1*	291	294
Accrued liabilities		3	-
TOTAL LIABILITIES		**8,123**	**7,403**
TOTAL EQUITY AND LIABILITIES		**12,034**	**11,271**

The Notes are an integral part of these financial statements.

5.6.3 Statement of cash flows

(in millions of euros)	*Notes*	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		282	258
Expenses (income) with no cash effect:			
▪ depreciation and amortization/deferred charges		21	20
▪ net additions to/(reversals from) impairment and provisions		81	(10)
▪ other expenses (income) with no cash effect			-
GROSS OPERATING CASH FLOWS		**384**	**268**
Changes in working capital:			
▪ operating receivables		80	31
▪ operating payables		-	(10)
▪ other receivables and payables		35	(5)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**499**	**284**
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposals of intangible assets		-	1
Acquisitions and capital increases in long-term financial assets	*5.2*	-	(20)
Change in loans and advances to subsidiaries and affiliates(1)	*5.2*	(172)	(2,322)
Disposals and capital decreases in long-term financial assets	*5.2*	-	1
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(172)**	**(2,340)**
NET CASH GENERATED (USED) BEFORE FINANCING ACTIVITIES		**327**	**(2,056)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	*9.4*	(297)	(296)
Change in share capital:			
▪ issuance of shares paid up in cash		19	26
Change in long-term debt:			
▪ issuance of long-term debt	*6.1.2*	548	623
▪ repayment of long-term debt	*6.1.2*	(350)	(295)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**(80)**	**58**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**247**	**(1,998)**
Cash and cash equivalents at beginning of year	*6.1.1*	**329**	**2,327**
Cash and cash equivalents at end of year	*6.1.1*	**576**	**329**

(1) Changes in this item reflect the conversion of current account advances – previously included in financial receivables – into long-term loans (see Note 5.2, page 400).

The Notes are an integral part of these financial statements.

5.6.4 Notes to the parent company financial statements

NOTE 1 DESCRIPTION OF THE COMPANY

Valeo is a French *société anonyme* (joint-stock corporation) whose registration number (SIREN) is 552 030 967. The Company's registered office is at 43 rue Bayen, 75017 Paris, France.

Valeo SA is the parent company of the Valeo Group and the head of the tax consolidation group in France.

It acts as a holding company through financial investments, which give it direct or indirect control over the Group's companies.

It also implements the Group financing policy and ensures that the subsidiaries' financing requirements are covered. It centralizes the management of market risks (changes in interest rates, exchange rates and listed commodity prices) to which Valeo and its subsidiaries 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. 2018-01 of April 20, 2018, amending 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 principles and policies applied in order to prepare the 2019 parent company financial statements are consistent with those used to prepare the 2018 financial statements.

The financial statements are presented in millions of euros and are rounded to the nearest million.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets and liabilities for both Valeo and its subsidiaries and affiliates. These estimates and assumptions concern risks specific to the automotive supply business as well as more general risks to which Group companies are exposed on account of their industrial and commercial operations around the globe. The Group based the medium-term business plans and budgets on projected data for the automotive market, as well as its order intake and its outlook for new markets and new technologies. These business plans and budgets were used to measure investments in subsidiaries and affiliates (when these measurements are based on subsidiaries' projected data).

The medium-term business plan for 2020-2024 is underpinned by the following assumptions:

- global automotive production, excluding commercial vehicles in China, of 91 million in 2022 and 96 million in 2024, representing average annual growth of 2.1% for 2019-2022 and 2.4% for 2019-2024. This assumption is consistent with several independent external forecasts. At the end of the period covered by the business plan, Asia and the Middle East should represent 53% of global production, Europe and Africa 25%, North America 18% and South America 4%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.25 US dollars, 9.00 Chinese renminbi, 134 Japanese yen, 1,400 South Korean won and 4.75 Brazilian real at the end of the plan;
- Group sales are forecast based on the orders known at the time the business plan is 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 around 25% of cumulative original equipment sales over the five-year forecast period and less than 50% 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 the year-end to the extent of the unhedged risk. If foreign currency hedges are in place (see Note 6.3, pages 404 to 406), gains and losses on the derivatives help offset the remeasurement of foreign currency assets and liabilities at the year-end exchange rate.

NOTE 3 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

3.1 Free shares and stock purchase options

Some Valeo Group employees of its direct and indirect subsidiaries receive equity-settled compensation, consisting of free share or stock purchase option plans. Substantially 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 issuance 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 9.1, page 408 fall within this category.

3.1.2 Free share and stock purchase option plans involving the delivery of existing shares

Personnel expenses relating to these free shares and stock purchase options are not recorded at the grant date but at the date the free shares are delivered or the stock purchase options are exercised. However, a provision for contingencies and charges is recognized when it is probable that there will be an outflow of resources, i.e., 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:

- it is considered unlikely that the stock purchase option plan beneficiaries will exercise their options, i.e., because the market value of the shares is lower than the option's exercise price;
- performance and presence conditions are highly unlikely to be met for free share plans.

In the case of exercisable plans, a provision is recognized for treasury shares set aside to cover these plans, corresponding to:

- the number of shares to be allotted; multiplied by
- the cost of the shares at the date they are allocated to the plan, or the probable cost of buying back the shares as assessed at the end of the reporting period, less the exercise price likely to be paid by employees. The exercise price is zero for free share 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 changes depending on whether or not treasury shares have been allocated to the relevant stock purchase option or free share plans. These treasury shares are recognized within marketable securities in the balance sheet (see Note 6.1.5, pages 402 to 403) at their repurchase price. When they are allocated to specific plans as from the acquisition date, the value of the shares in the balance sheet continues to be their repurchase price, until they are delivered to the beneficiaries: no impairment is therefore recognized if their acquisition price moves above their market price.

More generally, amounts set aside to these provisions for contingencies and charges are shown on the "Provisions" line within operating 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 purchase option and free share plans" in the balance sheet.

Movements in these provisions and in personnel expenses relating to the plans are set out below.

5

Terms and conditions of stock purchase option plans

The terms and conditions of the shareholder-approved employee stock purchase option plan operated by the Valeo Group and outstanding at December 31, 2019 were as follows:

Year in which plan was set up	Number of options authorized	*of which subject to conditions*[(1)]	Exercise price *(in euros)*[(2)]	Outstanding options not yet exercised at Dec. 31, 2019	Expiration date
2012	1,101,480	*795,690*	13.59	82,150	2020

(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 allotting the options, or 100% of the average purchase price of treasury shares held if this is higher than the Valeo quoted share price.

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, 2019 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, 2019	Year of vesting[(2)]
2014	970,440	*316,770*	3,000[(3)]	2017/2019
2015	957,027	*260,805*	379,260	2018/2020
2016	1,267,022	*573,522*	216,676[(4)]	2019/2021
2017	1,012,043	*466,551*	628,489	2020/2021/2022
2018	1,234,623	*570,123*	835,659	2021/2022/2023
2019	1,699,281	*1,049,381*	1,406,951	2022/2024
TOTAL	**7,140,436**	***3,237,152***	**3,470,035**	

(1) These free shares are subject to the Group meeting performance conditions over the three years following their allotment, with the exception of the 2017 and 2018 plans, for which it has been decided that the assessment period for the performance conditions subject to which the performance shares will vest to their beneficiaries will only be effective after a period of four years following their allotment, with no holding period.
(2) The year of vesting varies depending on the country in which the beneficiaries of plans set up prior to 2019 are resident. For the 2019 plan, only free shares allotted to the Chairman and Chief Executive Officer are subject to a two-year holding period.
(3) These free shares will be remitted in 2020.
(4) All free shares that were subject to the Group meeting performance conditions set out in this plan have been canceled.

Provisions for contingencies arising on stock purchase option and free share plans

Movements in provisions for contingencies arising on stock purchase option and free share plans in 2018 and 2019 were as follows:

(in millions of euros)	2019	2018
PROVISIONS AT JANUARY 1	**60**	**111**
Utilizations	(20)	(46)
Reversals	(2)	(23)
Additions	37	18
PROVISIONS AT DECEMBER 31	**75**	**60**
Of which current portion (less than 1 year)	*24*	*21*

At December 31, 2019 and 2018, these contingency provisions solely concern treasury shares held to cover stock option and free share plans, shown within marketable securities (see Note 6.1.5, pages 402 to 403).

The provision utilization in 2019 mainly reflects (i) a 19 million euro reversal relating to the delivery of shares to non-French beneficiaries under the 2014 free share plan, to French beneficiaries under the 2016 free share plan and to Spanish and Italian beneficiaries under the 2016 employee share ownership plan (Shares4U), and (ii) a 1 million euro reversal relating to the exercise of stock purchase options under the March 27, 2012 stock purchase option plan.

The increase in additions to provisions in 2019 compared to the previous year reflects the provision accrued in respect of performance shares relating to the March 22, 2017 and March 22, 2018 free share plans following changes made by the Board of Directors to the conditions of these awards on May 23, 2019.

In 2018, the 46 million euro provision utilization recognized in the income statement mainly reflected a (i) 44 million euro reversal relating to the delivery of shares to French beneficiaries under the March 26, 2015 free share plan and the delivery of shares to non-French beneficiaries under the March 27, 2013 free share plan, and (ii) a 2 million euro reversal relating in particular to the exercise of stock purchase options under the March 27, 2012 stock purchase option plan. The 23 million euro reversal related mainly to the fact that the performance shares awarded under the May 26, 2016 and March 22, 2017 plans were considered non-exercisable.

3.2 Personnel expenses

(in millions of euros)	2019	2018
Employee compensation	(1)	(2)
Other personnel expenses	(24)	(46)
PERSONNEL EXPENSES	**(25)**	**(48)**

3.2.1 Employee compensation

This item includes compensation awarded to Valeo's Chairman and Chief Executive Officer (see Note 3.4, page 397).

3.2.2 Other personnel expenses

In 2019, the Company delivered 342,615 shares to non-French beneficiaries under the 2014 free share plan, 63,785 shares to French beneficiaries under the 2016 free share plan, and 14,703 shares to Spanish and Italian beneficiaries under the 2016 employee share ownership plan (Shares4U). Valeo recognized an expense of 23 million euros corresponding to the net carrying amount of the treasury shares delivered in the year (see Note 3.1.2, pages 395 to 397). An expense of 1 million euros was also booked in respect of the 42,354 shares settled in cash for certain non-French beneficiaries of the 2014 plan residing in countries where no share delivery was permitted. The provision set aside in respect of these plans was also reversed in an amount of 19 million euros.

In 2018, the Company delivered 404,799 shares to non-French beneficiaries under the 2013 free share plan and 380,490 shares to French beneficiaries under the 2015 free share plan. During that year it recognized an expense of 42 million euros corresponding to the net carrying amount of the treasury shares delivered (see Note 3.1.2, pages 395 to 397). An expense of 2 million euros was also booked in respect of the 35,181 shares settled in cash for certain non-French beneficiaries of the 2013 plan residing in countries where no share delivery was permitted. The provision set aside in respect of these plans was also reversed in an amount of 44 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 2018 or 2019.

Actuarial gains and losses resulting from experience adjustments and/or changes in assumptions are amortized through expenses in future periods over the expected average residual active life of former employees, after applying a 10% corridor to the greater of the pension benefit obligation and the fair value of plan assets.

These obligations are calculated on an actuarial basis at the end of each reporting period. The calculations were made using an annual discount rate of 1.15% at December 31, 2019 and 1.90% at December 31, 2018.

The provision amounts to 1 million euros at both December 31, 2019 and December 31, 2018.

The pension obligation relating to Valeo's Chairman and Chief Executive Officer is carried on the books of another Group company (Valeo Management Services), along with the obligations relating to the Group's other executives.

3.4 Other information

	2019	2018
Headcount at December 31	1	1
Compensation granted to the corporate officer *(in thousands of euros)*	1,360	1,860
Directors' fees *(in thousands of euros)*(1)	949	919

(1) Directors' fees are recorded on the "Other purchases and external charges" line in the income statement.

NOTE 4 OTHER OPERATING ITEMS

4.1 Other operating income items

4.1.1 Other operating income

(in millions of euros)	2019	2018
Trademark license fees	27	26
Other	4	10
OTHER OPERATING INCOME	**31**	**36**

Trademark license agreements, under which Valeo SA allows some of its French subsidiaries to benefit from the Group's expertise, values, business model and processes, generated income of 27 million euros in 2019.

The amount recorded under "Other" corresponds to rebillings to subsidiaries.

4.1.2 Expense transfers

Expense transfers represent 2 million euros in 2019 and relate to issuance fees on the *Schuldschein* loan (German private placement) totaling 548 million euros (see Note 6.1.2, pages 400 to 401). Expense transfers represented 2 million euros in 2018 and related to issuance fees on the June 2018 bond issue for 600 million euros.

4.1.3 Other purchases and external charges

(in millions of euros)	2019	2018
Deferred issuance fees	(2)	(2)
Other	(21)	(22)
OTHER PURCHASES AND EXTERNAL CHARGES	**(23)**	**(24)**

"Other" items consist of fees, commissions and duties incurred by Valeo in the course of its activities.

Other purchases and external charges also include 2 million euros in deferred issuance fees on the 2019 *Schuldschein* loan (see Note 6.1.2, pages 400 to 401, and Note 4.1.2, page 398). These are recognized over the term of the instrument.

4.1.4 Amortization

Amortization expense totaling 11 million euros in 2019 relates to issuance fees for all of the bonds and the *Schuldschein* loan described in the section on long-term debt (see Note 6.1.2, pages 400 to 401). Amortization expense in 2018 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, 2019	December 31, 2018
Provisions for contingencies related to subsidiaries	31	8
Provisions for disputes	8	7
OTHER PROVISIONS FOR CONTINGENCIES AND CHARGES	**39**	**15**

At December 31, 2019, other provisions for contingencies and charges comprise:

- a 31 million euro provision for contingencies intended to cover the negative net equity of certain subsidiaries in which Valeo holds a direct investment (see Note 7, page 406);
- a provision for disputes totaling 8 million euros, chiefly intended to cover employee disputes as well as provisions for clean-up costs related to Valeo's former plants.

Movements

Movements in other provisions for contingencies and charges in 2018 and 2019 are shown in the table below:

(in millions of euros)	2019	2018
OTHER PROVISIONS AT JANUARY 1	**15**	**11**
Utilizations	(2)	-
Reversals	(5)	(1)
Additions	31	5
OTHER PROVISIONS AT DECEMBER 31	**39**	**15**
Of which current portion (less than 1 year)	-	-

The increase in other provisions over the period is mainly due to the 28 million euro accrual to provisions for contingencies relating to Group subsidiary Valeo Embrayages.

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 the Company 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.

4.2.2 Accrued assets

At December 31, 2019, accrued assets totaling 53 million euros mainly include 45 million euros in deferred bond issuance fees (55 million euros at end-2018).

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.

At the end of the reporting period, 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 394), 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 cash generating units (CGUs) and goodwill impairment tests, i.e., 9.5% and 1.5% for 2019, unchanged from 2018;
- the forecast operating income multiple may also be used and applied to the third year of the subsidiaries' medium-term business plans.

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 carrying amount of the investments after impairment cannot be below the Company's share of the subsidiary or affiliate's equity.

5.1 Analysis by type

	December 31, 2019			December 31, 2018
(in millions of euros)	Gross	Impairment	Net	Net
Investments in subsidiaries and affiliates	2,718	(530)	2,188	2,237
Loans and advances to subsidiaries and affiliates	5,468	-	5,468	5,296
Other investment securities	2	(1)	1	1
LONG-TERM FINANCIAL ASSETS	**8,188**	**(531)**	**7,657**	**7,534**

Loans and advances to subsidiaries and affiliates comprise medium- and long-term loans granted to Valeo's direct and indirect subsidiaries, as well as to the Group's joint venture investees.

The 2 million euros invested in the Fonds Avenir Automobile (FAA) Fund is shown on 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, 2017	2,247	2,974	2	5,223
Acquisitions and increase in the share capital of subsidiaries	20	-	-	20
Disposals and decrease in the share capital of subsidiaries	-	-	(1)	(1)
Changes in impairment losses and other movements	(30)	2,322	-	2,292
Net carrying amount at December 31, 2018	2,237	5,296	1	7,534
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	(49)	172	-	123
Net carrying amount at December 31, 2019	2,188	5,468	1	7,657

The measurement of the securities portfolio at the end of 2019 led the Company to recognize net additions of 49 million euros to impairment provisions for investments in subsidiaries and affiliates. In 2018, the Company recognized 30 million euros in net additions to impairment provisions for investments in subsidiaries and affiliates (see Note 7, page 406).

Loans and advances to subsidiaries and affiliates rose by 172 million euros in 2019, chiefly reflecting the financing for a capital increase carried out by an indirect subsidiary and new long-term financing granted to the Valeo Siemens eAutomotive joint venture. These items were offset by the reclassification of long-term loan agreements with the Group's subsidiaries within short-term financial receivables.

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, 2018 and 2019 can be analyzed as follows:

(in millions of euros)	Notes	December 31, 2019	December 31, 2018
Long-term portion of long-term debt	6.1.2	4,060	3,502
Current portion of long-term debt	6.1.2	40	388
Loans and advances to subsidiaries and affiliates[(1)]	5	(5,468)	(5,296)
LONG-TERM DEBT		**(1,368)**	**(1,406)**
Short-term debt	6.1.3	3,722	3,213
Financial receivables	6.1.4	(2,892)	(1,981)
Marketable securities and cash and cash equivalents	6.1.5	(1,406)	(1,561)
SHORT-TERM CASH POSITION		**(576)**	**(329)**
NET DEBT		**(1,944)**	**(1,735)**

(1) Loans and advances to subsidiaries and affiliates are included in the calculation of net debt.

6.1.2 Analysis of long-term debt

	December 31, 2019				December 31, 2018
(in millions of euros)	Less than 1 year	1 to 5 years	More than 5 years	Total	Total
Bonds	-	2,312	1,200	**3,512**	**3,852**
Private placements	-	336	212	**548**	**-**
Accrued interest	40	-	-	**40**	**38**
LONG-TERM DEBT	**40**	**2,648**	**1,412**	**4,100**	**3,890**

In April 2019, the Group issued a 548 million euro *Schuldschein* loan (a German private placement), which breaks down as follows:

- a 115 million euro tranche maturing in 2023 and paying a fixed coupon of 0.95%;
- a 221 million euro tranche maturing in 2023 and paying a variable coupon of 6-month Euribor (with a floor of 0%) plus a margin of 0.95%;
- a 90 million euro tranche maturing in 2025 and paying a fixed coupon of 1.29%;
- a 122 million euro tranche maturing in 2025 and paying a variable coupon of 6-month Euribor (with a floor of 0%) plus a margin of 1.15%.

The two variable-rate tranches are hedged by floored interest rate swaps (the floor only applies for the first two years), which exchange the variable coupon with a 0% floor for a fixed rate.

In addition, the Group redeemed the 350 million euro bond issued in 2017 under the Euro Medium Term Note financing program.

At December 31, 2019, the main terms and conditions of long-term debt were as shown below:

Type	Outstanding at Dec. 31, 2019 *(in millions of euros)*	Issuance	Maturity	Nominal *(in millions of euros)*	Currency	Nominal interest rate	Other information
Bond (EMTN program)	600	June 2018	June 2025	600	EUR	1.50%	
Bond (EMTN program)	600	September 2017	September 2022	600	EUR	0.3752%	-
Bond (EMTN program)	500	January 2017	January 2023	500	EUR	0.625%	-
Convertible bond	512	June/ November 2016	June 2021	575	USD	0.00%	Euro/dollar currency swaps set up for each operation for a total of 575 million US dollars with the same maturity
Bond (EMTN program)	600	March 2016	March 2026	600	EUR	1.625%	-
Bond (EMTN program)	700	January 2014	January 2024	700	EUR	3.25%	-
Schuldschein private placement	115	April 2019	April 2023	115	EUR	0.95%	-
Schuldschein private placement	221	April 2019	April 2023	221	EUR	6-month Euribor +0.95%	Floored swap, exchanging the variable coupon with a 0% floor for a fixed rate of -0.041%
Schuldschein private placement	90	April 2019	April 2025	90	EUR	1.291%	-
Schuldschein private placement	122	April 2019	April 2025	122	EUR	6-month Euribor +1.15%	Floored swap, exchanging the variable coupon with a 0% floor for a fixed rate of 0.145%
Accrued interest	40						
TOTAL LONG-TERM DEBT	**4,100**						

The current portion of long-term debt relates solely to accrued interest.

6.1.3 Analysis of short-term debt

(in millions of euros)	December 31, 2019	December 31, 2018
Current accounts with subsidiaries	3,387	2,336
Negotiable European Commercial Paper	243	814
Bank overdrafts	21	42
Other short-term debt	71	21
SHORT-TERM DEBT	**3,722**	**3,213**

Short-term debt mainly consists of current accounts with subsidiaries and issuance of commercial paper.

At December 31, 2019, other short-term debt mainly reflects the fair value of:

- currency hedging instruments taken out as part of the Group's pooled management of currency risk, representing an unrealized loss of 55 million euros. Since the Company acts as an intermediary for the Group's subsidiaries, these instruments are matched to currency hedging instruments which have generated an unrealized gain of a similar amount (see Note 6.1.4, page 402);
- currency instruments hedging foreign currency loans and borrowings granted to subsidiaries, representing an unrealized loss of 9 million euros.

6.1.4 Analysis of financial receivables

(in millions of euros)	December 31, 2019	December 31, 2018
Current account advances	2,577	1,843
Other financial receivables	315	138
FINANCIAL RECEIVABLES	**2,892**	**1,981**

Financial receivables consist primarily of current account advances to subsidiaries.

At December 31, 2019, other financial receivables relate mainly to the dividend receivable from Valeo International Holding BV for 200 million euros and to hedging instruments for 109 million euros, including mainly:

- currency hedging instruments taken out as part of the Group's pooled management of currency risk, representing an unrealized gain of 55 million euros (see Note 6.1.3, page 402);
- the amortized portion of the premium on the currency instrument hedging the convertible bond denominated in US dollars for 29 million euros;
- stock purchase options held to cover the conversion risk of bonds convertible into shares for 18 million euros.

At December 31, 2018, other financial receivables related mainly to the dividend receivable from Valeo International Holding BV for 115 million euros, and to the fair value of currency instruments hedging intragroup loans and borrowings and external borrowings for 22 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, 2019	December 31, 2018
Marketable securities	234	731
Cash and cash equivalents	1,172	830
MARKETABLE SECURITIES AND CASH AND CASH EQUIVALENTS	**1,406**	**1,561**

Cash equivalents include term deposits amounting to 510 million euros at December 31, 2019 (300 million euros at December 31, 2018).

The marketable securities portfolio at December 31, 2019 includes money-market mutual funds for 100 million euros, compared to 593 million euros at December 31, 2018.

The portfolio also included 2,007,632 treasury shares with a carrying amount of 104 million euros at December 31, 2019. No impairment was recognized during the year.

At December 31, 2018, Valeo held 2,965,613 of its own shares with a carrying amount of 138 million euros after impairment losses.

Valeo may be required to buy back treasury shares on the market to cover its obligations with regard to stock purchase option and free share plans, as well as Group employee share ownership plans and the liquidity agreement.

No share buyback programs were launched in 2019.

In 2018, Valeo had 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 23, 2017.

Pursuant to the agreement signed on March 7, 2018, 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 100 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 23, 2017.

Under the program, Valeo bought back a total of 1,837,417 shares. They were 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.

The liquidity agreement was signed with a new investment services provider on March 25, 2019 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI). At December 31, 2019, 100,000 shares had been allocated to this liquidity agreement compared with 591,500 shares at December 31, 2018. The net value of these shares was 3 million euros at December 31, 2019.

In 2019, the Company purchased 3,306,335 and sold 3,797,835 of its own shares under this agreement.

For shares allocated to stock purchase option and free share plans, the Company applies ANC Standard no. 2014-03. This Standard sets out the methods for recognizing provisions over the vesting period of plans served by existing shares (see Note 3.1.2, pages 395 to 397). At December 31, 2018 and 2019, these shares allocated to stock purchase option and free share plans consisted only of shares intended for employees, which are partially allocated to specific plans.

In 2019, the Company delivered 467,302 shares under stock purchase option and free share plans. In 2018, 1,117,425 shares were delivered.

6.2 Liquidity reserve and covenants

6.2.1 Credit lines

At December 31, 2019, Valeo had confirmed bank credit lines with an average maturity of three years, representing an aggregate amount of 1.120 billion euros. None of these credit lines were drawn down during 2019. These bilateral credit lines were taken out with ten leading banks with an average rating of A from S&P and A1 from Moody's.

6.2.2 Financing programs

At December 31, 2019, the Group had drawn an amount of 3 billion euros under its Euro Medium Term Note financing program capped at 5 billion euros (3.3 billion euros drawn at December 31, 2018).

6.2.3 Negotiable European Commercial Paper (NEU CP)

Valeo has a short-term Negotiable European Commercial Paper financing program for a maximum amount of 2 billion euros. At December 31, 2019, a total of 243 million euros (814 million euros at December 31, 2018) 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 are as follows:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	January 13, 2020	BBB-	Stable	A-3
Moody's	March 22, 2019	Baa3	Stable	P-3

On March 26, 2020, Moody's placed the Company's "Baa3/P-3" long-term and short-term issuer ratings under review for downgrade.

On April 3, 2020, Standard & Poor's placed the Company's "BBB-/A-3" long- and short-term issuer ratings on creditwatch with negative implications.

6.2.5 Covenants

Certain financing contracts include early repayment clauses in the event of failure to comply with specified financial ratios. The main ratio is shown in the table below:

Financing agreements	Ratios	Thresholds	Ratio at December 31, 2019[1]
Credit lines	Consolidated net debt/consolidated EBITDA	<3.5	1.1

(1) Calculated over 12 months.

The covenant was renegotiated with all banks to reflect the application of IFRS 16 – "Leases".

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).

The convertible bond also includes a change of control clause under which investors can request early repayment or – at 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 market risks (foreign currency, commodity and interest rate 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 accounts and bank accounts, etc.). Swap points 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

Operational currency risk

Since Valeo SA acts as a holding company, it is not exposed to operational currency risk.

As part of the pooled management of currency risk, Group subsidiaries hedge the forex exposure arising on their industrial and commercial activities with the parent company, which enters into derivatives with banks. Gains and losses on such derivatives are passed on to the subsidiaries requesting the hedge.

The principal hedging instruments used by the Company are forward purchases and sales of foreign currencies.

Financial currency risk

Pooling cash surpluses, the financing needs of foreign subsidiaries and certain Group financing transactions exposes the Company to financial currency risk. This risk corresponds to the risk of changes in the value of foreign currency financial receivables or payables. This currency risk is primarily hedged by currency swaps.

The Company tends to finance its subsidiaries in their local currencies and systematically enters into hedges to protect itself against the resulting currency risk.

The Company's borrowings are generally denominated in euros, in particular for debt issues under the Euro Medium Term Note (EMTN) financing program.

At December 31, 2019, the Company's only external foreign currency debt was 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. This US dollar debt is hedged by EUR/USD currency swaps until it falls due.

At December 31, 2019, Valeo's net position in the main foreign currencies was as follows:

(in millions of euros)	December 31, 2019 (USD)	(CZK)	(GBP)	(JPY)	Other	Total	December 31, 2018 Total
Forward sales with subsidiaries	(584)	(205)	(1)	(126)	(384)	**(1,300)**	**(1,259)**
Forward purchases with subsidiaries	461	106	17	42	255	**881**	**596**
NET POSITION WITH SUBSIDIARIES	**(123)**	**(99)**	**16**	**(84)**	**(129)**	**(419)**	**(663)**
Forward sales with external counterparties	(554)	(234)	(120)	(94)	(285)	**(1,287)**	**(704)**
Forward purchases with external counterparties	1,318	147	9	200	789	**2,463**	**2,051**
NET POSITION WITH EXTERNAL COUNTERPARTIES	**764**	**(87)**	**(111)**	**106**	**504**	**1,176**	**1,347**
TOTAL NET POSITION	**641**	**(186)**	**(95)**	**22**	**375**	**757**	**684**

The net position in US dollars includes both hedges of Valeo intercompany loans and borrowings, and hedges of the convertible bond in an amount of 575 million US dollars. The net positions in yen and pounds sterling reflect hedges of loans and borrowings granted to Group subsidiaries.

The market value of currency hedging instruments included in the net position with external counterparties represented an unrealized gain of 63 million euros at December 31, 2019 (unrealized gain of 7 million euros at December 31, 2018).

6.3.2 Commodity risk hedging

Since Valeo SA acts as a holding company, it is not exposed to commodity risk.

As part of the pooled management of commodity risk, Group subsidiaries hedge a portion of their commodity risk exposure with the parent company, which enters into derivatives with banks. Gains and losses on such derivatives are passed on to the subsidiaries requesting the hedge.

The Company favors hedging instruments which do not involve physical delivery of the underlying commodity (primarily swaps on the average monthly price).

Volumes of non-ferrous metals hedged at December 31, 2019 and 2018 break down as follows:

(in metric tons)	December 31, 2019	December 31, 2018
Aluminum	34,890	37,800
Secondary aluminum	9,777	8,773
Copper	9,716	8,542
Zinc	535	839
Polypropylene	268	4,189
TOTAL	**55,186**	**60,143**

Commodities hedged at December 31, 2019 and 2018 were as follows:

(in millions of euros)	December 31, 2019 With subsidiaries	With external counterparties	Total	December 31, 2018 Total
Forward sales	(122)	-	**(122)**	**(129)**
Forward purchases	-	122	**122**	**129**
TOTAL NET POSITION	**(122)**	**122**	**-**	**-**

The market value of instruments hedging metals prices included in the net position with external counterparties represented an unrealized gain of 2 million euros at December 31, 2019 (unrealized loss of 7 million euros at December 31, 2018).

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.

The two variable-rate tranches of the *Schuldschein* loan issued in April 2019 are hedged by floored interest rate swaps (the floor only applies for the first two years), which exchange the variable coupon with a 0% floor for a fixed rate.

In March 2019, the Group converted the 159 million euro loan granted to one of its Czech subsidiaries into Czech koruna. At the same time, the Group set up a cross currency swap for the same amount and with the same maturity.

At December 31, 2019, 92% of long-term debt was at fixed rates (91% at December 31, 2018).

(in millions of euros)	Less than 1 year Fixed portion	Less than 1 year Variable portion	1 to 5 years Fixed portion	1 to 5 years Variable portion	More than 5 years Fixed portion	More than 5 years Variable portion	Total nominal amount Fixed portion	Total nominal amount Variable portion	Total nominal amount Total
Financial liabilities	1,152	2,610	2,427	221	1,290	122	4,869	2,953	**7,822**
Financial receivables	(315)	(2,577)	(604)	(379)	(4,485)	-	(5,404)	(2,956)	**(8,360)**
Cash and cash equivalents	(237)	(1,169)	-	-	-	-	(237)	(1,169)	**(1,406)**
NET POSITION BEFORE HEDGING	**600**	**(1,136)**	**1,823**	**(158)**	**(3,195)**	**122**	**(772)**	**(1,172)**	**(1,944)**
Derivative instruments	-	-	221	(221)	122	(122)	343	(343)	-
NET POSITION AFTER HEDGING	**600**	**(1,136)**	**2,044**	**(379)**	**(3,073)**	**-**	**(429)**	**(1,515)**	**(1,944)**

NOTE 7 NET FINANCIAL INCOME

(in millions of euros)	2019	2018
Dividends	234	143
Interest income	239	194
Interest expense	(81)	(59)
Net (additions to)/reversals from provisions for impairment and for investments in subsidiaries and affiliates	(65)	(41)
Other financial income and expenses	(16)	(13)
NET FINANCIAL INCOME	**311**	**224**

Dividend income amounted to 234 million euros in 2019, an increase compared with 2018. This amount includes a 200 million euro dividend from Valeo International Holding BV, along with a 13 million euro dividend from Turkish subsidiary Valeo Otomotiv Sanayi ve Ticaret AS and a 9 million euro dividend from South Korean subsidiary Valeo Pyeong Hwa. Dividend income in 2018 chiefly related to the 115 million euro dividend from Valeo International Holding BV, the 18 million euro dividend from Turkish subsidiary Valeo Otomotiv Sanayi ve Ticaret AS, and the 7 million euro dividend from South Korean subsidiary Valeo Pyeong Hwa International.

Interest income chiefly relates to financing granted to Group subsidiaries and joint ventures. The 45 million euro increase in interest income compared to 2018 chiefly reflects the increase in loans outstanding. The currency risk hedge taken out in respect of this financing led to a 12 million euro increase in financial expenses.

Interest paid on cash surpluses of Group subsidiaries pooled at the level of the parent company rose by 6 million euros in 2019.

Interest expense relating to external financing transactions represented 40 million euros in 2019 versus 36 million euros in 2018.

At December 31, 2019, the measurement of the portfolio of investments in subsidiaries and affiliates resulted in a net 49 million euro accrual to impairment provisions (see Note 5.2, page 400) and a net 23 million euro accrual to provisions for contingencies (see Note 4.2.1, pages 398 to 399). Additions for the year mainly concern the provision for impairment of investments in Valeo Embrayages (31 million euros) and in Valeo Systèmes de Contrôle Moteur (32 million euros).

At December 31, 2018, the measurement of the portfolio of investments in subsidiaries and affiliates led to a net 30 million euro addition to impairment provisions and a net 5 million euro addition to provisions for contingencies. Additions for the year notably included 17 million euros set aside to provisions for impairment relating to investments in Valeo Embrayages.

Other financial income and expenses in 2019 primarily included 12 million euros relating to the amortization of premiums on stock purchase options intended to cover the convertible bond (12 million euros in 2018), along with foreign currency gains and losses.

NOTE 8 INCOME TAX

8.1 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, 2019, the amount of tax savings arising from tax losses transferred to Valeo by its subsidiaries came to 1,226 million euros (1,241 million euros at December 31, 2018). 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 may be required to pay over the related tax savings to this subsidiary, based on the terms and conditions stipulated in the sale agreement. Valeo does not recognize a provision for repayment of tax losses to subsidiaries.

8.2 Income tax

(in millions of euros)	2019	2018
Net tax benefit arising on tax consolidation	14	30
INCOME TAX	**14**	**30**

Group relief arising on tax consolidation for a net amount of 14 million euros in 2019 chiefly reflects the 16 million euro tax benefit receivable from subsidiaries. The net tax benefit arising on tax consolidation in 2018 (30 million euros) chiefly included the tax benefit received from subsidiaries in an amount of 31 million euros.

In the absence of tax consolidation, the Company would have been liable for an income tax expense of 56 million euros in the year ended December 31, 2019 (42 million euros in the year ended December 31, 2018).

8.3 Items that could result in a decrease or increase in Valeo's future tax liability

	December 31, 2019		December 31, 2018	
(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	59	15	58	15
Contribution premium	(134)	(35)	(134)	(35)
Tax loss carryforwards	1,226	317	1,242	321
TOTAL	**1,151**	**297**	**1,166**	**301**

8.4 Prepaid and recoverable taxes

At December 31, 2019, prepaid and recoverable taxes totaling 23 million euros included the tax benefit of 16 million euros arising on the 2019 tax consolidation (see Note 8.2, page 407). The research tax credit receivable in respect of 2018 and the research tax credit receivable at the so-called "seed" stage in respect of 2019 were sold by Valeo at a discount to a bank during the year, for 62 million euros and 59 million euros, respectively.

In 2018, the research tax credit receivable in respect of 2017 was sold by Valeo to several banks along with the CICE tax credit in respect of 2018, for a total amount of 73 million euros. These receivables, including the 2018 CICE receivable at the so-called "seed" stage, were derecognized on the balance sheet, with an adjusting entry recorded in cash received.

8.5 Other payables

At December 31, 2019, other payables represented 291 million euros and included 290 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 2016 to 2019, representing 244 million euros and 46 million euros, respectively.

At December 31, 2018, other payables represented 294 million euros and mainly included 292 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 2015 to 2018, representing 230 million euros and 62 million euros, respectively.

NOTE 9 STOCKHOLDERS' EQUITY

9.1 Share capital

In countries that meet the Group's eligibility criteria and where permitted by local laws and regulations, Valeo offers its employees the possibility of becoming shareholders through an employee share issue carried out specifically for this purpose.

As in 2018, a new plan was offered to employees in the first half of 2019. This plan allows employees to subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set on May 2, 2019 by the Group's Chairman and Chief Executive Officer, acting on the authority of the Board of Directors. The 2019 subscription price of 23.72 euros is the average of the Group's opening share price on the 20 trading days between March 29, 2019 and April 29, 2019 inclusive, 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'Epargne de Groupe* – PEG), employees can benefit from a contribution from their employer. Outside France, employees were awarded free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan. The free shares allotted are existing Valeo shares repurchased on the market. In all, 783,643 shares were subscribed at a price of 23.72 euros each, representing a 19 million euro capital increase on June 27, 2019.

At December 31, 2019, Valeo's share capital totaled 241 million euros, divided into 241,036,743 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 (5,686,331 shares at December 31, 2019). Share capital stood at 240 million euros at December 31, 2018.

9.2 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 2019 generated additional paid-in capital of 18 million euros in the year. Additional paid-in capital was 26 million euros for the employee share subscription offer launched in 2018.

9.3 Reserves

Reserves available for distribution amounted to 1,890 million euros at December 31, 2019 (1,872 million euros at December 31, 2018) before appropriation of income for the year and after deduction of the net carrying amount of treasury shares held at December 31, 2019 (104 million euros versus 138 million euros at December 31, 2018).

9.4 Movements

(in millions of euros)	Share capital	Additional paid-in capital	Reserves and other	Stockholders' equity
Stockholders' equity at December 31, 2017	**240**	**1,487**	**2,077**	**3,804**
Dividends paid	-	-	(296)	(296)
Capital increase	-	26	-	26
Net income for the year	-	-	258	258
Stockholders' equity at December 31, 2018	**240**	**1,513**	**2,039**	**3,792**
Dividends paid	-	-	(297)	(297)
Capital increase	1	18	-	19
Net income for the year	-	-	282	282
Stockholders' equity at December 31, 2019	**241**	**1,531**	**2,024**	**3,796**

NOTE 10 OTHER INFORMATION

10.1 Maturity of receivables and payables

(in millions of euros)	December 31, 2019	Due in less than 1 year	Due in more than 1 year and less than 5 years	Due in more than 5 years
Prepaid and recoverable taxes	23	17	6	-
Other operating receivables	2	2	-	-
OPERATING RECEIVABLES	**25**	**19**	**6**	**-**

(in millions of euros)	December 31, 2019	Due in less than 1 year	Due in more than 1 year and less than 5 years	Due in more than 5 years
Trade payables	5	5	-	-
Accrued taxes and payroll costs	2	2	-	-
OPERATING PAYABLES	**7**	**7**	**-**	**-**
OTHER PAYABLES	**291**	**73**	**218**	**-**

Accrued expenses included in trade payables amounted to 4 million euros at December 31, 2019.

An analysis of long-term debt by maturity is provided in Note 6.1.2, pages 400 to 401.

10.2 Related party transactions

10.2.1 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 2018 and 2019:

(in millions of euros)	2019	2018
INCOME STATEMENT		
Net financial income	429	314
BALANCE SHEET AT DECEMBER 31		
Loans and advances to subsidiaries and affiliates	5,468	5,296
Financial receivables	2,780	1,170
Prepaid and recoverable taxes	17	43
Debt	3,387	2,336
Other payables	291	292

Net financial income essentially includes dividends and interest income on current accounts and loans granted to subsidiaries.

10.2.2 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 2019.

10.3 Off-balance sheet commitments

10.3.1 Commitments given

(in millions of euros)	December 31, 2019 Less than 1 year	More than 1 year	Total	December 31, 2018 Less than 1 year	More than 1 year	Total
Commitments given	15	116	**131**	13	141	**154**

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 111 million euros at December 31, 2019). It is a first-call guarantee with an indefinite term and covers the commitments undertaken by Valeo North America Inc. (formerly Valeo Electrical Systems Inc.) concerning pensions and other employee benefits.

Other commitments given include:

- a reciprocal vendor warranty commitment agreed with Siemens in connection with 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);
- a five-year reciprocal vendor warranty commitment agreed with PHC Co Ltd. in connection with the creation of the Valeo-Kapec joint venture (valid until December 1, 2022). This guarantee is not capped;
- a three-year vendor warranty commitment for 5 million euros granted to Italy's Raicam group in connection with the sale of the Passive Hydraulic Actuator business on March 28, 2018.

10.3.2 Commitments received

(in millions of euros)	December 31, 2019 Less than 1 year	More than 1 year	Total	December 31, 2018 Less than 1 year	More than 1 year	Total
Commitments received	15	-	**15**	-	15	**15**

At December 31, 2018 and 2019, commitments received include reciprocal commitments with Siemens and PHC Co Ltd. (see Note 10.3.1, page 410).

10.4 Fees paid to the Statutory Auditors

Fees paid to the Group's Statutory Auditors and recognized in Valeo SA's income statement are as follows:

(in thousands of euros)	ERNST & YOUNG 2019	ERNST & YOUNG 2018	MAZARS 2019	MAZARS 2018
AUDIT				
Statutory audit, review of the individual and consolidated financial statements	27	27	27	27
Non-audit services	41	50	47	47
TOTAL FEES	**68**	**77**	**74**	**74**

Non-audit services provided by Ernst & Young et Autres and Mazars to Valeo SA and the entities it controls in 2019 concern (i) comfort letters in connection with bond issues, and (ii) statements issued to validate information presented in expenditure reports relating to subsidized projects.

NOTE 11 LIST OF SUBSIDIARIES AND AFFILIATES

At December 31, 2019

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	Net income (loss)	Dividends
Société de Participations Valeo Paris – France (SIREN: 562,029,181)	749	(219)	100	838	838	648	-	-	(56)	-
Valeo Systèmes de Contrôle Moteur Cergy Saint-Christophe – France (SIREN: 479,162,695)	55	51	100	502	133	129	-	388	(52)	-
Valeo International Holding BV Amsterdam – Netherlands	129	940	100	443	443	-	-	36	119	200
Valeo Vision Bobigny – France (SIREN: 950,344,333)	10	366	90	377	377	-	-	606	55	-
Valeo Systèmes Thermiques Le Mesnil Saint-Denis – France (SIREN: 331,312,108)	37	516	47	216	216	209	-	459	80	-
Valeo Embrayages Amiens – France (SIREN: 438,834,186)	39	(66)	100	140	-	-	-	273	(19)	-
Valeo Matériaux de Friction Limoges – France (SIREN: 438,810,129)	60	33	100	60	60	-	-	62	0	-
Valeo Otomotiv Sanayi ve Ticaret AS (3) Bursa – Turkey	21	82	100	40	40	16	-	366	36	13
Valeo Service Saint-Denis – France (SIREN: 306,486,408)	13	15	100	38	38	-	-	255	(3)	-
Valeo Auto-Electric GmbH Bietigheim – Germany	-	196	5	27	10	-	-	4	0	-
Valeo Pyeong Hwa Co. Ltd (3) Daegu – South Korea	10	188	50	12	12	-	-	563	15	9
Amalgamations Valeo Clutch Private Ltd(2)(3) Chennai – India	10	11	50	9	9	-	-	71	3	1
Équipement 11 Paris – France (SIREN: 440,331,411)	-	(6)	100	8	6	-	-	-	11	-
Other French subsidiaries and affiliates (aggregate)	-	-	-	-	-	-	-	-	-	-
Other foreign subsidiaries and affiliates (aggregate)	-	-	-	8	6	-	-	-	-	11
TOTAL				**2,718**	**2,188**					**234**

(1) Including net income for 2019 before appropriation.
(2) Last financial year ended March 31, 2019.
(3) Translated at the year-end exchange rate and at average exchange rates for 2019.

NOTE 12 SUBSEQUENT EVENTS

- On February 20, 2020, Valeo's Board of Directors approved the project to transform Valeo into a European company (*Societas Europaea*, SE). The European company corporate form has the advantage of benefiting from a common regulatory framework, recognized within the European Union. The legal status of European company will better reflect the European dimension of the Group with regard to all stakeholders, in particular its employees and customers. Of the 114,717 employees of the group, 47,479 are located throughout Europe, with a strong presence notably in France, Germany, Poland, Spain, Czech Republic, Hungary and Romania. With respect to customers, Valeo is a partner to all European automakers. This transformation does not affect Valeo's stock market listing and does not change its governance.

  The transformation project will be submitted to Valeo's Shareholders Meeting to be held on June 25, 2020.
- On March 24, 2020, Valeo's Board of Directors made a unanimous decision to co-opt the Fonds Stratégique de Participations as a director, to replace Georges Pauget. The Fonds Stratégique de Participations will be represented on Valeo's Board of Directors by Julie Avrane-Chopard, Senior Partner at McKinsey & Company's Paris office. On the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors confirmed the independence of the Fonds Stratégique de Participations and its permanent representative.
- The Covid-19 pandemic, which has resulted in the closure of customer sites in Europe and North America from end-March through April will have a negative impact on the business of the Company and its subsidiaries in 2020. At this stage, it is impossible to quantify the impacts of the pandemic given the uncertainty regarding the duration of the crisis and the pace of our customers' production when it resumes. The situation does not affect the Company's assets at December 31, 2019, but could impact the value of investments in subsidiaries and affiliates at December 31, 2020.

  Since December 31, 2019, Valeo has negotiated credit lines for an additional 1 billion euros with its main banks, and therefore currently has 2.3 billion euros in undrawn credit lines, enabling it to withstand any prolongation of the current crisis. This cash position demonstrates that the use of the going concern basis of accounting by the Company was appropriate at the 2019 reporting date.

  To the best of the Company's knowledge, no other significant events have taken place since the end of the 2019 reporting period.

5.6.5 Statutory Auditors' report on the financial statements

For the year ended December 31, 2019

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

To the Shareholders of Valeo,

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, 2019. These financial statements were approved by the Board of Directors on April 23, 2020, on the basis of the elements available at that date, in the evolving context of the health crisis related to Covid-19.

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, 2019 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.

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 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, 2019 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 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, as approved in the above-mentioned context, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Valuation of long-term investments in the portfolio activity, equity securities and receivables related to equity securities

Risk identified	Our response
As at December 31, 2019, the net carrying amount of investments in subsidiaries and affiliates and related receivables amounted to 7,658 million euros, i.e., 64% of total assets. Investments in subsidiaries and affiliates are initially recognized at their acquisition cost. At year end, the Company measures investments in subsidiaries and affiliates at their value in use. If this value in use lower than the carrying amount, an impairment provision is recorded corresponding to the difference between these two amounts. Provisions for contingencies relating to subsidiaries are intended to cover the negative net equity of certain subsidiaries. As at December 31, 2019, these provisions amounted to 31 million euros. The value in use is determined based on a multi-criteria analysis adapted to the concerned investments. 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 comprise medium and long-term loans granted to Valeo's direct and indirect subsidiaries whose maturity is at sight and whose repayment is not likely within one year. These long-term financial assets are described in Note 5 to the financial statements. In view of the material amount of these items, the inherent uncertainty of certain items and their sensitivity to Management's projections, we considered the measurement of investments in subsidiaries and affiliates, related receivables and provisions for contingencies to be a key audit matter.	To assess the valuation of the value in use of investments and affiliates, and based on the available documentation, we conducted the following procedures, that consisted mainly in analyzing the valuation approach and the data used and according to the concerned investments: ▪ 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 Management's business plans for the investments having a significant impairment risk; ▪ with the support of our valuation specialists, we analyzed the main valuation inputs (discount rate and multiple), which we compared with the values used for the Group and other companies in the same industry, provided by the financial analysts; ▪ we assessed the correct calculation of the values in use used by the entity; ▪ we assessed the recoverability of the loans and advances to subsidiaries and affiliates considering the analysis performed on the investments; ▪ we analyzed the calculation of provisions for contingencies booked on the subsidiaries that have negative equity in the event that Valeo must bear the losses.

5

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

Information given in the management report and in the other documents with respect to the financial position and the financial statements provided to the shareholders

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report approved on April 23, 2020 and in the other documents with respect to the financial position and the financial statements provided to the shareholders. Regarding the events that occurred and the elements known after the date of approval of the financial statements relating to the effects of the Covid-19 crisis, Management has informed us that such events and elements will be communicated to the Annual General Meeting called to decide on these financial statements.

We attest the fair presentation and the consistency with the financial statements of the information relating to payment deadlines mentioned in Article D.441-4 of the French Commercial Code (*Code de commerce*).

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 (*Code de commerce*).

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, or allocated 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 companies controlled thereby, included in the consolidation scope. Based on these procedures, 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 bid or exchange offer, provided pursuant to Article L. 225-37-5 of the French Commercial Code (*Code de commerce*), we have agreed this information to the source documents communicated to us. Based on these procedures, we have no observations to make on this information.

Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders or holders of the voting rights has been properly disclosed in the management report.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Valeo by the Annual General Meeting held on June 3, 2010.

As at December 31, 2019, we were in the tenth year of total uninterrupted engagement.

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.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

Objective 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;
- 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 to the Audit Committee a report 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, April 24, 2020

The Statutory Auditors

Mazairs		**Ernst & Young et Autres**	
Thierry Colin	Jean-Marc Deslandes	Jean-François Ginies	Guillaume Rouger

5.7 Statutory Auditors' special report on related party agreements

This is free a translation into English of the Statutory Auditors' special report on related party agreements and commitments issued in French and 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 of Valeo,

In our capacity as Statutory Auditors of your Company, we hereby report to you on related party agreements.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of those agreements that have been disclosed to us or that we may have identified as part of our engagement, as well as the reasons given as to why they are beneficial for the Company, without commenting on their relevance or substance or identifying any undisclosed agreements. Under the provisions of Article R.225-31 of the French Commercial Code (*Code de commerce*), it is the responsibility of the shareholders to determine whether the agreements are appropriate and should be approved.

Where applicable it is also our responsibility to provide shareholders with the information required by Article R.225-31 of the French Commercial Code in relation to the implementation during the year of agreements already approved by the Shareholders' Meeting.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

Agreements submitted for approval by the Shareholders' Meeting

Agreements authorized and entered into 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 which should be submitted for approval by the Shareholders' Meeting in accordance with Article L.225-38 of the French Commercial Code.

Agreements authorized and entered into since the year-end

We were informed of the following agreement, authorized and entered into since the year-end, that had previously been approved by the Board of Directors.

Commitment with regard to Jacques Aschenbroich, Chairman and Chief Executive Officer

New defined benefit pension plan commitment

On February 20, 2020, the Board of Directors authorized the new related party commitment below, subject to the adoption of the fourteenth resolution by the Shareholders' Meeting of June 25, 2020.

In accordance with French Ordinance No. 2019-697 of July 3, 2019, the so-called "Article 39" defined benefit pension plan, which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from January 1, 2020 (the "Closed Plan"). Thus, in accordance with the new legal provisions, a new commitment has been made in favor of Jacques Aschenbroich. This new plan, effective as of January 1, 2020, in accordance with Article L.137-11-2 of the French Social Security Code, includes the same ceilings and performance conditions as the Closed Plan.

The main features are as follows:

- supplementary pension rights are equal to 1% of the reference salary per vesting year;
- the vesting of supplementary pension rights is subject to a performance condition, which is deemed to have been met if the variable portion of Jacques Aschenbroich's compensation, paid in year Y+1 in respect of year Y, reaches 100% of his fixed compensation due in respect of year Y. In the event that the variable portion does not reach 100% of the fixed compensation, the rights granted will be calculated on a pro rata basis;
- the reference salary is the base salary and the variable compensation received in each year of vesting;
- the cap due to the nature of the plan: a cap of 20% of the final reference salary as defined in the Closed Plan (cap which applies to the sum of the rights acquired under the Closed Plan and under the new plan);
- the cap on the base for determining entitlements: all plans combined are capped at 55% of the final reference salary.

Under this new plan, the rights of Jacques Aschenbroich will vest without condition of presence in the Company at the end of his career.

The rights under the Closed Plan crystallized at December 31, 2019 and remain conditional on the presence of Jacques Aschenbroich within Valeo at the time of his retirement.

Interest for the Company in having such an agreement

This agreement allows Jacques Aschenbroich to continue to benefit from a defined benefit pension plan.

Agreements already authorized by the Shareholders' Meeting

We were not informed of any agreement already approved by the Shareholders' Meeting which continued to be implemented during the year.

Courbevoie and Paris-La Défense, April 27, 2020

The Statutory Auditors

Mazars		**Ernst & Young et Autres**	
Thierry Colin	Jean-Marc Deslandes	Jean-François Ginies	Guillaume Rouger

5.8 Other financial and accounting information

5.8.1 Five-year financial summary

	2015	2016	2017	2018	2019
1. SHARE CAPITAL AT DECEMBER 31					
Share capital *(in millions of euros)*	238	239	239	240	241
Number of ordinary shares outstanding	238,387,620	239,143,131	239,653,121	240,253,100	241,036,743
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	233	85	232	240	372
Income tax	17	24	56	30	14
Employee profit-sharing	-	-	-	-	-
Net income	244	262	318	258	282
Net dividend	236	297	296	297	48
3. PER SHARE DATA *(in euros)*					
Net income after tax, but before depreciation, amortization and impairment losses	1.05	0.46	1.20	1.14	1.61
Net income	1.02	1.10	1.33	1.09	1.18
Net dividend	1.00	1.25	1.25	1.25	0.20
4. PERSONNEL					
Headcount at December 31	2	1	1	1	1
Wages and salaries *(in millions of euros)*	19	34	28	47	25(1)
Social security charges *(in millions of euros)*	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 2014 free share plan and to the delivery of free shares to French beneficiaries under the 2016 free share plan, as well as an expense of 1 million euros in respect of shares settled in cash for certain foreign beneficiaries of the 2014 plan (see Note 3.2, page 397).

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	2,845,121	443
Valeo Vision	620,572	377
Valeo Systèmes Thermiques	1,151,133	216
Valeo Systèmes de Contrôle Moteur	5,500,000	133
Valeo Matériaux de Friction	4,002,550	60
Valeo Otomotiv Sanayi ve Ticaret AS	41,610,059	40
Valeo Service	860,000	37
Valeo Pyeong Hwa Co. Ltd	1,359,405	12
Valeo Auto-Electric GmbH	1,305	10
Amalgamations Valeo Clutch Private Ltd	38,331,502	9
Équipement 11	32,549	6
Other investments with a net carrying amount below 2 million euros		7
INVESTMENTS IN SUBSIDIARIES AND AFFILIATES		**2,188**
Other securities		1
OTHER INVESTMENT SECURITIES		**1**
BFT Statère IC		100
Other money market funds (SICAV)		0
MONEY MARKET FUNDS		**100**
COMMERCIAL PAPER		**30**
TREASURY SHARES		**104**
TOTAL		**2,423**

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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

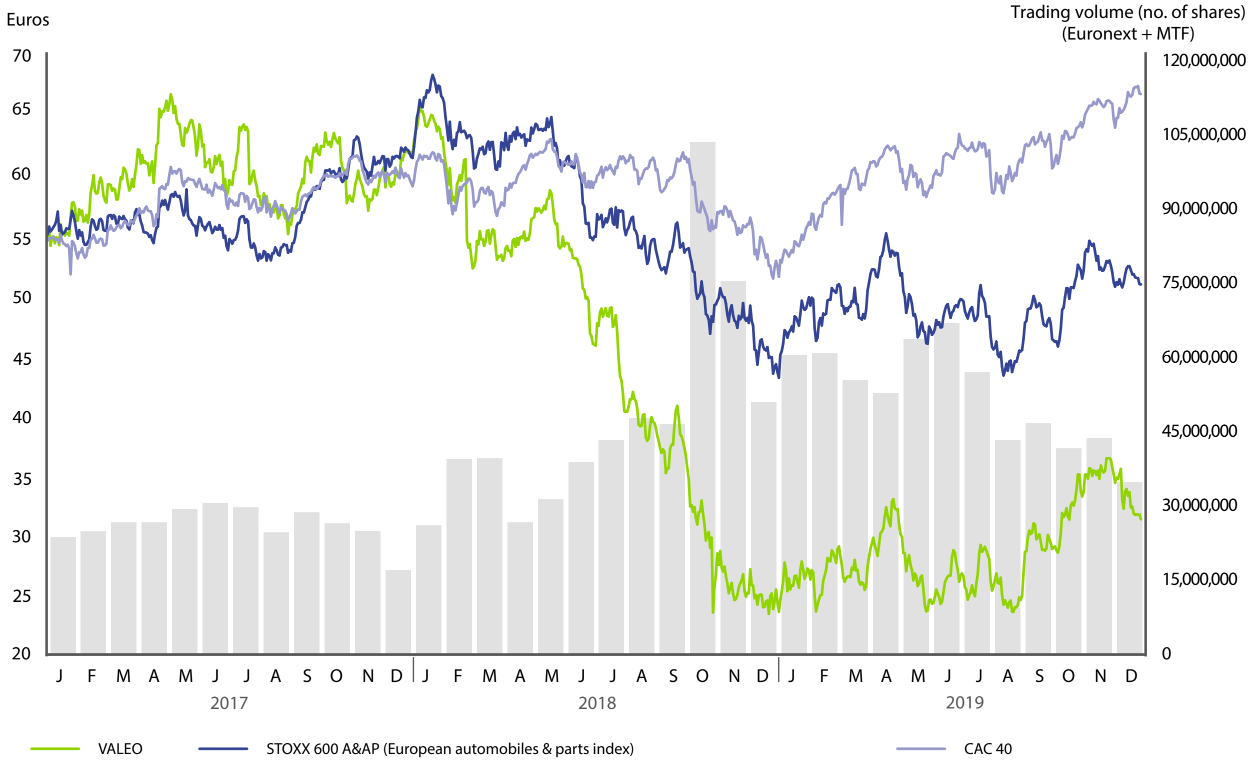
	2017	2018	2019
Market capitalization at year-end *(in billions of euros)*	14.92	6.13	7.57
Number of shares	239,653,121	240,253,100	241,036,743
Highest share price *(in euros)*	67.80	66.48	37.02
Lowest share price *(in euros)*	54.05	23.20	23.06
Average share price *(in euros)*	60.28	45.72	28.73
Share price at year-end *(in euros)*	62.27	25.51	31.41

6.1.1 Share performance

	Share price *(in euros)*			Trading volume		
Date	High	Low	Closing (average)	Volume on MTF(1) *(in number of shares)*	Volume on Euronext(2) *(in number of shares)*	Volume on Euronext(2) *(in capital and millions of euros)*
December 2018	27.47	23.20	24.89	16,998,559	33,855,871	855.30
January 2019	28.48	23.50	26.20	24,756,693	35,636,315	934.39
February 2019	29.24	23.55	26.63	25,991,977	34,729,426	925.36
March 2019	29.54	25.45	26.92	22,239,068	32,942,288	890.84
April 2019	33.80	26.40	30.35	21,872,502	30,863,529	935.63
May 2019	33.13	23.09	27.68	29,190,312	34,391,793	946.84
June 2019	29.18	23.06	25.72	31,588,096	35,193,468	926.84
July 2019	31.08	24.09	26.88	23,977,241	32,924,830	887.08
August 2019	28.58	23.23	25.14	17,035,621	26,114,390	656.17
September 2019	31.63	24.35	29.10	18,781,445	27,701,018	806.71
October 2019	35.62	28.05	31.58	19,444,608	28,174,979	892.34
November 2019	37.02	33.20	35.51	15,337,964	21,946,696	777.26
December 2019	36.25	31.24	33.24	14,728,205	19,972,828	668.08

(1) MTF: includes the trading volumes on the ChiX, Turquoise, Bats and Aquis platforms.
(2) Source: Euronext monthly statistics.

6.1.2 Share price and monthly trading volumes



Since 2018, the Valeo share has been impacted by the introduction of the new WLTP[1] test cycle, high commodity prices and the market slowdown in China.

6.2 Investor relations

Valeo's Investor Relations Department serves as an interface between the Group and the international financial community, including institutional investors such as socially responsible investors (SRIs), as well as financial analysts and individual shareholders. 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, positioning, results and short- and medium-term financial objectives.

Valeo's website, www.valeo.com, features a dedicated, regularly updated "Investors & shareholders" section for its shareholders and the financial community. It includes, in particular:

- the Registration Document, known as the "Universal Registration Document" as of July 2019, and the Half-Year Financial Report ("Regulated information" section);
- financial presentations and press releases ("Financial presentations & releases" section);
- the capital structure, the list of analysts covering the Valeo share, and information regarding the American depositary receipt program ("Stock market" section);
- details of the Group's debt, and the credit ratings assigned by Moody's and Standard & Poor's ("Bond investors" section);
- information for individual shareholders ("Individual shareholders" section);
- information about the Shareholders' Meeting ("Shareholders' Meeting" section).

(1) *WLTP: World Harmonized Light Vehicle Test Procedure.*

6.2.1 Institutional investors

The Group's Investor Relations Department closely and consistently interacts with the financial community. 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 at major global financial centers (Europe, North America and Asia) during roadshows or conferences. In all, the Investor Relations team met more than 1,000 institutional investors and analysts at these events during 2019, with the Group's Management present at a large number of these meetings.

Valeo has also been developing dedicated communications for investors and analysts specialized in socially responsible investment (SRI). In 2019, the Group had the opportunity 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.

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 and shareholders' letters, to individual shareholders to keep them informed about the Group's latest news and financial results. Since 2017, individual shareholders in France have been able to join an online Shareholders' Club, where they can access presentations on the Group and its operations.

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.

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 has been renewed every year, and in 2019 was rolled out in 21 countries to 94,000 employees. As is the case every year, information sessions about the offering and the performance of the Valeo share were held at each Group site.

At December 31, 2019, Valeo employees held 5,948,451 shares under Group employee share ownership plans in France and abroad, directly or indirectly through the Valeorizon mutual fund, representing 2.47% of the Company's share capital. At December 31, 2018, they held 5,004,024 shares, or 2.08% of the share capital. The Valeorizon mutual fund is an effective way of involving employees in the Group's performance.

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. They can call this telephone platform all year round with any questions they may have. For further information, see section 6.4.5 of this chapter, "Employee share ownership", page 430 and Chapter 4, section 4.3.3 "Valeo's non-financial risks", paragraph "Risk related to developing and retaining talent", page 223.

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

Individual shareholders
Tel.: +33 (0)1 40 55 20 39
Email: valeo@relations-actionnairesindividuels.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 2020 sales: April 23, 2020
- First-half 2020 results: July 21, 2020
- Third-quarter 2020 sales: October 27, 2020
- Full-year 2020 results: second half of February 2021

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)*
2016	1.25	Amount eligible for the 40% tax allowance provided for in Article 158,3-2° of the French Tax Code (*Code général des impôts*) for individuals who are tax residents in France	297
2017	1.25	Amount eligible for the 40% tax allowance provided for in Article 158,3-2° of the French Tax Code (*Code général des impôts*) for individuals who are tax residents in France	296
2018	1.25	Amount eligible for the 40% tax allowance provided for in Article 158,3-2° of the French Tax Code (*Code général des impôts*) for individuals who are tax residents in France	297

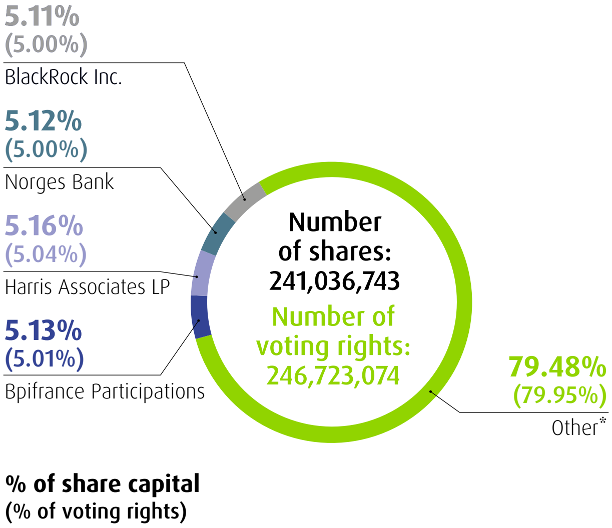
On February 20, 2020, it was announced that at the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2019, Valeo's Board of Directors would recommend the payment of a dividend of 1.25 euros per share eligible for dividends.

On April 23, 2020, in the current period of uncertainty caused by the Covid-19 epidemic, Valeo's Board of Directors decided to ask shareholders to approve a dividend payout of 0.2 euros per share.

6.4 Share ownership

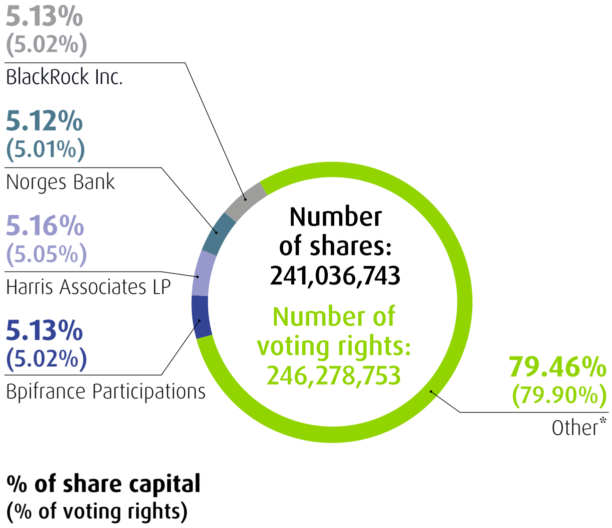
6.4.1 Ownership structure

OWNERSHIP STRUCTURE AT DECEMBER 31, 2019



* *Including 2,007,632 treasury shares (0.83% of the share capital).*

OWNERSHIP STRUCTURE AT FEBRUARY 21, 2020



* *Including 2,032,342 treasury shares (0.84% 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*);
- based on the Company's share capital and theoretical voting rights at December 31 of each of the three years under consideration (2017, 2018 and 2019), and at February 21, 2020.

At December 31, 2019, the Company's share capital comprised 241,036,743 shares, including 2,007,632 treasury shares, representing 246,723,074 theoretical voting rights.

	December 31, 2017				December 31, 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	12,429,136	5.17	12,429,136	5.06
Norges Bank	N/A	N/A	N/A	N/A	12,337,905	5.14	12,337,905	5.03
Lazard Asset Management LLC	12,063,564	5.03	12,063,564	4.92	N/A	N/A	N/A	N/A
Employee share ownership(2)	3,992,475	1.67	4,370,106	1.78	5,004,024	2.08	5,604,243	2.28
Treasury shares(3)	1,729,121	0.72	-	-	2,965,613	1.23	-	-
Other(4)	209,438,825	87.39	216,177,738(4)	88.23	207,516,422	86.38	215,358,584(4)	87.63
TOTAL	**239,653,121**	**100**	**245,040,544**	**100**	**240,253,100**	**100**	**245,729,868**	**100**

	December 31, 2019				February 21, 2020			
	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)
Bpifrance Participations	12,368,826	5.13	12,368,826	5.01	12,368,826	5.13	12,368,826	5.02
Harris Associates LP	12,429,136	5.16	12,429,136	5.04	12,429,136	5.16	12,429,136	5.05
Norges Bank	12,337,905	5.12	12,337,905	5.00	12,337,905	5.12	12,337,905	5.01
BlackRock Inc.	12,328,487	5.11	12,328,487	5.00	12,356,660	5.13	12,356,660	5.02
Employee share ownership(2)	5,948,451	2.47	6,759,009	2.74	5,948,451	2.47	6,759,009	2.74
Treasury shares(3)	2,007,632	0.83	-	-	2,032,342	0.84	-	-
Other	183,616,306	76.18	190,499,711(4)	77.21	183,563,423	76.15	190,027,217(4)	77.16
TOTAL	**241,036,743**	**100**	**246,723,074**	**100**	**241,036,743**	**100**	**246,278,753**	**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 443). 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) For more information on employee share ownership, see section 6.4.5 of this chapter, "Employee share ownership", page 430.
(3) For more information on treasury shares see section 6.5.2 of this chapter, "Treasury shares", page 432.
(4) 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, 2019, other than:

- Bpifrance Participations, which held 12,368,826 shares in the Company, i.e., 5.13% of the share capital and 5.01% of the voting rights;
- Harris Associates LP, which, acting on behalf of funds and clients it manages, held 12,429,136 shares in the Company, i.e., 5.16% of the share capital and 5.04% of the voting rights;
- Norges Bank, which held, directly or indirectly, 12,337,905 shares in the Company, i.e., 5.12% of the share capital and 5.00% of the voting rights;
- BlackRock Inc., which, acting on behalf of funds and clients it manages, held 12,328,487 shares in the Company, i.e., 5.11% of the share capital and 5.00% 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 21, 2020, other than:

- Bpifrance Participations, which held 12,368,826 shares in the Company, i.e., 5.13% of the share capital and 5.02% of the voting rights;
- Harris Associates LP, which, acting on behalf of funds and clients it manages, held 12,429,136 shares in the Company, i.e., 5.16% of the share capital and 5.05% of the voting rights;
- Norges Bank, which held, directly or indirectly, 12,337,905 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 12,356,660 shares in the Company, i.e., 5.13% of the share capital and 5.02% of the voting rights.

Crossing of disclosure thresholds

Between January 1, 2019 and February 21, 2020, 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)
Caisse des dépôts et des consignations (CDC) directly and via Bpifrance Participations	03/27/2019	03/21/2019	9,565,341	3.98%
Caisse des dépôts et des consignations (CDC) directly and via Bpifrance Participations	03/27/2019	03/26/2019	12,312,741	5.12%
EPIC Bpifrance via Bpifrance Participations	04/29/2019	04/23/2019	12,102,819	5.04%
EPIC Bpifrance via Bpifrance Participations	04/29/2019	04/24/2019	12,368,826	5.15%
Bpifrance Participations	04/29/2019	04/23/2019	12,102,819	5.04%
Bpifrance Participations	04/29/2019	04/24/2019	12,368,826	5.15%
JP Morgan Chase & Co. via JP Morgan Securities	05/24/2019	05/23/2019	13,867,973	5.77%
JP Morgan Chase & Co. via JP Morgan Securities	06/03/2019	05/27/2019	5,197,885	2.16%
Citigroup Global Markets Limited	06/03/2019	05/28/2019	12,832,438	5.34%
JP Morgan Chase & Co. via JP Morgan Securities	06/05/2019	05/31/2019	12,123,703	5.03%
JP Morgan Chase & Co. via JP Morgan Securities	06/06/2019	06/03/2019	5,169,542	2.15%
Citigroup Global Markets Limited	06/12/2019	06/10/2019	9,855,902	4.10%
BlackRock Inc.(2)	11/04/2019	10/30/2019	12,061,998	5.00%
BlackRock Inc.(2)	11/07/2019	11/04/2019	11,735,481	4.87%
BlackRock Inc.(2)	11/18/2019	11/14/2019	12,238,610	5.08%
BlackRock Inc.(2)	11/19/2019	11/15/2019	11,990,060	4.97%
BlackRock Inc.(2)	11/25/2019	11/21/2019	12,123,260	5.03%
BlackRock Inc.(2)	11/28/2019	11/26/2019	11,693,404	4.85%
BlackRock Inc.(2)	12/18/2019	12/16/2019	12,187,652	5.06%
BlackRock Inc.(2)	12/27/2019	12/24/2019	11,889,251	4.93%
BlackRock Inc.(2)	12/30/2019	12/27/2019	12,328,487	5.11%
BlackRock Inc.(2)	01/06/2020	01/02/2020	12,367,376	5.13%
BlackRock Inc.(2)	01/09/2020	01/08/2020	12,181,335	5.05%
BlackRock Inc.(2)	01/14/2020	01/13/2020	12,446,725	5.16%
BlackRock Inc.(2)	01/17/2020	01/16/2020	12,273,869	5.09%
BlackRock Inc.(2)	01/21/2020	01/17/2020	12,021,251	4.99%
BlackRock Inc.(2)	01/21/2020	01/21/2020	12,119,810	5.03%
BlackRock Inc.(2)	01/24/2020	01/23/2020	12,451,248	5.17%
BlackRock Inc(2)	01/31/2020	01/29/2020	11,878,005	4.93%
BlackRock Inc(2)	02/07/2020	02/06/2020	12,248,058	5.08%
BlackRock Inc(2)	02/13/2020	02/12/2020	12,356,660	5.13%

(1) Information sourced from disclosure threshold crossing notifications published by the AMF.
(2) Acting on behalf of funds and clients it manages.

Number of voting rights held(1)	Percentage of theoretical voting rights reported(1)	Threshold crossed/ Increase or decrease(1)	Reason for threshold crossing(1)
12,586,107	5.12%	5% of voting rights/Increase	Purchase of shares on the market
15,333,507	6.24%	5% of share capital/Increase	Purchase of shares on the market
12,102,819	4.92%	5% of share capital/Increase	Purchase of shares on the market
12,368,826	5.03%	5% of voting rights/Increase	Purchase of shares on the market
12,102,819	4.92%	5% of share capital/Increase	Purchase of shares on the market
12,368,826	5.03%	5% of voting rights/Increase	Purchase of shares on the market
17,372,031	5.64%	5% of share capital and voting rights/Increase	Purchase of shares on the market
5,197,885	2.16%	5% of share capital and voting rights/Decrease	Sale of shares off the market
12,832,438	5.22%	5% of share capital and voting rights/Increase	Purchase of shares on the market and increase in number of shares held by assimilation
12,123,703	4.93%	5% of share capital and voting rights/Increase	Purchase of Valeo shares off the market
5,169,542	2.10%	5% of share capital and voting rights/Decrease	Sale of shares on the market
9,855,902	4.00%	5% of share capital and voting rights/ Decrease	Sale of shares on the market and decrease in the number of shares held by assimilation
12,061,998	4.88%	5% of share capital/Increase	Receipt of shares held as collateral
11,735,491	4.75%	5% of share capital/Decrease	Sale of shares on the market and decrease in the number of shares held as collateral
12,238,610	4.96%	5% of share capital/Increase	Purchase of shares on the market and receipt of shares held as collateral
11,990,060	4.86%	5% of share capital/Decrease	Sale of shares on the market and decrease in the number of shares held as collateral
12,123,260	4.92%	5% of share capital/Increase	Purchase of shares on the market and receipt of shares held as collateral
11,693,404	4.74%	5% of share capital/Decrease	Sale of shares on the market and decrease in the number of shares held as collateral
12,187,652	4.94%	5% of share capital/Increase	Purchase of shares on the market and receipt of shares held as collateral
11,889,251	4.86%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
12,328,487	4.99%	5% of share capital/Increase	Purchase of shares on the market and receipt of shares held as collateral
12,367,376	5.01%	5% of voting rights/Increase	Purchase of shares on the market and receipt of shares held as collateral
12,181,335	4.94%	5% of voting rights/Decrease	Decrease in the number of shares held as collateral
12,446,725	5.04%	5% of voting rights/Increase	Purchase of shares on the market and receipt of shares held as collateral
12,273,869	4.97%	5% of voting rights/Decrease	Decrease in the number of shares held as collateral
12,021,251	4.87%	5% of share capital/Decrease	Decrease in the number of shares held as collateral
12,119,810	4.91%	5% of share capital/Increase	Purchase of shares off the market and increase in shares held as collateral
12,451,248	5.05%	5% of voting rights/Increase	Purchase of shares off the market and increase in shares held as collateral
11,878,005	4.51%	5% of share capital and voting rights/Decrease	Decrease in the number of shares held as collateral
12,248,058	4.96%	5% of share capital/Increase	Purchase of shares off and on the market and increase in shares held as collateral
12,356,660	5.02%	5% of voting rights/Increase	Purchase of shares off the market and increase in shares held as collateral

6.4.3 Directors' interests in Valeo's share capital

At December 31, 2019, to the best of the Company's knowledge, Jacques Aschenbroich and other individual members of the Board of Directors held less than 1% of Valeo's share capital and voting rights in a personal capacity. Bpifrance Participations held 12,600,000 shares, bringing the percentage interest held by all members of the Board of Directors (both individuals and companies) in a personal capacity to 5.58% of the share capital and 5.80% of the voting rights. The number of shares held by each member of the Board of Directors is given in Chapter 3, section 3.2.1, paragraphs "Composition of the Board of Directors at December 31, 2019 and changes during the year" and "Presentation of directors in 2019", pages 116 to 131.

6.4.4 Transactions carried out in the Company's shares by senior management and directors

To the best of the Company's knowledge, no senior managers or directors or related persons reported, pursuant to the applicable legal and regulatory provisions, having carried out transactions involving the Company's shares (i) in 2019 or (ii) between January 1, 2020 and the date of this Universal Registration Document.

6.4.5 Employee share ownership

At December 31, 2019, Valeo employees held 5,948,451 shares under Group employee share ownership plans in France and abroad, directly or indirectly through the Valeorizon mutual fund, representing 2.47% of the Company's share capital. At December 31, 2018, they held 5,004,024 shares, or 2.08% of the share capital. The Valeorizon mutual fund is an effective way of involving employees in the Group's performance.

As has been the case since 2016, a share subscription offering reserved for employees was launched in 2019 in 21 of the Group's main countries, giving more than 90% of employees the opportunity to become Valeo shareholders. 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 May 2, 2019 to May 15, 2019, employees had subscribed to 783,643 new shares at a unit price of 23.72 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, 2019

In accordance with Articles L.225-209 *et seq.* of the French Commercial Code, Articles 241-1 *et seq.* of the AMF's General Regulations, Regulation No. 596/2014 of the European Parliament and of the Council of April 16, 2014, Commission Delegated Regulation No. 2016/1052 of March 8, 2016 and the market practices permitted by the AMF, the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2019, 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 Company stock option plan under which beneficiaries may purchase shares in the Company by any means pursuant to Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment of free shares in the Company pursuant to 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, 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 in compliance with the market practices permitted by the AMF;
- the cancelation of all or part of the shares so acquired; or
- market-making for the Valeo share under a liquidity agreement compliant with the market practices permitted by the AMF.

The program is also intended to allow for the implementation of any market practices that may subsequently be permitted by market authorities and, more generally, to carry out any other transactions in compliance with current or future applicable laws and regulations.

The total number of shares purchased by the Company during the share buyback program may not exceed 10% of the shares making up the Company's share capital at any time. This percentage will apply to the share capital as adjusted to take into account any transactions carried out subsequent to 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, less the number of shares sold during the authorized period;

(ii) the number of shares purchased with a view to holding them for future delivery in connection with an external growth operation, merger, spin-off or contribution may not exceed 5% of the share capital;

(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 80 euros per share and the maximum amount allotted to the share buyback program is set at 1,928,293,920 euros. Based on the per-share price of 80 euros, a maximum of 24,103,674 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, 2019 and canceled, as of the same date, the unused portion, as at the Shareholders' Meeting of May 23, 2019, of the authorization granted by the Shareholders' Meeting of May 23, 2018 in its eleventh resolution.

A description of the 2019 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 2019, Valeo carried out a number of share sale and purchase transactions under the abovementioned share buyback program and under the program authorized at the Shareholders' Meeting of May 23, 2018 (see section 6.5.2 of this chapter, "Treasury shares", page 432).

6.5.2 Treasury shares

At December 31, 2019, the Company held, directly or indirectly, 2,007,632 treasury shares (i.e., 0.83% of the share capital) with a unit value based on the purchase price of 51.93 euros and a par value of 1 euro. At December 31, 2018, Valeo held 2,965,613 treasury shares, i.e., 1.23% of the share capital.

The shares purchased in 2019 were to be used in respect of:

- stock purchase option 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 23, 2018 and May 23, 2019 to the Board of Directors to buy back Company shares, it being specified that the eleventh resolution of the Shareholders' Meeting of May 23, 2019 terminated and superseded the authorization granted by the Shareholders' Meeting of May 23, 2018.

The eleventh resolution of the Shareholders' Meeting of May 23, 2019 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 Company stock option plan under which beneficiaries may purchase shares in the Company by any means pursuant to Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment of free shares pursuant to 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, 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 acting in the name and on behalf of the Company in an independent capacity without being influenced by the Company, 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.

The program was also intended to enable the Company to carry out transactions in the Company's shares for 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, 2019 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, 2019", page 431.

Shares to be allotted to stock purchase option and free share plans

At December 31, 2019, the number of treasury shares to be allocated to stock purchase option and free share (including performance share) plans stood at 1,907,632 compared with 2,374,113 at December 31, 2018.

Shares for use under a liquidity agreement

With effect from March 23, 2019, the Group entered into a liquidity agreement with a new investment services provider pursuant to an agreement signed following a tender process, replacing the initial agreement signed in 2004. Under the new liquidity agreement, in 2019 Valeo acquired 3,306,335 shares at an average price of 29.01 euros and sold 3,797,835 shares at an average First-In-First-Out price of 29.81 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, 2019, 100,000 shares and 14,610,640.60 euros in cash had been allocated to the liquidity agreement, compared with 591,500 shares and 997,522.68 euros in cash at December 31, 2018.

6.5.3 Share buyback program to be submitted to the Shareholders' Meeting of June 25, 2020

The Ordinary and Extraordinary Shareholders' Meeting to be held on June 25, 2020 will be asked to renew the authorization granted by the eleventh resolution approved by the Shareholders' Meeting of May 23, 2019, permitting the Company to carry out transactions in its own shares under a new share buyback program, in accordance with the provisions of Articles L.225-209 *et seq*. of the French Commercial Code, Regulation No. 596/2014 of the European Parliament and of the Council of April 16, 2014, Commission Delegated Regulation No. 2016/1052 of March 8, 2016 as well as any other legal or regulatory 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 June 25, 2020, 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), in particular by any employee and/or corporate officer of the Company and of related companies or economic interest groups, in accordance with the applicable legal and regulatory provisions; 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), particularly to any employee and/or corporate officer of the Company or related companies or economic interest groups, in accordance with the applicable legal and regulatory provisions; 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 for the Valeo share under a liquidity agreement compliant with the market practices permitted by the AMF.

The program is also intended to allow for the implementation of any market practice that may subsequently be permitted by market authorities and, more generally, to carry out any other transactions in compliance with current or future applicable laws and regulations.

Number of shares and percentage of share capital held by the issuer

At January 31, 2020, Valeo directly or indirectly held 2,032,342 shares, representing 0.84% of the Company's share capital.

Breakdown of shares owned by Valeo by purpose

At January 31, 2020:

- 1,897,342 shares were allotted to stock purchase option or free share plans;
- 135,000 shares were allotted under the liquidity agreement signed with Rothschild Martin Maurel on March 23, 2019, which replaced the agreement initially signed with CA Chevreux on April 22, 2004 and subsequently amended by an additional clause on June 24, 2005, and by a second additional clause with Kepler Capital Markets on April 30, 2013, which was terminated on March 22, 2019. 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 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 may not exceed 10% of the shares making up the Company's share capital (i.e., 24,103,674 shares at January 31, 2020, excluding shares already held by the Company). This percentage will apply to the share capital as adjusted to take into account any transactions carried out subsequent to the Shareholders' Meeting.

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., 2,032,342 shares at January 31, 2020 (0.84% of the Company's share capital) and subject to adjustments affecting the number of shares held by the Company (including cancelation of treasury shares) and the amount of share capital after the Ordinary and Extraordinary Shareholders' Meeting on June 25, 2020, a total of 22,071,332 shares (9.16% of the Company's share capital at January 31, 2020) 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 80 euros per share (excluding acquisition costs). 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 1,928,293,920 euros (excluding acquisition costs). 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 June 25, 2020, the new share buyback program would be authorized for an 18-month period as of the meeting, i.e., until November 26, 2021. It will supersede the eleventh resolution approved by the Shareholders' Meeting of May 23, 2019.

6.5.4 Cancelation of treasury shares

In the twentieth resolution of the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2019, the Company's shareholders gave the Board of Directors a 26-month authorization to reduce the Company's 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 2019 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, 2019**
2019	Capital increase reserved for employees	1	18	19	783,643	241,036,743

The share capital at December 31, 2019 therefore comprised 241,036,743 shares with a par value of 1 euro, fully paid-up and traded on the Euronext Paris regulated market.

At December 31, 2019, 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 options outstanding in 2019[1]

	2011 plan	2012 plan
Date of Board meeting	**06/08/2011**	**03/27/2012**
Date of Shareholders' Meeting	06/08/2011	06/08/2011
TOTAL NUMBER OF SHARES THAT CAN BE PURCHASED	**878,520**	**1,101,480**
▪ Total number of options allotted to corporate officers[2]	90,900	105,900
▪ Total number of options allotted to employees	787,620	995,580
▪ Number of corporate officer grantees[2]	1	1
▪ Number of employee grantees	275	282
Start of exercise period	06/08/2014	03/27/2015
Expiration date	06/07/2019	03/26/2020
Purchase price	€14.13	€13.59
PERFORMANCE CRITERIA[3]		
▪ Chairman and Chief Executive Officer, Operations Committee	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA rate
▪ Liaison Committee	Operating margin – ROCE rate	Operating margin – ROCE rate
▪ Main direct reports of the Liaison Committee members	Operating margin – ROCE rate	Operating margin – ROCE rate
▪ High-potential managers	-	-
▪ All employees	-	-
PERFORMANCE CRITERIA – RATE OF ACHIEVEMENT		
▪ Chairman and Chief Executive Officer, Operations Committee	60%	100%
▪ Liaison Committee and main direct reports of the Liaison Committee members	50%	100%
▪ High-potential managers	75%	100%
▪ All employees	-	-
Number of options exercised at Dec. 31, 2019	484,800	900,680
Number of stock options canceled or forfeited at Dec. 31, 2019 (cumulative)	393,720	118,650
Number of options outstanding at Dec. 31, 2019	**0**	**82,150**
Number of grantees at Dec. 31, 2019	0	34

(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) Chairman and Chief Executive Officer.

(3) For definitions of operating margin, ROCE and ROA, see financial glossary, page 48.

Free share plans in force at December 31, 2019[1]

	2013 plan	2014 plan	2015 plan	2016 plan	2017 plan	2018 plan	2019 plan
DATE OF BOARD MEETING	**03/27/2013**	**03/27/2014**	**03/26/2015**	**05/26/2016**	**03/22/2017**	**03/22/2018**	**05/23/2019**
Date of Shareholders' Meeting	06/04/2012	06/04/2012	05/21/2014	05/26/2016	05/26/2016	05/26/2016	05/23/2019
TOTAL NUMBER OF FREE SHARES ALLOTTED	**1,421,442**	**970,440**	**957,027**	**1,267,022**	**1,012,043**	**1,234,623**	**1,699,281**
▪ Total number of shares allotted to corporate officers[2]	76,902	31,515	30,696	70,974	51,030	55,026	87,122
▪ Total number of shares allotted to employees	1,344,540	938,925	926,331	622,158	538,731	661,237	1,192,159
▪ Total number of options allotted under employee share ownership plans	-	-	-	573,890	422,282	518,360	420,000
▪ Number of corporate officer grantees[2]	1	1	1	1	1	1	1
▪ Number of employee grantees	56,966	174,308	188,550	28,030[1]	32,214[1]	38,418[1]	39,284[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: 03/26/2018 Other countries: 03/26/2020	France: 06/08/2019 Other countries: 06/08/2021	France: 03/22/2020[2] 03/22/2021[3] Other countries: 03/22/2021	France: 03/22/2021[2] 03/22/2022[4] Other countries: 03/22/2022[4]	France and other countries: 05/23/2022
▪ 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: 03/26/2018 Other countries: 03/26/2020	France: 06/08/2019 Other countries: 06/08/2021	France: 03/22/2021[3] Other countries: 03/22/2021[3]	France: 03/22/2022[4] Other countries: 03/22/2022[4]	France and other countries: 05/23/2022
▪ High-potential managers	-	-	France: 03/26/2018 Other countries: 03/26/2020	France: 06/08/2019 Other countries: 05/08/2021	France: 03/22/2020 Other countries: 03/22/2022	France: 03/22/2021 Other countries: 03/22/2023	France and other countries: 05/23/2022
▪ 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: 03/26/2018 Other countries: 03/26/2020	France: 06/08/2019 Other countries: 06/08/2021	France: 03/22/2020 Other countries: 03/22/2022	France: 03/22/2021 Other countries: 03/22/2023	France and other countries: 05/23/2022
▪ "Employee share ownership"		-	-	Spain/Italy: 11/15/2019 Belgium: 11/15/2021 Other countries: 06/30/2021	Spain/Italy: 07/27/2020 Belgium and Ireland: 07/27/2022 Other countries: 06/30/2022	Italy/Spain: 06/30/2021 Other countries: 06/30/2023	Italy/Spain: 06/27/2022 Other countries: 06/30/2024
SHARES AVAILABLE AS AT							
▪ Chairman and Chief Executive Officer, Operations Committee	03/27/2018	03/27/2019	03/27/2020	06/08/2021	03/22/2022[2] [5]	03/22/2023[2] [5]	05/23/2024[2] [5]
▪ Liaison Committee and main direct reports of the Liaison Committee members	03/27/2018	03/27/2019	03/27/2020	06/08/2021	[5]	[5]	[5]
▪ High-potential managers	-	-	03/27/2020	06/08/2021	03/22/2022	03/22/2023	[5]

(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) For the Chairman and Chief Executive Officer only.

(3) For members of the Operations Committee and Liaison Committee, and the main direct reports of the Liaison Committee members only, removal of 2018 and deferral of the performance measurement period by one year (i.e., 2017, 2019 and 2020 instead of 2017, 2018 and 2019). The vesting period is four years instead of three. No holding period.

(4) For members of the Operations Committee and Liaison Committee, and the main direct reports of the Liaison Committee members only, removal of 2018 and deferral of the performance measurement period by one year (i.e., 2019, 2020 and 2021 instead of 2018, 2019 and 2020). The vesting period is four years instead of three. No holding period.

(5) No holding period.

	2013 plan	2014 plan	2015 plan	2016 plan	2017 plan	2018 plan	2019 plan
DATE OF BOARD MEETING	03/27/2013	03/27/2014	03/26/2015	05/26/2016	03/22/2017	03/22/2018	05/23/2019
▪ 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: 06/08/2021	France/Other countries: 03/22/2022	France/Other countries: 03/22/2023	(5)
▪ "Employee share ownership"	-	-	-	Italy/Spain: 11/15/2022 Belgium: 11/15/2021 Other countries: 06/30/2021	Italy/Spain: 07/27/2023 Belgium/ Ireland: 07/27/2022 Other countries: 06/30/2022	Italy/Spain: 06/30/2024 Other countries: 06/30/2023	Italy/Spain: 06/27/2025 Other countries: 06/30/2024
PERFORMANCE CRITERIA(6)							
▪ Chairman and Chief Executive Officer, Operations Committee	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA rate	Operating margin – ROCE rate – TSR
▪ Liaison Committee and main direct reports of the Liaison Committee members	Operating margin – ROCE rate	Operating margin – ROCE rate	Operating margin – ROCE rate	Operating margin – ROCE rate	Operating margin – ROCE rate	Operating margin – ROCE rate	Operating margin – ROA rate
▪ High-potential managers	-	-	-	-	-		
▪ All employees	-	-	-	-	-		
PERFORMANCE CRITERIA – RATE OF ACHIEVEMENT	-						
▪ Chairman and Chief Executive Officer, Operations Committee	100%	100%	100%	0%(7)	0%(7)		
▪ Liaison Committee and main direct reports of the Liaison Committee members	100%	100%	100%	0%(7)			
▪ High-potential managers	-	-	-				
▪ All employees	-	-	-				
Number of shares vested at Dec. 31, 2019 (cumulative)	1,210,350	719,364	380,607	80,885	1,838	1,443	586
Number of shares canceled or forfeited at Dec. 31, 2019 (cumulative)	211,092	248,076	197,160	618,840	91,215	70,765	25,286
Number of shares outstanding at Dec. 31, 2019	**0**	**3,000**	**379,260**	**216,676**	**679,519**	**890,685**	**1,581,661**
Number of grantees at Dec. 31, 2019	0	1	31,517	13,034	29,856	37,467	38,265

(5) No holding period.
(6) For definitions of operating margin, ROCE, ROA and TSR, see financial glossary, page 48.
(7) Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to achieve these criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of the WLTP, a slowdown in the Chinese market, a rise in commodity prices and, more generally, the current turbulence in the financial markets.

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, pages 352 to 355.

6.6.4 Other information on the share capital

Change in control

At the date of this Universal 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 Universal 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 abovementioned 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.

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 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 on which 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. This disclosure requirement also concerns ownership of each additional 2% fraction of the share capital or voting rights. The stated thresholds are calculated in accordance with Articles L.233-7 and L.233-9 of the French Commercial Code and with the AMF's General Regulations. 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 abovementioned 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 will pass on said information either to the Company or the abovementioned 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 will be stripped of voting rights for all Shareholders' Meetings until the identification request has been fulfilled, and the payment of any corresponding dividends will 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", pages 102 to 182.

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 50 to 78.

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 1.5.1 "Sales and Business Development", page 72.

A list of consolidated companies is provided in Chapter 5, section 5.4.6, Note 13 "List of consolidated companies" to the 2019 consolidated financial statements, pages 375 to 382 (the list also shows the location of the companies). The position of the direct subsidiaries and interests of Valeo SA, the parent company, is presented in the table included in Chapter 5, section 5.6.4, Note 11 "Subsidiaries and affiliates" to the parent company financial statements, page 411.

Main companies

(representing 80% of consolidated sales)

Direct and indirect interests by country *(% interest at December 31, 2019)*

EUROPEAN UNION					
FRANCE	Valeo Équipements Électriques Moteur	100%	✓	✓	
	Valeo Vision	100%	✓	✓	
	Valeo Systèmes Thermiques	100%	✓	✓	
	DAV	100%	✓	✓	
	Valeo Embrayages	100%	✓	✓	✓
	Valeo Service	100%			✓
IRELAND, GERMANY	Connaught Electronics Limited	100%	✓	✓	
	Valeo Schalter und Sensoren GmbH	100%	✓	✓	
	peiker acustic GmbH & Co KG	100%	✓	✓	
	Valeo Klimasysteme GmbH	100%	✓	✓	
	Valeo Wischersysteme GmbH	100%	✓	✓	
	FTE automotive GmbH	100%	✓	✓	
BELGIUM, SPAIN, ITALY	Valeo Vision Belgique	100%	✓	✓	
	Valeo Iluminación, S.A.U.	100%	✓	✓	
	Valeo S.p.a.	100%	✓	✓	
HUNGARY, POLAND, CZECH REPUBLIC, ROMANIA	Valeo Auto-Electric Hungary LLC	100%	✓	✓	
	Valeo Autosystemy Sp.ZO.O	100%	✓	✓	
	Valeo Electric and Electronic Systems Sp.ZO.O	100%	✓	✓	
	Valeo Autoklimatizace k.s.	100%	✓	✓	
	Valeo Compressor Europe s.r.o.	100%	✓	✓	
	Valeo Lighting Injection SA	100%			
EUROPE OUTSIDE THE EU					
TURKEY	Valeo Otomotiv Sanayi ve Ticaret A.S.	100%	✓	✓	✓
NORTH AMERICA					
UNITED STATES	Valeo North America, Inc.	100%	✓	✓	✓
	Valeo Radar Systems, Inc.	100%	✓	✓	
MEXICO	Valeo Sistemas Electricos, SA de CV	100%	✓		✓
	Valeo Sistemas Automotrices de México, SA de CV	100%			✓
	Delmex de Juarez S de RL de CV	100%	✓		
	Valeo Kapec, SA de CV	50 %	✓		
SOUTH AMERICA					
BRAZIL	Valeo Sistemas Automotivos Ltda	100%	✓	✓	✓
ASIA					
CHINA	Valeo Interior Controls (Shenzhen) Co. Ltd	100%	✓	✓	
	Valeo Automotive Air Conditioning Hubei Co. Ltd	100%	✓	✓	
	Valeo Ichikoh (China) Auto Lighting Co., Ltd	93.26%	✓		
	Valeo Kapec Torque Converters (Nanjing) Co. Ltd	50%	✓	✓	
INDIA	Valeo India Private Ltd	100%	✓	✓	
SOUTH KOREA, JAPAN	Valeo Kapec Co., Ltd	50%	✓		
	Valeo Pyeong HWA Co. Ltd	50%	✓	✓	
	Valeo Electrical Systems Korea, Ltd	100%	✓	✓	
	Ichikoh Industries Ltd	55%	✓	✓	
	Valeo Japan Co. Ltd	100%	✓	✓	✓

✓ *Plant* ✓ *Research and Development center* ✓ *Distribution platform*

7.3 Material contracts

With the exception of the contracts mentioned below, neither Valeo nor any of the Group's companies signed any major contracts in the last two years other than those related to the ordinary course of their business.

7.3.1 In 2019

On January 4, 2019, Mov'InBlue, a smart mobility solution created by Valeo and Capgemini for corporate fleets and car rental companies, and **Drivy**, Europe's leading car-sharing platform, announced the launch of a connected and interoperable shared mobility solution. Thanks to this solution, fleet managers will be able to make their vehicles available for self-service car-sharing on the Drivy platform.

On January 8, 2019, Valeo signed a partnership agreement with **Mobileye**, a subsidiary of Intel, to develop and promote a new form of autonomous vehicle safety based on Responsibility-Sensitive Safety (RSS). The partnership targets widespread industry take-up of this mathematical safety model developed by Mobileye.

On January 9, 2019, Valeo announced it had signed a strategic cooperation agreement with **Meituan**, China's leading on-demand food delivery platform. The two parties will work together on autonomous delivery vehicles for last-mile delivery. Valeo will contribute its know-how and provide parts, especially in electric powertrain systems, lighting systems, thermal management systems and sensors. The first autonomous electric delivery droid developed through this agreement made its debut at the Las Vegas Consumer Electronics Show (CES) in January 2020.

On October 3, 2019, Valeo announced a global collaboration with **Dana Incorporated** to bring to market end-to-end 48V transmission systems for hybrid and electric vehicles. This new offering provides all the components required to fully electrify light vehicles (three- and four-wheel urban vehicles) and hybridize vehicles weighing up to 2.5 tons. They comprise an electric motor and an inverter designed and manufactured by Valeo, and a Spicer® Electrified™ e-Gearbox developed by Dana.

7.3.2 In 2018

On March 23, 2018, Valeo announced the signing of a partnership agreement with start-up **Ellcie Healthy**, aiming to accelerate the development of smart connected eyeglasses for driving. Valeo is already active in the field, having introduced smart anti-glare glasses that synchronize with vehicle headlights. Now, it is partnering with Ellcie Healthy to capitalize on the start-up's expertise in eyewear with integrated sensors.

On April 12, 2018, Valeo and **NTT Docomo**, Japan's leading mobile operator, entered into a partnership to jointly develop and offer vehicle connectivity solutions. Under the agreement, Valeo and Docomo will combine their respective expertise and solutions to offer telecommunication services and on-board equipment for connected cars, including next-generation mobility services, digital services for cars using smartphones, and enhanced controls for onboard equipment.

On July 4, 2018, Valeo announced that it had entered into a strategic partnership with **Apollo**, the open autonomous driving platform created by Baidu, the leading Chinese language internet search provider.

On September 19, 2018, Valeo and **WABCO** announced the signing of a memorandum of understanding (MoU) to bring the latest active safety technologies to the commercial vehicle market in order to protect pedestrians and cyclists in city traffic and enable autonomous driving features. This MoU will enable Valeo and WABCO to play a leading role in the advanced driving assistance systems (ADAS) and automated driving (AD) markets for commercial vehicles.

In addition to the above,

- on March 7, 2018, 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 23, 2017. The shares will be allocated in full to cover the implementation of any stock purchase option plans or performance share plans, the allotment of shares to employees and the implementation of any company savings plans;
- on May 31, 2018, 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 23, 2017. Under the terms of the Agreement signed on March 7, 2018, Valeo acquired 1,837,417 shares on May 29 at an average price of 54.4242 euros. The shares will be allocated in full to cover the implementation of any stock purchase option 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 June 11, 2018, Valeo announced the placement of 600 million euros' worth of new seven-year bonds maturing in June 18, 2025. The bonds, which were placed on favorable terms, pay a coupon of 1.50%. BNP Paribas, Citi, Crédit Agricole CIB, HSBC and Natixis were joint bookrunners on this transaction.

7.4 Documents on display

The Company's press releases, Registration Documents and Universal Registration Document 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 half-year financial reports, which remain online for at least ten 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).

Accordingly, in respect of the period March 23, 2019 to April 27, 2020, the following documents are on display:

Full-year and half-year financial reports, quarterly financial information, share buyback programs and other information (www.valeo.com)

April 23, 2020	Presentation – First-quarter 2020 sales
April 23, 2020	Press release – First-quarter 2020 sales
March 4, 2020	Monthly share buyback information – February 2020
February 20, 2020	Press release – 2019 results
February 20, 2020	Presentation – 2019 results
February 20, 2020	2019 consolidated financial statements – 2019 results
February 10, 2020	Share buy-back monthly information – January 2020
January 14, 2020	Half-year update on the liquidity agreement at December 31, 2019
January 13, 2020	Monthly share buyback information – December 2019
December 11, 2019	Monthly share buyback information – November 2019
November 12, 2019	Monthly share buyback information – October 2019
October 24, 2019	Presentation – Third-quarter 2019 sales
October 24, 2019	Press release – Third-quarter 2019 sales
October 9, 2019	Monthly share buyback information – September 2019
September 11, 2019	Monthly share buyback information – August 2019
August 26, 2019	Monthly share buyback information – July 2019
July 24, 2019	Presentation – First-half 2019 results
July 24, 2019	2019 half-year financial report
July 24, 2019	Press release – First-half 2019 results
July 9, 2019	Half-year update on the liquidity agreement at June 30, 2019
July 9, 2019	Monthly share buyback information – June 2019
June 7, 2019	Monthly share buyback information – May 2019
May 23, 2019	2018 Activity and Sustainable Development Report
May 9, 2019	Monthly share buyback information – April 2019
April 25, 2019	Presentation – First-quarter 2019 sales
April 25, 2019	Press release – First-quarter 2019 sales
April 8, 2019	Monthly share buyback information – March 2019
March 29, 2019	Filing of 2018 Registration Document
March 29, 2019	2018 Registration Document
March 29, 2019	2018 Integrated Report

Notifications of disclosure threshold crossings (published on the AMF's website www.amf-france.org)

Notifications of disclosure thresholds crossed may be viewed in section 6.4.2 of Chapter 6, "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)", paragraph "Crossing of disclosure thresholds", page 428.

Information relating to the total number of voting rights and shares forming Valeo's share capital (www.valeo.com)

Information covering the period from March 23, 2019 to April 27, 2020 is available on Valeo's website under Investors & Shareholders/ Regulated Information: https://www.valeo.com/fr/autres-informations-reglementees/

Information published by Valeo in the French legal gazette (*Bulletin des annonces légales obligatoires* – BALO), available in French on the BALO website (www.journal-officiel.gouv.fr/balo)

March 9, 2020	Notice of the project to transform Valeo into a European Company
June 19, 2019	Approval of the 2018 financial statements by the Shareholders' Meeting of May 23, 2019
April 26, 2019	Notice of Shareholders' Meeting of May 23, 2019
March 29, 2019	Initial notice of Shareholders' Meeting of May 23, 2019

Information published by Valeo in financial media

April 23, 2020	Press release announcing first-quarter 2020 sales published on InPublic
February 20, 2020	Press release announcing second-half and full-year 2019 results published on InPublic
October 24, 2019	Press release announcing third-quarter 2019 sales published on InPublic
July 24, 2019	Press release announcing first-half 2019 results published on InPublic
April 25, 2019	Press release announcing first-quarter 2019 sales published on InPublic

Press releases published on Valeo's website (www.valeo.com)

April 2020	
April 21, 2020	Protecting the health and safety of its employees is Valeo's top priority: agreement reached with labor organizations in France on measures for resuming operations
April 14, 2020	Valeo: update on Covid-19
March 2020	
March 31, 2020	Air Liquide, Groupe PSA, Schneider Electric and Valeo rise to the challenge of producing 10,000 Air Liquide Medical Systems respirators in response to the French government request
March 26, 2020	Valeo receives the Road Safety Innovation Award for Valeo Rescuer™
March 25, 2020	Co-optation of the FSP to Valeo's Board of Directors
March 25, 2020	Valeo's General Meeting postponed to June 25, 2020
March 20, 2020	Valeo donates 30,000 FFP2/FFP3 masks to hospitals
February 2020	
February 21, 2020	Project to transform Valeo into a European Company
January 2020	
January 5, 2020	In a world first, Valeo unveils its autonomous, electric delivery droid, developed in partnership with Meituan Dianping, China's leading e-commerce platform for services (CES 2020)
January 5, 2020	Hexagon, Hyundai and Valeo unveil a high-precision vehicle positioning system to make roads safer (CES 2020)
December 2019	
December 16, 2019	Valeo wins R&D award for its high definition LED smart lighting technology at the Innovation Awards for Franco-Chinese Teams
December 9, 2019	Valeo Investor Day 2019
October 2019	
October 3, 2019	Valeo and Dana Incorporated collaborate to bring end-to-end 48V systems to hybrid and electric vehicles
July 2019	
July 3, 2019	AI for Humanity: French industry engages on Artificial Intelligence
June 2019	
June 26, 2019	Co-optation to Valeo's Board of Directors
May 2019	
May 23, 2019	Valeo's 2019 Annual Shareholders' Meeting
May 13, 2019	Valeo at Viva Technology: innovations and challenges in the fields of electric, autonomous and connected vehicles
May 2, 2019	Valeo announces an employee share offering
April 2019	
April 29, 2019	Valeo welcomes Bpifrance as a shareholder
April 15, 2019	2019 Shanghai auto show: Valeo unveils its innovations in the electric, autonomous and connected vehicle segments, which are driving the mobility of tomorrow
April 5, 2019	Valeo ranks as France's leading patent filer for the third year in a row
March 2019	
March 29, 2019	Valeo: Filing of 2018 Registration Document
March 21, 2019	Valeo's 2019 Annual Shareholders' Meeting
March 7, 2019	Valeo undertakes to close the gender pay gap in all its host countries
January 2019	
January 10, 2019	Valeo and Cree demonstrate the first complete high definition LED array solution for automotive lighting systems CES 2019
January 9, 2019	Valeo joins Meituan Autonomous Delivery open platform
January 8, 2019	Valeo signs an agreement with Mobileye to develop a new autonomous vehicle safety standard
January 7, 2019	Valeo unveils its innovations for the revolutions in mobility at CES 2019, a showcase for new technologies
January 4, 2019	Mov'InBlue and car-sharing platform Drivy enter into a technological partnership to speed up the development of self-service car-sharing offers
January 4, 2019	Valeo demonstrates telematics platform equipped with Autotalks' Global V2X at CES 2019

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 Guillaume Rouger – Tour First TSA 14444 – 92037 Paris-La Défense:
  - 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 ending December 31, 2021.
- **Mazars**, represented by Thierry Colin and Jean-Marc Deslandes – 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 ending December 31, 2021.

Alternate Statutory Auditors

- **Auditex** – Tour First TSA 14444 – 92037 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 ending December 31, 2021.
- **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)	2019	2018	2019	2018	2019	2018	2019	2018
AUDIT								
Statutory audit and review of the individual and consolidated financial statements	5.0	5.1	96%	94%	3.5	3.6	97%	97%
Non-audit services	0.2	0.3	4%	6%	0.1	0.1	3%	3%
TOTAL FEES	**5.2**	**5.4**	**100%**	**100%**	**3.6**	**3.7**	**100%**	**100%**

7.6 Person responsible for the Universal Registration Document

7.6.1 Name of the person responsible for the Universal Registration Document containing the Annual Financial Report AFR

Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo.

7.6.2 Declaration by the person responsible for the Universal Registration Document containing the Annual Financial Report

"I hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Universal 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 Universal 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, April 27, 2020

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 Universal Registration Document

This cross-reference table lists the main headings provided for by European Regulation No. 2019/980 of March 14, 2019 (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 sections and chapters of the Registration Document for the fiscal year ended December 31, 2018, registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2019, under number D.19-0224 ("2018 RD") and, where necessary, to the sections and chapters of the Registration Document for the fiscal year ended December 31, 2017, registered with the AMF on March 29, 2018 under number D.18-0208 ("2017 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	451
1.2	Declaration by persons responsible	7.6.2	451
2.	**Statutory Auditors**		
2.1	Name and address of the Statutory Auditors	7.5.1	450
2.2	Information on the resignation of the Statutory Auditors	N/A	
3.	**Risk factors**		
3.1	Description of the material risks	2.1	80-92
4.	**Information about the issuer**		
4.1	Legal and commercial name	7.1.1	442
4.2	Place of registration, registration number and legal entity identifier (LEI)	7.1.6	442
4.3	Date of incorporation and term	7.1.4	442
4.4	Domicile and legal form, legislation under which it operates, country of incorporation, address and telephone number of its registered office, and website	7.1.1 and 7.1.2	442
5.	**Business overview**		
5.1	Principal activities		
5.1.1	Nature of the issuer's operations and principal activities	Integrated Report – Strategy and 1.3	27-47; 52-70
5.1.2	Significant new products that have been introduced	Integrated Report – Strategy and 1.3	27-47; 52-70
5.2	Principal markets in which the issuer operates	Integrated Report – Strategy and 1.3	27-47; 52-70
5.3	Important events	Integrated Report – Strategy; 1.1 and 1.3	27-47; 50-51; 52-70
5.4	Strategy and objectives	Integrated Report – Strategy and 5.3	27-47; 297
5.5	Dependence on patents or licenses, contracts and manufacturing processes	2.1.2	89-90
5.6	The basis for any statements made by the issuer regarding its competitive position	1.3	52-70
5.7	Investments		
5.7.1	Material investments	5.1.6 and section 5.1.4 of the 2018 and 2017 Registration Documents	287-291
5.7.2	Material investments that are in progress or for which firm commitments have already been made	5.1.6 and section 5.1.4 of the 2018 and 2017 Registration Documents	287-291
5.7.3	Joint ventures and undertakings in which the issuer holds a proportion of the capital	5.4.6 (Note 13); 5.6.4 (Note 11) and 7.2	375-382; 411; 444
5.7.4	Environmental issues that may affect the issuer's utilization of property, plant and equipment	2.1.1 and 4.1.3	81-89; 192-202
6.	**Organizational structure**		
6.1	Brief description of the Group	1.2 and 7.2	51-52; 444
6.2	List of significant subsidiaries	5.4.6 (Note 13); 5.6.4 (Note 11) and 7.2	375-382; 411; 444

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
7.	**Operating and financial review**		
7.1	Financial condition	5.1.6 and 5.1.4 of the 2018 and 2017 Registration Documents	287-291
7.1.1	Development and performance of the business Financial and non-financial key performance indicators	Integrated Report – Key figures	6-9
7.1.2	Indication of the issuer's likely future development and of activities in the field of research and development	N/A	
7.2	Operating results	5.1.1, 5.1.2, 5.1.3, 5.1.4 and 5.1.5 and sections 5.1.1, 5.1.2 and 5.1.3 of the 2018 and 2017 Registration Documents	281-286
7.2.1	Significant factors materially affecting the issuer's income from operations	2.1 and 5.1	80-92; 280-291
7.2.2	Explanation of material changes in net sales or revenues	5.1	280-291
8.	**Capital resources**		
8.1	The issuer's capital resources (both short term and long term)	5.1.6 (section 5.1.4 of the 2018 and 2017 Registration Documents), 5.4.5, 5.4.6 (Notes 8.1 and 10.1), 5.6.4 (Note 9) and 6.6	287-291; 302; 350-365; 370-371; 408; 434-439
8.2	Sources and amounts of cash flows	5.1.6 (section 5.1.4 of the 2018 and 2017 Registration Documents), 5.4.4, 5.4.6 (Note 11) and 5.6.3	287-291; 301; 372-273; 392
8.3	Borrowing requirements and funding structure	5.1.6 (section 5.1.4 of the 2018 and 2017 Registration Documents) and 5.4.6 (Note 8)	287-291; 350-366
8.4	Restrictions on the use of capital resources	5.4.6 (Note 8.1.3.2) and 5.6.4 (Note 6.2.5)	357; 403-404
8.5	Anticipated sources of funds	5.4.6 (Note 8.1.2)	351-356
9.	**Regulatory environment**		
9.1	Description of the regulatory environment and information regarding any governmental, economic, fiscal, monetary or political policies or factors	2.1 and 4.3	80-92; 209-232
10.	**Trend information**		
10.1	Most significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last fiscal year Significant changes in the financial performance of the group since the end of the last fiscal year	5.2 and 5.6.4 (Note 12)	292-296; 412
10.2	Trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects	Integrated Report – Strategy and 5.3	27-47; 297
11.	**Profit forecasts or estimates**		
11.1	Statement setting out the principal assumptions upon which the issuer has based its forecasts or estimate	N/A	
11.2	Preparation of the profit forecast or estimate	N/A	
11.3	Statement attesting that the profit forecast or estimate is valid	N/A	
12.	**Administrative, management and supervisory bodies, and senior management**		
12.1	Members – Statements	3.1; 3.2.1; 3.2.2; 3.2.3	102-145;
12.2	Conflicts of interest	3.2.3	144-145
13.	**Compensation and benefits**		
13.1	Compensation and benefits in kind	3.3 and 5.4.6 (Notes 5.3, 5.4 and 5.5)	152-182; 329-338
13.2	Pension, retirement or similar benefits	3.3 and 5.4.6 (Notes 5.3 and 5.5)	152-182; 329-338

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
14.	**Board practices**		
14.1	Terms of office of members of the Board of Directors	3.1; 3.2.1	102-131
14.2	Service contracts between the members of the Board of Directors and the Company	3.2.3	144-145
14.3	Information about the Audit & Risks Committee and Compensation Committee	3.2.2	132-143
14.4	Statement regarding corporate governance	3.2.4 and 7.1.3	145; 442
14.5	Potential material impacts on the corporate governance	N/A	
15.	**Employees**		
15.1	Number of employees	1.4 and 4.1.3 (Employee policy) 1.4 and 4.4.1 of the 2018 Registration Document; 1.5 and 4.4 of the 2017 Registration Document	71; 196-199
15.2	Shareholdings and stock options	3.3 and 6.4.5	152-182; 430
15.3	Arrangements for involving employees in the capital of the issuer	4.3.3 and 6.4.5; 4.4.2 and 6.4.5 of the 2018 and 2017 Registration Documents	225; 430
16.	**Major shareholders**		
16.1	Identification of major shareholders	6.4	425-430
16.2	Existence of differing voting rights	6.4.2 and 7.1.11	426-429; 443
16.3	Control of the issuer	6.4.2	426-429
16.4	Arrangements which may result in a change in control of the issuer	6.6.4	438-439
17.	**Related party transactions**		
17.1	Related party transactions entered into by the issuer	3.2.7; 5.4.6 (Notes 4.5.3.4 and 5.5) and 5.7; 3.2.7, 3.2.8, 5.4.6 (Notes 4.5.3.4 et 5.5) and 5.7 of the 2018 Registration Document; 5.7 and 3.2.11 of the 2017 Registration Document	147-148; 326; 337-338; 416-418
18.	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
18.1	Historical financial information		
18.1.1	Audited historical financial information	5.4	298-387
18.1.2	Change of accounting reference date	5.4	298-387
18.1.3	Accounting standards		
18.1.4	Change of accounting framework	5.4.6	303-387
18.1.5	Audited financial information prepared according to national accounting standards	5.4	298-387
18.1.6	Consolidated financial statements	5.4	298-387
18.1.7	Age of financial information	Dec. 31, 2019	
18.2	Interim and other financial information	N/A	
18.2.1	Half-yearly or quarterly financial information	5.2	292-296
18.3	Auditing of historical annual financial information		
18.3.1	Statement that the historical financial information has been audited	5.4.7 and 5.6.5 of the 2018 and 2017 Registration Documents	
18.3.2	Other information audited by the Statutory Auditors	5.4.7 and 5.6.5 of the 2018 and 2017 Registration Documents	
18.3.3	Source of financial information not extracted from the issuer's audited financial statements and therefore not audited	N/A	
18.4	Pro forma financial information	5.4	298-387
18.5	Dividend policy		
18.5.1	Policy on dividend distributions and any restrictions thereon	7.1.8	442-443
18.5.2	Amount of the dividend per share	6.3	425
18.6	Legal and arbitration proceedings	2.1.2 and 5.4.6 (Notes 4.6.2 and 7)	90-92; 327; 348-349
18.7	Significant change in the issuer's financial position	5.2	292-296

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
19.	**Additional information**		
19.1	Share capital		
19.1.1	Amount of issued capital	5.4.6 (Note 10.1), 6.4.1, 6.4.2 and 6.6.1	370-372; 425-429; 434
19.1.2	Shares not representing capital	6.6.3	438
19.1.3	Shares held by or on behalf of the issuer itself or by its subsidiaries	6.5.2	432
19.1.4	Convertible securities, exchangeable securities or securities with warrants	6.6.2	435-437
19.1.5	Information about the terms of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital	3.2.12	150-151
19.1.6	Information about any capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option	6.6.4	438-439
19.1.7	Share capital history	6.6.1	434
19.2	Memorandum and articles of association		
19.2.1	Description of the issuer's objects and purposes	7.1.5	442
19.2.2	Description of the rights, preferences and restrictions attaching to each class of existing shares	7.1.8; 7.1.9 and 7.1.11	442; 443
19.2.3	Brief description of any provision of the issuer's articles of association, statutes, charter or bylaws that would have an effect of delaying, deferring, or preventing a change in control of the issuer	3.2.11	149
20.	**Material contracts**		
20.1	Summary of each material contract to which the issuer or any member of the Group is part	7.3	446
21.	**Documents available**		
21.1	Statement regarding documents that can be inspected for the term of the Universal Registration Document	7.4	447-449

8.1.2 Cross-reference table for the Annual Financial Report

	Annual Financial Report	Chapters/Sections	Pages
1.	**Parent company financial statements**	5.6	390-415
2.	**Consolidated financial statements**	5.4	298-387
3.	**Management Report (French Monetary and Financial Code)**		
3.1	Article L.225-100-1 of the French Commercial Code:	5.1.1, 5.1.3, 5.1.4, 5.1.5	281-282; 284-287
3.1.1	■ Analysis of business trends	5.1.1, 5.1.3, 5.1.4, 5.1.5 and sections 5.1.1, 5.1.3 and 5.1.4 of the 2017 and 2018 Registration Documents	281-282; 284-287
3.1.2	■ Analysis of results	5.1.2, 5.1.5, 5.1.6 and sections 5.1.2 and 5.1.4 of the 2017 and 2018 Registration Documents	283; 286-291
3.1.3	■ Analysis of financial position	5.1.6 and section 5.1.4 of the 2017 and 2018 Registration Documents	287-291
3.1.4	■ Key financial and non-financial performance indicators related to the Company's specific business, such as information pertaining to environmental issues and personnel matters	4.2 and 5.1	202-208; 286-287
3.1.5	■ Principal risks and uncertainties	2.1	80-92
3.1.6	■ Financial risks related to the impacts of climate change and measures taken by Company to reduce them by implementing a low-carbon strategy in all components of its business	2.1.1, 4.3.3, 4.5.3	81-89; 210-232; 241-253
3.1.7	■ Internal control and risk management procedures	2.3	93
3.1.8	■ Company hedging objectives and policy, and exposure to price, credit, liquidity and cash flow risks	5.4.6 (Notes 4.2, 4.3 and 8.1)	318-319; 350-365
3.2	Article L.225-211 of the French Commercial Code:		
3.2.1	■ Buyback by the Company of its own shares	6.5	431-434
4.	**Declaration by the person responsible for the Annual Financial Report**	7.6.2	451
5.	**Statutory Auditors' report on the parent company financial statements**	5.6.5	412-415
6.	**Statutory Auditors' report on the consolidated financial statements**	5.4.7	383-387
7.	**Fees paid to the Statutory Auditors**	5.4.6 (Note 12); 5.6.4 (Note 10.4) and 7.5.2	374; 410; 450
8.	**Board of Directors' report on corporate governance, prepared in accordance with Article L.225-37 of the French Commercial Code**	8.1.4	460
9.	**Statutory Auditors' report on the Corporate Governance Report**	5.6.5	412-415

8.1.3 Cross-reference table for the Management Report as provided for by Articles L.225-100 *et seq.* of the French Commercial Code

Certain sections concerning Covid-19 were not included in the management report approved by the Board of Directors on February 20, 2020 but have been added for the purposes of the Universal Registration Document, in section 2.1.1, paragraph "Risks related to the automotive equipment industry", page 87, section 4.3.3, paragraph "Health and safety risk", page 219, section 5.3 "Trends and outlook", page 297 and 6.3 "Dividends", page 425.

	Management Report	Chapters/Sections	Pages
1.	**Financial position and operations**		
1.1	Financial position and operations of the Company during the past fiscal year	5.1 and 5.5	280-291; 388-390
1.2	Results of operations of the Company and the Group	5.1 and 5.5	280-291; 388-390
1.3	Review of the business, results of operations and financial position	5.1 and 5.5	280-291; 388-390
1.4	Key financial and non-financial performance indicators	4.2 and 5.1	202-208; 280-291
1.5	Material events occurring between the end of the reporting period and the date the report was prepared	5.2 and 5.6.4 (Note 12)	292-296; 412
1.6	Company and Group outlook	5.3	297
1.7	Research and Development activity	1.5.6, 4.1.3, 4.2 and 4.5.2	77-78; 192-194; 202-208; 238-240
1.8	Material investments or controlling interests taken during the past fiscal year in companies with registered offices in France	5.1.6 (section 5.1.4 of the 2017 and 2018 Registration Documents) and 5.4.6 (Note 2.2)	287-291; 312
2.	**Share ownership structure and share capital**		
2.1	Share ownership structure and changes during the past fiscal year	6.4 and 6.6.1	425-430; 434
2.2	Status of employee share ownership plans	6.4.5	430
2.3	Trading by the Company in its own shares	6.5	431-434
2.4	Name of companies controlled and equity interest	5.4.6 (Note 13) and 5.6.4 (Note 11)	375-382; 411
2.5	Share disposals to adjust reciprocal shareholdings	N/A	
2.6	Amount of dividends and other distributed earnings paid during the past three fiscal years	6.3	425
2.7	Adjustments for the issuance of marketable securities giving access to the share capital	N/A	
2.8	Adjustments for stock subscription or purchase options	3.3.1	152-164
2.9	Information on stock subscription and purchase option plans granted to corporate officers and employees	3.3.1, 3.3.4 and 6.6.2	152-164; 182
2.10	Restriction on exercising stock subscription or purchase options or obligation for executive corporate officers to hold shares obtained on exercising stock subscription or purchase options	3.3.1 and 6.6.2	152-164; 435-437
2.11	Information on free shares granted to corporate officers and employees	3.3.1, 3.3.3, 3.3.4 and 6.6.2	152-164; 181-182; 435-437
2.12	Obligation for executive corporate officers to hold free shares	3.3.1, 3.3.4 and 6.6.2	152-164; 182; 435-437
3.	**Risk factors and internal control**		
3.1	Description of major risks and uncertainties	2.1	80-92
3.2	Financial risks relating to the impacts of climate change and measures taken by the Company to reduce them by implementing a low-carbon strategy	2.1.1, 4.3	81-89; 209-232
3.3	Company hedging objectives and policy, and exposure to price, credit, liquidity and cash flow risks	5.4.6 (Notes 4.2, 4.3 and 8.1)	318-319; 350-365
3.4	Internal control and risk management procedures related to the preparation and processing of accounting and financial information	2.3.6	98-99

	Management Report	Chapters/Sections	Pages
4.	**Environmental, social and employee information**		
4.1	Non-financial information statement	4.3	209-232
4.2	Duty of care plan and report on its implementation	4.4	233-235
4.3	Information on facilities classified as high-threshold Seveso sites	N/A	
5.	**Other disclosures**		
5.1	Supplier and customer payment cycles	5.4.6 (Note 4.2 and 8.1.5.2) and 5.5	319; 365; 388
5.2	Changes in the presentation of the annual parent company financial statements and methods of measurement	5.4.6 (Note 1.1.1 and 1.1.2) and 5.6.4 (Note 2)	305-308; 394
5.3	Information on existing branches	N/A	
5.4	Sumptuary expenses	5.5	388
5.5	Add back of excessive overheads	N/A	
5.6	Injunctions or monetary penalties for anti-competitive practices	2.1.2; 5.4.6 (Note 7.2)	90-93; 349
5.7	Transactions in the Company's shares carried out by executive managers and by those with whom they have close relationships	6.4.4	430
5.8	Intercompany loans	N/A	
A.	**Appendix to the Management Report**		
A.1	Board of Directors' Corporate Governance Report	See dedicated cross-reference table in section 8.1.4	460
A.2	Five-year financial summary	5.8.1	419
A.3	Opinion of the independent third party on the information given in the non-financial information statement	4.8	275-276
A.4	Statutory Auditors' statement on intercompany loans	N/A	

8.1.4 Cross-reference table for the Corporate Governance Report as provided for by Articles L.225-37 *et seq.* of the French Commercial Code

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1.	**Compensation**		
1.1	Presentation of the compensation policy for corporate officers and the related draft resolutions	3.3.1	152-164
1.2	Total compensation and benefits paid or awarded during the past fiscal year to each corporate officer; relative proportion of fixed and variable compensation	3.3.1	152-164
1.3	Use of the option to request payment of a variable compensation component	N/A	
1.4	Commitments given by the Company on behalf of corporate officers in the form of compensation or benefits owed or likely to be owed on appointment, termination or change of position or subsequent to the performance of that position	3.3.1	152-164
1.5	Compensation paid or awarded by a company included in the scope of consolidation	N/A	
1.6	Ratio between the compensation of each of the executive corporate officers and the average full-time equivalent (FTE) compensation of Company employees other than the corporate officers, and ratio between the compensation of each of these executives and the median FTE compensation of Company employees other than the corporate officers	3.3.2	165-180
1.7	Annual change in compensation over the last five years	3.3.2	165-180
1.8	Explanation of the manner in which total compensation complies with the Company's compensation policy	3.3.1, 3.3.2, 3.3.3	152-182
1.9	Consideration of the vote of the last Shareholders' Meeting on the ordinary resolution concerning the compensation policy	3.2.12	150-151
1.10	Divergences from or waivers of the compensation policy procedure	N/A	
1.11	Suspension of compensation for breach of parity rules	N/A	
1.12	Reference to resolutions subject to an *ex ante* vote	3.3.1	152-164
2.	**Governance**		
2.1	List of all directorships and positions held in companies by each corporate officer during the past fiscal year	3.2.1	104-131
2.2	Agreements between a corporate officer or a shareholder holding at least 10% of the voting rights and a controlled company within the meaning of Article L.233-3 of the French Commercial Code	3.2.8	148
2.3	Summary table of powers currently delegated by the Shareholders' Meeting to the Board of Directors with respect to raising new equity	3.2.12	150-151
2.4	General Management procedures	3.2.6	146-147
2.5	Composition, preparation and organization of the work of the Board of Directors	3.2.1; 3.2.2	104-143
2.6	Diversity policy applied to the Board of Directors, balanced representation of men and women on the Operations Committee and outcome of measures to improve diversity in 10% of top management positions.	3.2.1	104-131
2.7	Limitations on the powers of the Chief Executive Officer	3.2.6	146-147
2.8	Reference to a corporate governance code and the application of the "comply or explain" principle and indication of where the code can be consulted	3.2.4	145
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2.10	Procedure for reviewing agreements entered into in the ordinary course of business and its implementation	3.2.9	148
3.	**Information likely to have an impact in the event of a takeover or exchange offer**	3.2.11	149

8.1.5 Cross-reference table for the non-financial information statement

	Non-financial information statement		Chapters/Sections	Pages
1.	**Business model**			
1.1	The Group's main activities		Integrated Report – Strategy	27-47
1.2	Organization		Integrated Report – Strategy	27-47
1.3	Business model		Integrated Report – Strategy	27-47
1.4	Strategy, outlook and objectives		Integrated Report – Strategy	27-47
2.	**Significant non-financial risk factors for the Group and the main policies**			
2.1	Environmental non-compliance and loss of opportunities in technologies contributing to CO_2 emissions reduction	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1 and 4.3.3 4.3.3 2.1.1 and 4.3.3	81-89; 210 210-211 81-89; 211-215
2.2	Accidental pollution of water and soil	Description of the risk Risk management policy Measures taken to reduce the risk	4.3.3 4.3.3 4.3.3	216 216 216-218
2.3	Health and safety	Description of the risk Risk management policy Measures taken to reduce the risk	4.3.3 4.3.3 4.3.3	219 219 219-221
2.4	Attracting talent	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1 and 4.3.3 4.3.3 2.1.1 and 4.3.3	81-89; 221 221-222 81-89; 222-223
2.5	Developing and retaining talent	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1 and 4.3.3 4.3.3 2.1.1 and 4.3.3	81-89; 223 223 81-89; 223-226
2.6	Risk of individual corruption	Description of the risk Risk management policy Measures taken to reduce the risk	4.3.3 4.3.3 4.3.3	227 227 227-228
2.7	Non-compliance with sustainable development requirements by Valeo's suppliers	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1 and 4.3.3 4.3.3 2.1.1 and 4.3.3	81-89; 228 228 81-89; 228-229
3.	**Other regulatory issues**			
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3.2	Impacts on climate change of the Group's operations and the use of the goods and services it produces		2.1.1 and Introduction to Chapter 4	81-89; 186
3.3	Social commitments in support of sustainable development		4.5.5	260-265
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3.6	Fight against food insecurity		4.3.1	209-210
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3.9	Measures to combat discrimination, promote diversity and integrate people with disabilities		4.5.4	254-258
3.10	Respecting human rights		4.5.4	258-260

8.1.6 Safe harbor statement

This document and the documents incorporated herein by reference contain statements which, when they are not historical fact, constitute "forward-looking statements".

These forward-looking statements include projections and estimates, 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. They are based on data, assumptions and estimates considered to be reasonable by Valeo as at the date of this Universal Registration Document and should not be interpreted as guarantees that the facts or data stated will occur. Forward-looking statements can sometimes be identified by the use of terms or expressions indicating, in particular, anticipation, presumption, conviction, continuation, estimate, expectation, forecast, intention, possibility of increase, reduction or change or any similar expressions or by the use of verbs in future or conditional form. These terms or expressions are in no way the sole way of identifying such statements.

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 Universal 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, risks associated with the Covid-19 epidemic, 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 Universal Registration Document. In addition, other risks which are currently unidentified or considered to be non-material by the Group, could have the same adverse impact and investors could lose all or part of their investment.

Forward-looking statements are given only as at the date of this Universal Registration Document and Valeo does not assume any obligation to update any forward-looking statements to reflect events or circumstances which occur subsequent to the date of this document.

Valeo 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 neither intends to review, nor will it confirm, any estimates issued by analysts.

INCORPORATION BY REFERENCE

In accordance with Article 19 of Regulation (EU) No. 2017/1129 of the European Parliament and of the Council of June 14, 2017, the following information is incorporated by reference in this Universal Registration Document:

1. in respect of the year ended December 31, 2018: the consolidated financial statements, the parent company financial statements and the related Statutory Auditors' reports, as well as the review of the Company's financial position and other information relating to the Company's financial statements set out on pages 3 to 46 and 267 to 406 of the 2018 Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2019 under number D.19-0224.
2. in respect of the year ended December 31, 2017: the consolidated financial statements, the parent company financial statements and the related Statutory Auditors' reports, as well as the review of the Company's financial position and other information relating to the Company's financial statements set out on pages 3 to 36 and 271 to 412 of the 2017 Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2018 under number D.18-0208.

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