2018 REGISTRATION DOCUMENT

INTEGRATED REPORT
ANNUAL FINANCIAL REPORT
CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT REPORT

LED signal light circuit board

SMART TECHNOLOGY FOR SMARTER CARS

Valeo

CONTENTS

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

2018 REGISTRATION DOCUMENT

INTEGRATED REPORT

ANNUAL FINANCIAL REPORT

CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT REPORT

AUTORITÉ DES MARCHÉS FINANCIERS AMF

The French version of this Registration Document was filed with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2019, pursuant to Article 212-13 of the AMF's General Regulations. It may only be used in connection with a corporate finance transaction when accompanied by a prospectus approved by the AMF. The English language version of this report is a free translation of the original, which was prepared in French. In all matters of interpretation, views or opinions expressed in the original language version of the document in French take precedence over the translation.

CONTENTS
VALEO INTEGRATED REPORT

MESSAGE
FROM JACQUES ASCHENBROICH,
Chairman and Chief Executive Officer

JACQUES ASCHENBROICH
Chairman and Chief Executive Officer

2018 WAS CERTAINLY AN UNUSUAL YEAR FOR VALEO.

It's important to keep in mind that Valeo recorded its best results ever in 2017 (excluding the impact of the Valeo Siemens eAutomotive joint venture) and that its performance in first-half 2018 was in line with the previous year. Nonetheless, Valeo's results were significantly impacted in the second half by worsening market conditions, the implementation of the new WLTP[1] test cycle for cars in Europe, the sharp slowdown in the Chinese market, the rise in the price of raw materials and the shortage of electronic components.

The temporary dip in the Group's outperformance versus the market, as well as the decline in Valeo's results in the second half, had a major impact on share price performance during the year, despite the 6% full-year growth achieved at constant exchange rates. Medium- and long-term value creation is obviously one of our core concerns, and the value created by Valeo is indeed higher than the value created by our peers over five years and ten years.

The Group responded to this situation as early as July, implementing a vigorous action plan aimed at cutting costs by around 100 million euros and reducing its capital expenditure, also by 100 million euros. As announced on February 21, we will continue to implement this action plan in 2019.

Our 2018 performance reflects uncertainty in a global automotive market faced with a complex macroeconomic environment and shaped by the revolutions that are well underway, in the form of autonomous and electric vehicles and digital mobility.

With these changes, Valeo is now in a stronger position than ever before. The technology platforms we have developed put us at the center of these revolutions and give us a strong position in fast-growing

“Our fundamentals are solid, our strategy is clear and our technology portfolio is unique.”

market segments for the coming years. The strength of Valeo’s expertise lies in the fact that it brings together know-how in a number of businesses, from powertrains and thermal systems to lighting and sensors. This powerful combination resulted in further commercial successes in 2018, with the order intake exceeding 24 billion euros:

- 53% of this order intake related to innovations, confirming the strategic value of the 2,144 patents filed worldwide and the 2.1 billion euros allocated to R&D, of which one-third was dedicated to the development of ADAS and autonomous vehicles and half to technologies designed to reduce CO_2 emissions;
- a strong positioning in sensor development drove technological progress in advanced driving assistance systems and autonomous vehicles. Valeo’s innovations make it a preferred partner in this area, for both its traditional automotive customers and for new players in the field of mobility solutions. Valeo also achieved a world first during the year when it took to the streets of Paris in September to demonstrate autonomous vehicles fitted exclusively with series-produced sensors;
- our leadership position in powertrain systems for electric and hybrid vehicles was consolidated during the year. Alone or via its joint venture with Siemens, Valeo is the world leader in the low- and high-voltage powertrain systems market.

Once again, these commercial successes were built on the operational excellence achieved by Valeo’s production and logistics teams. In 2018, 450 billion components were assembled and transformed into 1.5 billion products – or more than 6 million products per day – and then delivered to more than 600 sites around the world. These impressive figures reflect the exploits accomplished each day at our 186 plants worldwide.

With nearly 20,000 researchers, including 5,700 software engineers, as well as a network of more than 200 artificial intelligence specialists and a global open innovation ecosystem, Valeo also demonstrated in 2018 its ability to adapt to a changing environment while remaining loyal to its DNA.

Our fundamentals are solid, our strategy is clear and our technology portfolio unique. By developing technology platforms and increasing our production capacity, we have created all of the conditions necessary to fuel our future growth and long-term value creation.

We therefore look to the years ahead with optimism and enthusiasm.

March 29, 2019

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(1) WLTP: World Harmonized Light Vehicle Test Procedure.

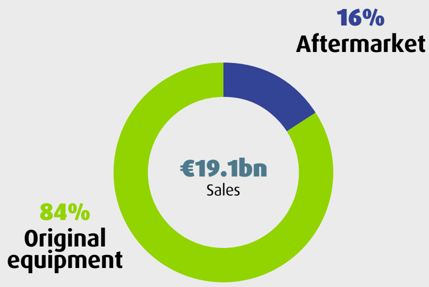
KEY FIGURES IN 2018

Financial performance

SALES*

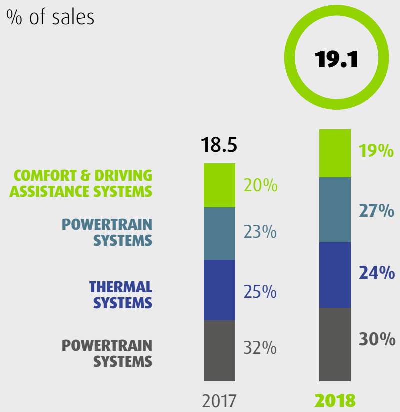
BY DISTRIBUTION NETWORK

In billions of euros
and as a % of sales



BY BUSINESS GROUP

In billions of euros
and as a % of sales



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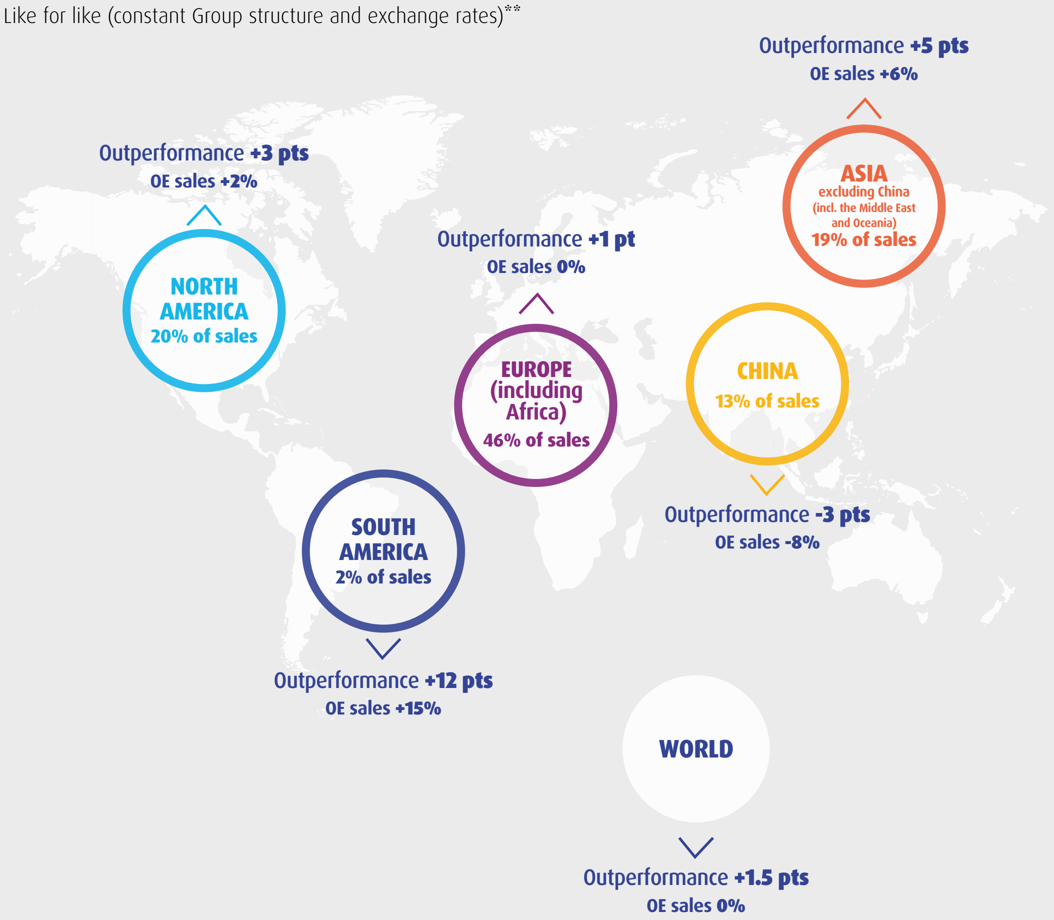
* 2017 data differ from the data presented in the 2017 consolidated financial statements published in February 2018 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15 and IFRS 9.

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

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



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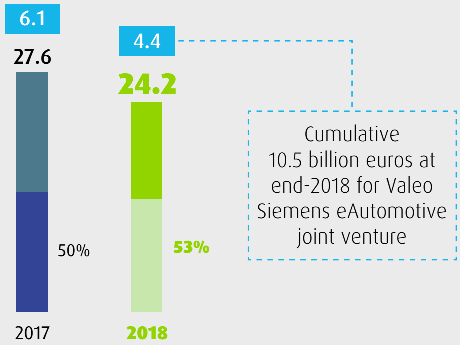
* For the sake of consistency in our financial communications, the sales figures and outperformance information presented above have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).

** See Financial Glossary, page 46. Changes in exchange rates and Group structure during the year are described in Chapter 5 of the 2018 Registration Document, section 5.1.1 "Sales growth", page 270.

ORDER INTAKE

In billions of euros and weighting of innovative products and systems*



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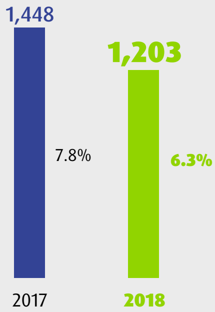
* Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE and Valeo-Kapec.

OPERATING MARGIN*

In millions of euros and as a % of sales



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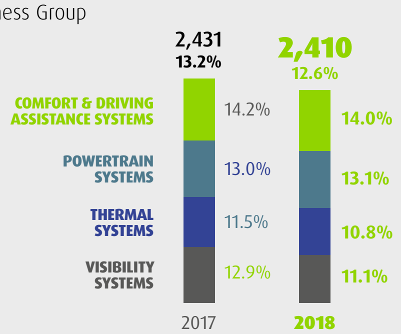
* Excluding share in net earnings of equity-accounted companies.

EBITDA* BY BUSINESS GROUP

In millions of euros and as a % of sales by Business Group



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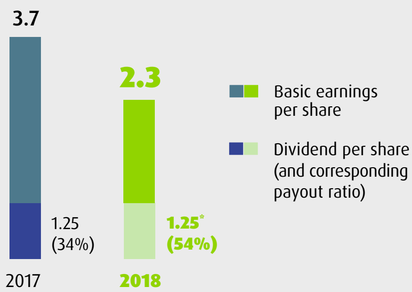
* See Financial Glossary, page 46.

BASIC EARNINGS PER SHARE AND DIVIDEND PER SHARE

In euros



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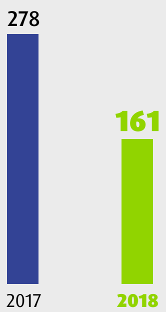
* A 2018 dividend of 1.25 euros will be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2018.

FREE CASH FLOW*

In millions of euros



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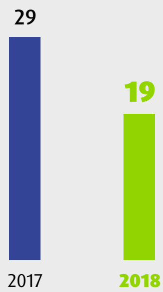
* See Financial Glossary, page 46.

ROCE*

(return on capital employed)

As a %



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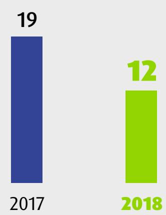
* See Financial Glossary, page 46.

ROA*

(return on assets)

As a %



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* See Financial Glossary, page 46.

FOR MORE INFORMATION

See Chapter 5 of the 2018 Registration Document, "Financial and accounting information", pages 267 to 406.

NB: 2017 data differ from the data presented in the 2017 consolidated financial statements published in February 2018 since they have been adjusted to reflect the impact of retrospectively applying IFRS 15 and IFRS 9.

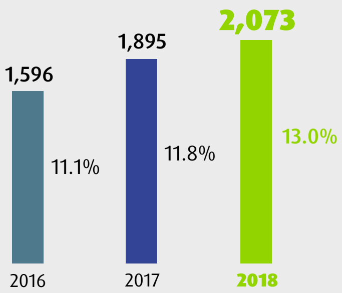
Sustainable development performance[(1)]

KEY FIGURES IN 2018

FROM MEGATRENDS TO INNOVATION

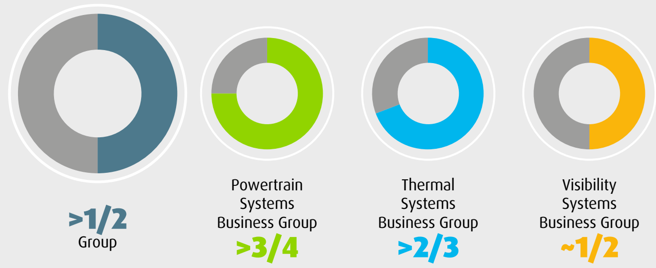
GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

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



ORIGINAL EQUIPMENT SALES DERIVED FROM PRODUCTS CONTRIBUTING TO THE REDUCTION OF CO_2 EMISSIONS

% of total 2018 original equipment sales, by Business Group, derived from products that contribute to CO_2 emissions reduction



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

19,800
Research and Development employees
+11%
compared to 2017

1,151
Experts
+38%
since 2014, when the network was first created

2,144
patents filed in 2018
+100
approximate increase in patents filed compared to 2017

GOVERNANCE

97%
average attendance rate at Board of Directors meetings

92%
of directors are independent*

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

SOCIAL FOOTPRINT

99.89%
of people concerned by the fight against corruption were trained

82%
of sites have partnerships with the world of higher education

* In accordance with the AFEP-MEDEF Code, this figure does not include the director representing employees.
** In accordance with decree No. 2017-1781 of December 27, 2017 on equal access for women and men to the Boards of Directors of companies and organizations, this percentage excludes the director representing employees.

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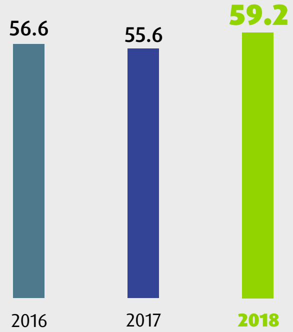
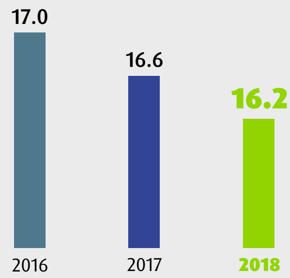
(1) The performance chart presented in section "Sustainable growth" on page 27 of this report summarizes the Group's sustainable development performance.

ENVIRONMENTAL ECO-EFFICIENCY

TOTAL DIRECT (SCOPE 1) AND INDIRECT (SCOPE 2) EMISSIONS AS A % OF SALES (tCO_2/€M)



TOTAL WASTE GENERATED AS A % OF SALES (t/€M)



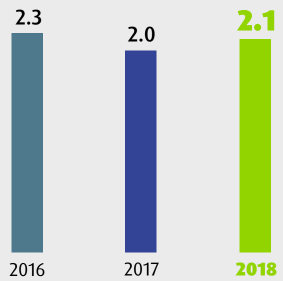
17%
of sites certified ISO 50001
+5
points compared to 2016

€21M
in functional expenditure allocated to the environment
+22%
compared to 2016

€5,843M
in investments in environmental protection (excluding cleanup costs)
+75%
compared to 2016

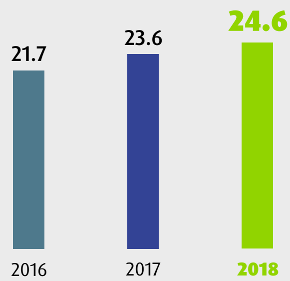
VALEO AND ITS EMPLOYEES

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 of the year in question.

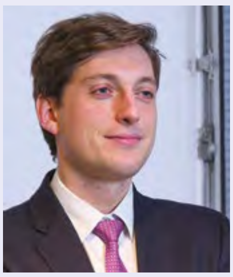
GLOBAL TOP EMPLOYER 2019
for the 5th year running

2,376
employees with disabilities
+35%
compared to 2017

572
collective bargaining agreements in force in 2018

RISING TO SOCIETY'S MAJOR MOBILITY CHALLENGES

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 response to tighter regulations and the quickening pace of social and technological change have placed the automotive market at the epicenter of a triple transformation.



GEOFFREY BOUQUOT

Vice-President, Corporate Strategy and External Relations

"At a time of climate transition, growing urbanization and digital revolution, lifestyles are changing, opening up new opportunities for Valeo."

CLEANER AIR IN MAJOR CITIES...

Today, there can be no doubt as to the reality of climate change, and it is sparking fears of a proliferation of increasingly intense, natural disasters.

In 2018, the concentration of greenhouse gases in the atmosphere – and above all CO_2 – reached new highs. As the number of deaths attributable to air pollution increases, awareness of air pollution as a health issue grows.

National and regional automotive regulations are becoming increasingly stringent, resulting in a need to bring greener vehicles to market.

- 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.
- 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 noise and air (CO_2, nitrogen oxide [NOx] and fine particle emissions) pollution as well as the number of road accidents.

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

For example:

- in Asia, the city of Beijing (China) has introduced an odd-even license plate policy, quotas for new car sales and total driving restrictions for highly polluting vehicles on days of heavy smog;
- cities like Paris (France), Madrid (Spain), Athens (Greece) and Mexico City (Mexico) have committed to a full ban on diesel vehicles by 2025.

These policies have sent a strong signal to players in the automotive industry, pushing them to **invest massively and to bring more environmentally friendly vehicles to market.**

... CALLS FOR INCREASINGLY ELECTRIC POWERTRAINS

These days, economic growth and mobility are very closely linked. In France, for example, 75% of people need a vehicle to get to work. The decline in demand for diesel vehicles and the need for automakers to comply with increasingly stringent regulations on CO_2 emissions are leading to the development of new vehicle electrification solutions, including:

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

According to Valeo's projections, 2023 is expected to be a turning point for the automotive industry, with the production of vehicles with combustion engines decreasing to make way for hybrid and electric vehicles. Valeo also estimates that, by 2030, one-third of vehicles will run on high-voltage electric motors, one-third on low-voltage motors and one-third on conventional combustion engines.

Thanks to its technologies, Valeo has the agility required to meet all of these powertrain needs.

INCREASING URBANIZATION, LEADING TO GREATER CONGESTION...

The world's population already tops 7.6 billion and is projected to reach 11.2 billion by 2100 according to United Nations estimates. Population growth brings with it increasing urbanization, mainly in developing countries. Today, more than 50% of the world's population lives in cities, and the growing pace of urbanization represents a major challenge for city authorities, prompting them to take measures to **preserve air quality and reduce traffic congestion.**

To meet these challenges, cities are offering new services and encouraging new behaviors that improve people's daily lives, enabling them to take advantage of faster, easier and greener travel solutions. As well as air pollution, population growth and increasing urbanization **also raise questions about safe, secure mobility in the city of tomorrow.** Regulations introducing higher safety standards are helping to accelerate the shift toward autonomous vehicles: passive safety rules have been supplemented with new regulations covering active safety features such as emergency braking assistance.

Regulation, which is pushing down the market share of the diesel segment, is paving the way for the emergence of electric technology and fostering new mobility behaviors. Policies include:

- introduction of odd-even license plate restrictions (Beijing, Paris, etc.);
- high-occupancy vehicle lanes to encourage carpooling (Atlanta, United States);
- ban on passenger vehicles (downtown Oslo, Norway, from 2019).

... IS ENCOURAGING THE DEVELOPMENT OF AUTONOMOUS DRIVING

Guaranteeing safety and optimizing personal time are the challenges of the autonomous vehicle of tomorrow:

- autonomous cars will **reduce the risk of collision** to one in a billion, since 90% of accidents are currently cause by human error;
- they will revolutionize the way vehicles are used: **users will have to get used to being driven around, whether in passenger cars or when using shared mobility solutions such as robotaxis.**

Autonomous vehicles will need to be able to navigate complex environments: cities contain unsignposted streets, crossroads and other intersections, whereas highway lanes, beltways and ring roads are clearly marked. So one technological challenge for automated driving in cities is the capacity of sensors to identify all other vehicles in the vicinity and anticipate their trajectories in order to ensure the safety of all road users.

GUILLAUME DEVAUCHELLE

Vice-President,
Innovation and Scientific Development

"Future mobility will be unrecognizable: closely matched to individual needs, precisely scaled to actual use, sometimes shared, and less carbon intensive."

THE 5 LEVELS OF VEHICLE AUTONOMY*

Vehicle automation comes in successive stages, from level 1 (no automation) to level 5 (full automation).

LEVEL 0

NO AUTOMATION

LEVEL 1

DRIVER ASSISTANCE

The driver delegates some of the functions to the vehicle, such as adaptive speed control.

LEVEL 2

PARTIAL AUTOMATION

In some situations, the driver delegates steering and acceleration/braking to the vehicle, but must continue to pay attention.

LEVEL 3

CONDITIONAL AUTOMATION

The driver delegates some predefined driving situations to the vehicle – in traffic jams for instance – allowing the driver to do other things.

LEVEL 4

HIGH AUTOMATION

All driving functions are delegated, provided that the driver can take back control if necessary.

LEVEL 5

FULL AUTOMATION

The car doesn't need a driver. Fully autonomous cars interact with their surroundings to adapt driving to the circumstances (accidents, roadworks, etc.) and to other road users (pedestrians, bikes, cars, etc.).

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* Source: SAE International (Society of Automotive Engineers International).

Autonomous vehicles need to tackle several challenges:

- **analyzing their surroundings.** Just as drivers need all their senses to remain alert on the road, autonomous vehicles need a range of sensors (radars, LiDARs, cameras, ultrasonic sensors) to analyze their surroundings, whatever the weather and however long the journey;
- **making the right driving decision.** The data collected by the sensors are interpreted in real time using complex algorithms based on software and artificial intelligence, just like the human brain processes information from the five senses. This is how the vehicle trajectory is chosen (braking, acceleration, turning) and the command sent to the relevant actuators;
- **anticipating and learning on its own**, thanks to artificial intelligence, which enables the vehicle to learn from the different situations it is faced with.

Sensors, software and artificial intelligence combine to allow the car to **understand, analyze and respond to its surroundings** with the right driving decision.

HUMAN-MACHINE INTERACTION IS BEING RESHAPED...

The combination of urban society and hyper-connectivity is shaking up the way people live.

Community models are taking shape around shared interests made possible by new technologies, which are being used to improve quality of life in people's immediate, everyday environments (via geolocation, big data, smart objects, etc.). New technologies are disrupting conventional uses and deeply transforming interactions between people and objects.

This digitized and hyper-connected world is opening up unique opportunities for the automotive industry.

... RESULTING IN CONNECTED, SHARED AND ON-DEMAND MOBILITY

In recent years, new forms of urban mobility have emerged, using redesigned existing solutions or innovations, such as electric scooters, self-balancing unicycles, and electric bikes. Collectively known as personal transportation gadgets (PTG), these modes of transportation are silent, much more energy efficient and quicker and easier for getting around.

Similarly, the popularity of new services such as car-pooling, car-sharing and ride-hailing services are growing exponentially. City dwellers are increasingly shifting away from the notion of ownership and opting for the flexibility of shared solutions. **This phenomenon is revolutionizing mobility, making it user-centric and service-based.**

At the same time, autonomous driving will be more effective if the vehicle can connect to other vehicles, road infrastructure and telecom networks. Ultimately, autonomous vehicles will be connected and new mobility services will be based on digital platforms allowing users to access a panel of service companies.

In this way, technology is being harnessed to deliver more efficient mobility that optimizes accessibility, travel time and price. The arrival of autonomous vehicles, combined with the management of shared mobility, could pave the way for transportation networks that are able to instantly adapt to demand, based on existing infrastructure, for journeys with fewer connections and less waiting time.

In the city of tomorrow, the notion of journey will probably be set aside in favor of more fluid and flexible travel made possible by a diverse range of mobility solutions.

China, at the epicenter of the challenges reshaping mobility

The boom in vehicle ownership in China over the last 20 years has made it the world's biggest passenger car market.

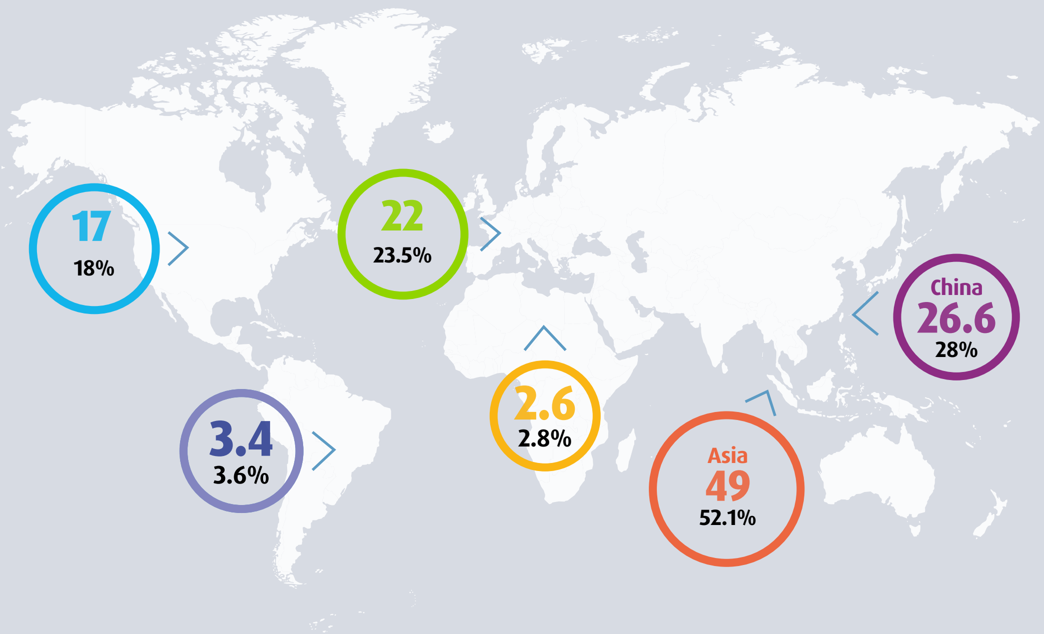
At the same time, Chinese cities are facing a high concentration of cars, highlighting the challenges of urban mobility and the pressing need to limit the economic and environmental toll. With a projected urban population of more than 1 billion in 2030, the Chinese market will continue to be characterized by strong growth and immense environmental challenges.

With this in mind, China is energetically encouraging the purchase of new energy vehicles (NEVs): the Chinese government is very ambitiously aiming to increase the share of NEVs to 20% by 2025 through large subsidies and quota schemes encouraging manufacturers to produce electric vehicles.

China is a key player in vehicle electrification: in 2018, 50% of the world's electric vehicle sales were made in China.

REGIONAL BREAKDOWN OF GLOBAL AUTOMOTIVE PRODUCTION IN 2018

In millions of vehicles(1) and as a %



FRANÇOIS MARION

President, Valeo China

"China's urban areas highlight the challenges shaping urban mobility in the 21st century.
A new approach prioritizing connectivity and respect for the environment will be key, as will emerging new mobility practices. This profound transformation is already underway today."

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(1) Information relating to automotive production is based on data provided by IHS/CPCA for China.

STRATEGY

Fully aware of the environmental challenges and risks that our society faces today, Valeo develops innovations that help shape the future of transportation, with the aim of significantly reducing pollutant emissions. These products currently account for more than 50% of the Group's sales.

Valeo has successfully adjusted its business model and seized the opportunities created by these new technologies to deliver capabilities that are driving the future of mobility. Valeo-designed products position the Group at the epicenter of the three revolutions disrupting today's automotive industry.

VALEO, DRIVING THE THREE AUTOMOTIVE REVOLUTIONS

VALEO, PIONEER AND WORLD LEADER IN VEHICLE ELECTRIFICATION

Efficient, silent and clean, electric mobility solutions make it possible to develop vehicles that are adapted to economic and energy challenges. The pioneer in vehicle electrification, **Valeo fits one in every three cars worldwide** with electrical systems for reducing CO_2 emissions. Today, it offers a comprehensive portfolio of customizable solutions to suit all levels of electrification and vehicle segments, from low-voltage mild hybrids to high-voltage all-electric models.

Low- and medium-voltage solutions (12 V and 48 V)

Valeo develops low- and medium-voltage solutions like the electric supercharger and the starter-alternator that handles the stop-start function. It also offers affordable 48 V systems that are adapted to both electric vehicles and plug-in hybrids. These systems represent an innovative solution that **helps to make electric vehicles more widely accessible.**

VALEO'S 48 V INNOVATIONS

The 48 V system is a modular solution that can be adapted to a wide variety of uses.

In just one year, Valeo has applied its 48 V modules to power a plug-in family hybrid, an autonomous six-passenger shuttle, a hybrid delivery truck and a small urban car-sharing vehicle.

High-voltage solutions (over 60 V)

Through the Valeo Siemens eAutomotive joint venture, Valeo stands at the forefront of the global market in high-power electrical systems for hybrid, plug-in hybrid and all-electric models. In addition to the electric motor itself, Valeo Siemens eAutomotive also makes the components for integrating the full powertrain system: onboard battery charger, DC/DC converter, and inverter for controlling the motor.

Set up in December 2016, the joint venture with Siemens had a cumulative order intake of 10.5 billion euros at end-2018.

Battery thermal management solutions

In addition to electric technologies, vehicle electrification also requires the development of solutions to control battery temperature and energy-efficient systems to heat and cool the vehicle interior. Valeo is one of the world leaders in the battery cooling systems needed to ensure satisfactory battery life and performance.

THE VALEO SCALA™ LASER SCANNER: THE WORLD'S FIRST LIDAR DEVICE CERTIFIED FOR MASS AUTOMOTIVE PRODUCTION

With its unrivaled combination of long detection range, wide field of vision and high resolution and precision, this unique sensor is the perfect addition to the existing range of environment perception technologies.

AUTONOMOUS DRIVING

Autonomous driving in dense and complex urban environments is a major technological challenge. Autonomous vehicles are equipped with a multitude of sensors that enable them to perceive their surroundings. Autonomous vehicles must therefore:

- **analyze their surroundings.** Valeo offers the most comprehensive portfolio of driving assistance sensors on the market, with ultrasonic sensors, radars, cameras and laser scanners, including the Valeo SCALA™, currently the only series-produced version. These sensors are positioned all around the vehicle, giving it a 360° perception of its surroundings;
- **understand their surroundings and make the right driving decisions.** The calculation algorithms developed by Valeo aggregate the data from the sensors and analyze them in real time, enabling the vehicle to make the right driving decisions, all without compromising safety;
- **anticipate and learn on their own, thanks to artificial intelligence.** To achieve rapid, highly adapted decision-making ability, the Valeo technology is built on a learning-capable neural network.

As these sensors need to be able to work at all times and in all types of weather, it is vital that they are kept clean, regardless of whether the vehicle is used for individual purposes or as part of a shared mobility solution. With this in mind, Valeo has developed a range of three fully automated cleaning systems for all types of cameras and LiDARs.

This broad portfolio of sensors and their associated cleaning systems enable mobility operators to develop new transportation solutions. For example:

- Valeo’s onboard driving assistance systems will be fitted to robotaxis;
- Valeo has forged a partnership with Wabco, the leading global supplier of technologies and products for commercial vehicles, to deploy its sensors on trucks. Valeo’s systems will notably make it possible to activate automatic emergency braking and eliminate the blind spots specific to these vehicles.

MOBILITY EXPERIENCED AS A SERVICE

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

- Valeo has signed a partnership agreement with **Mobileye** to develop and promote a new autonomous vehicle safety standard based on Responsibility-Sensitive Safety (RSS), Mobileye’s mathematical safety model, with the goal of widespread industry adoption;
- the Group has entered into a partnership with **Baidu** to facilitate the development of autonomous vehicles. Valeo contributes its expertise in sensors, connectivity between autonomous vehicles, sensor cleaning systems and the control and optimization of air quality in the vehicle interior. In exchange, it benefits from the full range of software, hardware and data tools (operating systems, positioning and mapping services, simulation engines, cloud, algorithms, etc.) provided by Baidu to its partners;
- Valeo is also working with **Capgemini** on the development of the **Mov’InBlue™** solution for the secure reservation and management of vehicle fleets. Based on Valeo's InBlue™ smart key technology, it allows users to lock and unlock their vehicle and start the engine all from their smartphone, without having to access the GSM network;
- in partnership with **Cisco**, Valeo has developed the Cyber Valet Services solution, which enables vehicles equipped with Valeo Park4U™ technology to park safely and autonomously, i.e., without a driver on board, in connected car parks;
- a cooperation agreement has been signed with **Navya**, a company specialized in the design of fully autonomous electric shuttles;
- in partnership with **Cloudmade**, the Group has created the Valeo My Mobius test cockpit, which features embedded machine-learning technologies;
- lastly, Valeo has teamed up with **Kuantic**, which designs innovative integration solutions aimed at the onboard telematics market for fleet managers.

Autonomous and connected vehicles are destined to go beyond their primary vocation of getting people around to become fully fledged services platforms in the coming years.

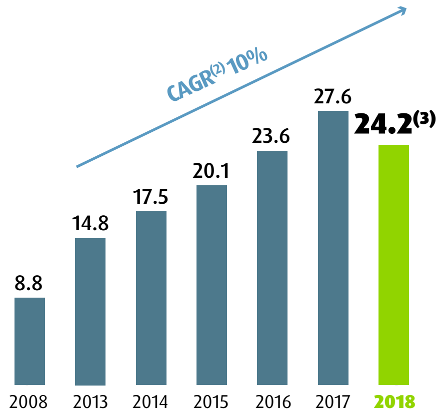
ORDER INTAKE REFLECTING THE SUCCESS OF VALEO'S INNOVATIONS

VALEO'S ORDER INTAKE WILL ENSURE THAT THE GROUP MAINTAINS ITS STRONG GROWTH DYNAMIC OVER THE COMING YEARS

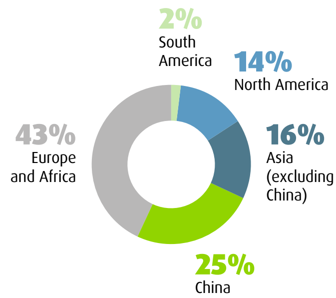
The Group's order intake is fully focused on the three revolutions disrupting the automotive industry. Reflecting the continued success of technologies in the areas of CO_2 emissions reduction and intuitive and connected driving, the order intake for 2018 was **28.6 billion euros** or 1.7 times original equipment sales, breaking down as follows:

- **24.2 billion euros for Valeo,** or 1.5 times original equipment sales;
- **4.4 billion euros for Valeo Siemens eAutomotive GmbH.** Set up in December 2016, the joint venture with Siemens had a cumulative order intake of 10.5 billion euros at end-2018.

ORDER INTAKE[(1)] (EXCLUDING VALEO SIEMENS EAUTOMOTIVE)...



... WELL-BALANCED ACROSS THE DIFFERENT REGIONS



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(1) See Financial Glossary, page 46.
(2) CAGR: Compound annual growth rate of Valeo's order intake for the period 2013-2018.
(3) 2018 order intake totaled 28.6 billion euros including 4.4 billion euros for Valeo Siemens eAutomotive.

VALEO INNOVATIONS ARE RECOGNIZED AND ADOPTED BY AUTOMAKERS

Today, Valeo's growth is driven by its capacity to innovate:

- the proportion of innovative products[(1)] in the order intake has stabilized at a very high level. **In 2018, 53% of the order intake related to innovations** (60% including Valeo Siemens eAutomotive), confirming the strategic value of the 2,144 patents filed worldwide and the 2.1 billion euros allocated to Research and Development in 2018;
- the proportion of innovations in the order intake also reflects Valeo's consolidated leadership position in powertrain systems for electric and hybrid vehicles. Alone or via its joint venture with Siemens, Valeo is the world leader in the low- and high-voltage powertrain systems market;
- in 2018, 1 billion euros in order take related to 360° detection and automated parking assistance systems enhanced with artificial intelligence.

Major advances in sensor development are driving technological progress in autonomous vehicles and advanced driving assistance systems.

Its innovations make Valeo a preferred partner in this area, for both its traditional automotive customers and for new players in the field of mobility solutions. In 2018, 1 billion euros in order intake related to robotaxis.

FOR MORE INFORMATION

See Chapter 5 of the 2018 Registration Document, section 5.1 "Analysis of 2018 consolidated results", pages 268 to 279.

MEDIUM-TERM OUTLOOK

The trends in the automotive market and in raw material prices in 2018 and the projections for 2019 lead us to revise the assumptions used to determine our medium-term outlook, as presented at our Investor Day in February 2017. The Group will publish its new medium-term objectives during the Investor Day to be held before the end of 2019.

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

INNOVATION: FUELING GROWTH AT VALEO

With 5,000 software engineers, a network of more than 200 experts in artificial intelligence and a global open innovation[1] ecosystem, 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.

A SAMPLE OF VALEO'S RECENT INNOVATIONS

VALEO DRIVE4U™
the first autonomous car using only sensors that are already series-produced (ultrasonic, cameras, lasers, radars and LiDARs) and artificial intelligence.

VALEO XTRAVUE TRAILER
causes a trailer or caravan to appear transparent in the rearview mirror of the vehicle towing it.

VALEO PICTUREBEAM MONOLITHIC
is a high definition lighting system developed in partnership with CREE, the US market leader in the manufacture of LEDs. The solution generates a high definition beam of light on the road without ever dazzling other road users. It also enables information and images to be projected onto the road.

VALEO OXY'ZEN
can be used to activate air purification systems inside the vehicle cabin, via a smartphone.

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(1) See Sustainable Development Glossary, page 46.

AN ACCLAIMED INNOVATION STRATEGY

Valeo protects its innovations through an active patent filing policy: 2,144 patents were filed in 2018, nearly 100 more than in 2017. In 2018, Valeo won two Automotive News PACE awards(1) for two of its innovations:

- **the SCALA™**, the first and only series-produced laser scanner on the market today and a key enabler for highly automated driving. With a vast (145°) field of vision, it has the ability to detect stationary as well as moving objects up to a distance of 150 meters in any weather, both day and night;
- **Valeo's R-744 air conditioning system,** which works without chemical refrigerants, making it the world's first HVAC system to use a natural refrigerant.

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.

- 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** 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.

FOR MORE INFORMATION

See Chapter 4 of the 2018 Registration Document, "Sustainable Development", pages 177 to 266.

SPOTLIGHT ON PARTNERSHIPS SIGNED IN 2018

Valeo and Apollo, the open autonomous driving platform created by Baidu, the leading Chinese-language internet search provider.

Valeo and NTT Docomo, Japan's leading mobile operator. The partnership agreement provides for the pooling of the parties' respective expertise and solutions to offer telecommunication services and onboard equipment for connected cars, including next-generation mobility services (5G/V2X), digital services for connected cars using smart-phones, and enhanced controls for onboard equipment.

Mov'InBlue and Drivy, Europe's leading car-sharing platform, launch a connected and interop-erable shared mobility solution.

When integrated with the Drivy platform, the Mov'InBlue solution makes it possible to share vehicles from any fleet with Drivy's community of 2.5 million users, enabling fleet managers to optimize vehicle use and providing them with an additional source of revenue.

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(1) For more than 20 years, the PACE Awards have honored top innovation, technological advancement and business performance by automotive suppliers. The prestigious awards are recognized around the world as the industry benchmark for innovation.

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

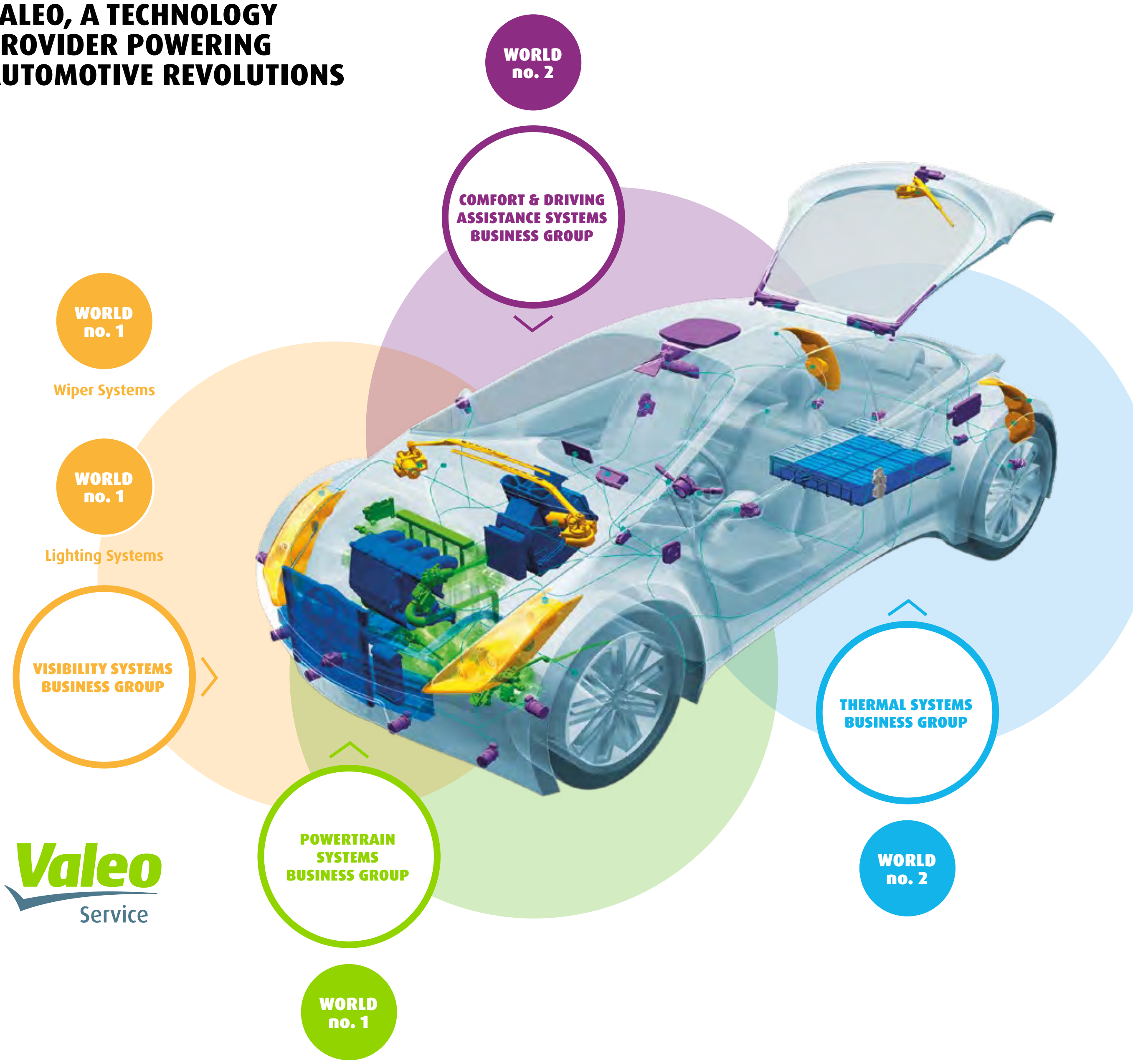
In a fast-changing automotive industry, Valeo is strongly positioned in the electric, autonomous and connected vehicle segments.

The strength of Valeo's expertise lies in the fact that it brings together know-how in a number of businesses, from powertrains and thermal systems to lighting and sensors. Its teams work together to develop future-oriented mobility products and systems that effectively meet the needs of end users.

This positioning is thanks to:

- a capacity for constant innovation grounded in the operating synergies between the different Business Groups and in a unique portfolio of technologies;
- the six main strategic, targeted transactions (acquisitions, joint ventures, and a takeover) carried out in 2016 and 2017, which support the Group's value creation model based on innovation and organic growth.

VALEO, A TECHNOLOGY PROVIDER POWERING AUTOMOTIVE REVOLUTIONS



FOUR COHERENT, WELL-BALANCED BUSINESS GROUPS

COMFORT & DRIVING ASSISTANCE SYSTEMS:

enabling ever more intuitive driving

€3.6BN

19% OF SALES

24,600 EMPLOYEES

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

2016 ACQUISITION

peiker

World no. 2 in the high-speed telematics and cybersecurity systems required by autonomous and connected vehicles.

VANESSA PICRON,

R&D Director for the driving assistance and active safety product line

"Valeo is now the world's leading manufacturer of driving assistance sensors, which act as the vehicle's eyes and ears. For Valeo, smart vehicles are vehicles that can learn from what is happening around them, predict and anticipate situations, provide suggestions to the driver and ensure driver and passenger safety."

POWERTRAIN SYSTEMS:

targeting low-carbon mobility

€5.1BN

26% OF SALES

23,700 EMPLOYEES

The Powertrain Systems Business Group develops innovative powertrain solutions to reduce CO_2 emissions and optimize vehicle energy efficiency without compromising on driving performance or pleasure. Growth in the Business Group is driven by the development of **smart engines, motors and transmissions, medium-electrification and high-power electrification (over 60 V).**

2016 CREATION OF A JOINT VENTURE

Valeo SIEMENS eAutomotive

World no. 1 in high-voltage electrification for plug-in hybrids and electric vehicles

2017 ACQUISITION

FTE automotive

World no. 1 in active hydraulic actuators for automatic transmissions

2017 CREATION OF VALEO-KAPEC

PHC Valeo

World no. 1 in torque converters for automatic transmissions

MICHEL FORISSIER

Chief Technology Officer

"In 2017 and 2018, Valeo illustrated the change in urban electric mobility with eight 48 V technology demonstration vehicles: affordable urban electric vehicles, an electric scooter, an electric rickshaw, an affordable plug-in hybrid and a hybrid commercial vehicle."

VISIBILITY SYSTEMS:

offering optimal visibility for future mobility

€5.7 BN

29% OF SALES

36,900

EMPLOYEES

The Visibility Systems Business Group designs efficient and innovative lighting and wiper systems which support the driver and passengers in all weather, day and night, and in their various onboard activities. Growth in the Business Group is driven by the generalization of LEDs, the reinvention of wiper systems, and the "experience of traveling".

2016 ACQUISITION

ICHIKOH

Valeo becomes the **world no. 1** in lighting systems thanks to a stronger presence in Asia and among Asian customers.

BENOIST FLEURY,

Product Marketing and Communication Director, Visibility Systems Business Group

"Because they generate new needs in terms of high-definition LED lighting and signaling, enhanced interior lighting and sensor cleaning, autonomous and connected cars represent a key growth driver for Valeo's Lighting and Wiper activities."

THERMAL SYSTEMS:

ensuring passenger well-being

€5.0 BN

26% OF SALES

24,500

EMPLOYEES

The role of the Thermal Systems Business Group is to optimize the management of thermal energy to create mobility solutions that are cleaner, safer and more reliable, 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.

2016 ACQUISITION

SPHEROS

World no. 1 in thermal systems for buses, a fast-growing market

PASCALE HERMAN,

Product Marketing Director, Thermal Systems Business Group

"With the development of car-pooling and fleets of shared vehicles, the Thermal Systems Business Group is anticipating new mobility by proposing an approach focused on passenger health and well-being. The notion of comfort has to surpass mere thermal or ergonomic comfort."

FOR MORE INFORMATION

See Chapter 1 of the 2018 Registration Document, "Presentation of Valeo", pages 47 to 80.

A STRONGER PRESENCE IN ASIA AND AMONG ASIAN CUSTOMERS

As a global partner for automaker customers and a local player in each of its markets, Valeo has made a strategic priority of expanding its market share, particularly in Asia. The Group aims to strengthen its foothold in this region, which accounted for 51% of global automotive production(1) in 2018.

To achieve this goal, the Group supports its longstanding customers in regions with long-term high growth potential, especially in China, while continuing to grow in mature regions such as Western Europe and North America. The Group also seeks to bolster its relations with new players such as Asian automakers, particularly by opening up local plants and R&D centers.

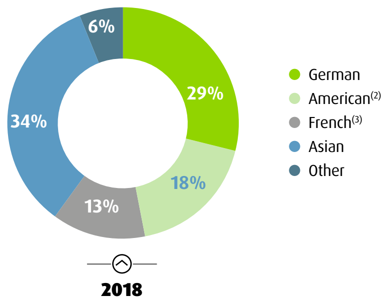
Already the world's biggest market, **China** has become the Group's largest country in terms of order intake and headcount:

- 25% of the order intake comes from China, of which 44% from local Chinese automakers;
- 34 plants and 7 R&D centers are in operation in China;
- around 3,300 R&D engineers.

Another strategic market for Valeo is **India**, currently the world's sixth largest producer of passenger cars with the ambition of becoming the third by 2026. In this region, the Group is focusing on developing competitively priced technological solutions that foster cleaner mobility and enhanced safety.

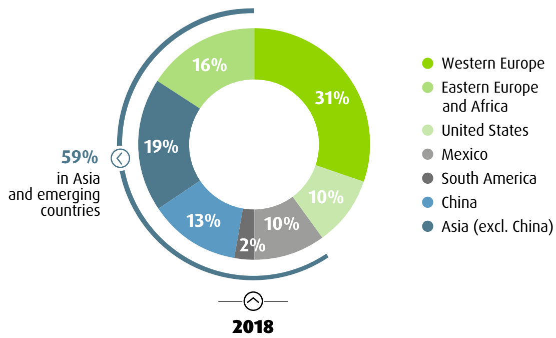
BALANCED CUSTOMER PORTFOLIO...

As a % of original equipment sales



... POSITIONED IN REGIONS WITH HIGH GROWTH POTENTIAL

As a % of original equipment sales, by destination region



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(1) Based on IHS automotive production estimates released on January 16, 2019/CPCA estimates for data relating to China.
(2) Excluding Opel.
(3) Including Opel.

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 method 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.

THE 5 AXES, A CULTURE OF EXCELLENCE AND CONTINUOUS IMPROVEMENT

CHRISTOPHE PÉRILLAT
Chief Operating Officer

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

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 help reduce CO_2 emissions and promote the development of intuitive, connected and autonomous driving. **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 of the Group.

KEY SUSTAINABLE DEVELOPMENT CHALLENGES

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

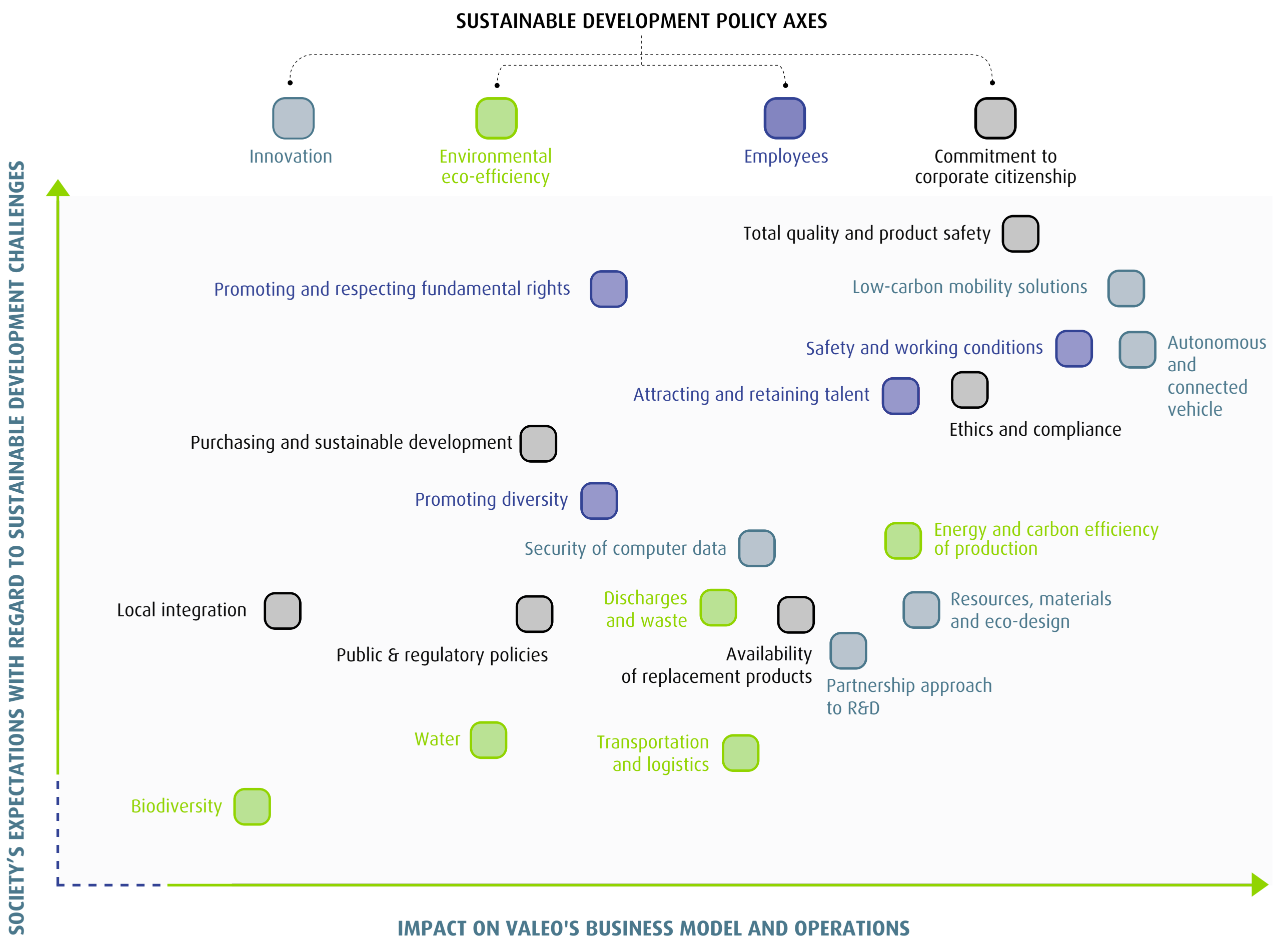
- enable stakeholders to better comprehend their interactions with Valeo;
- give its Research and Development (R&D), environmental, labor-related and social data sharper focus on key issues of significance for the Group and its stakeholders;
- reinforce the relevance and quality of information put forward by the Group.

The materiality analysis aims to compare Valeo's internal sustainable development ambitions with its stakeholders' expectations.

The Group closely monitors each challenge on a permanent basis using action plans and key indicators.

In 2018, Valeo enhanced its sustainable development governance by conducting a non-financial risk analysis, in line with the French and European frameworks. The analysis brought to light seven main non-financial risks, as follows: the risk of non-compliance with environmental standards and the loss of opportunities for technologies that contribute to reducing CO_2 emissions; the risk of accidental water or soil pollution; health and safety risk; the risk associated with attracting talent; the risk associated with employee development and retention; the risk of individual corruption; and the risk associated with suppliers' sustainable development practices. The Group presents a follow-up of the prevention and management of these risks and the corresponding action plans and key performance indicators (see Chapter 4 of this document). This study and the associated analysis were presented in early 2018 to the Group's Risks Committee, which validated the results.

MATERIALITY MATRIX PLOTTING VALEO'S SUSTAINABLE DEVELOPMENT CHALLENGES



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). In particular, the Group contributes to the following seven goals: quality education (SDG 4), gender equality (SDG 5), decent work and economic growth (SDG 8), industry, innovation and infrastructure (SDG 9), sustainable cities and communities (SDG 11), climate action (SDG 13), and life on land (SDG 15).

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

AXES	CHALLENGES	KEY INDICATORS	2015 RESULTS	2016 RESULTS	2017 RESULTS	2018 RESULTS	TARGETS (2020)	REGISTRATION DOCUMENT SECTION
INNOVATION	Low-carbon mobility solutions/ Autonomous and connected vehicle	▪ Share of innovative products in order intake[1] (*% of order intake*)	37%	50%	50%	53%	>40%	5.1.1 Page 268
		▪ Share of products contributing to the reduction of CO_2 emissions (*as a % of sales*)	N/A	50%	50%	50%	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	137 (-4%[2])	134 (-6%[2])	140 (-2%[2])	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	56.6 (+0.5%[2])	55.6 (-1%[2])	59.2 (+5%[2])	51.8 (-8%[2])	4.3.3 Page 214
		▪ ISO 50001 energy management certification (*% of sites*)	8%	12%	13%	17%	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	17.0 (+4%[2])	16.6 (+1%[2])	16.2 (-1%[2])	15.6 (-5%[2])	4.3.2 Page 208
	Water	▪ Water consumption as a proportion of sales (*cu.m/€m*)	198	184 (-7%[2])	175 (-12%[2])	210 (+6%[2])	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	2.3	2.0	2.1	<2	4.4.2 Page 222
	Attracting and retaining talent	▪ Voluntary turnover of Managers and Professionals (*% of M&P workforce*)	6.7%	7.0%	7.3%	8.5%	≤7%	4.4.2 Page 229
	Promoting and respecting fundamental rights	▪ Share of employees who acknowledged receipt of the Code of Ethics and who were trained on its content (*% of the total workforce*)	N/A	95.0%	95.0%	99.0%	100%	4.4.3 Page 242
	Promoting diversity	▪ Share of women in new hires during the year (*% of hires during the year*)	32.4%	31.2%	32.0%	33.0%	>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%	63%	67%	77%	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	N/A	48%	61%	80%	4.5.2 Page 247

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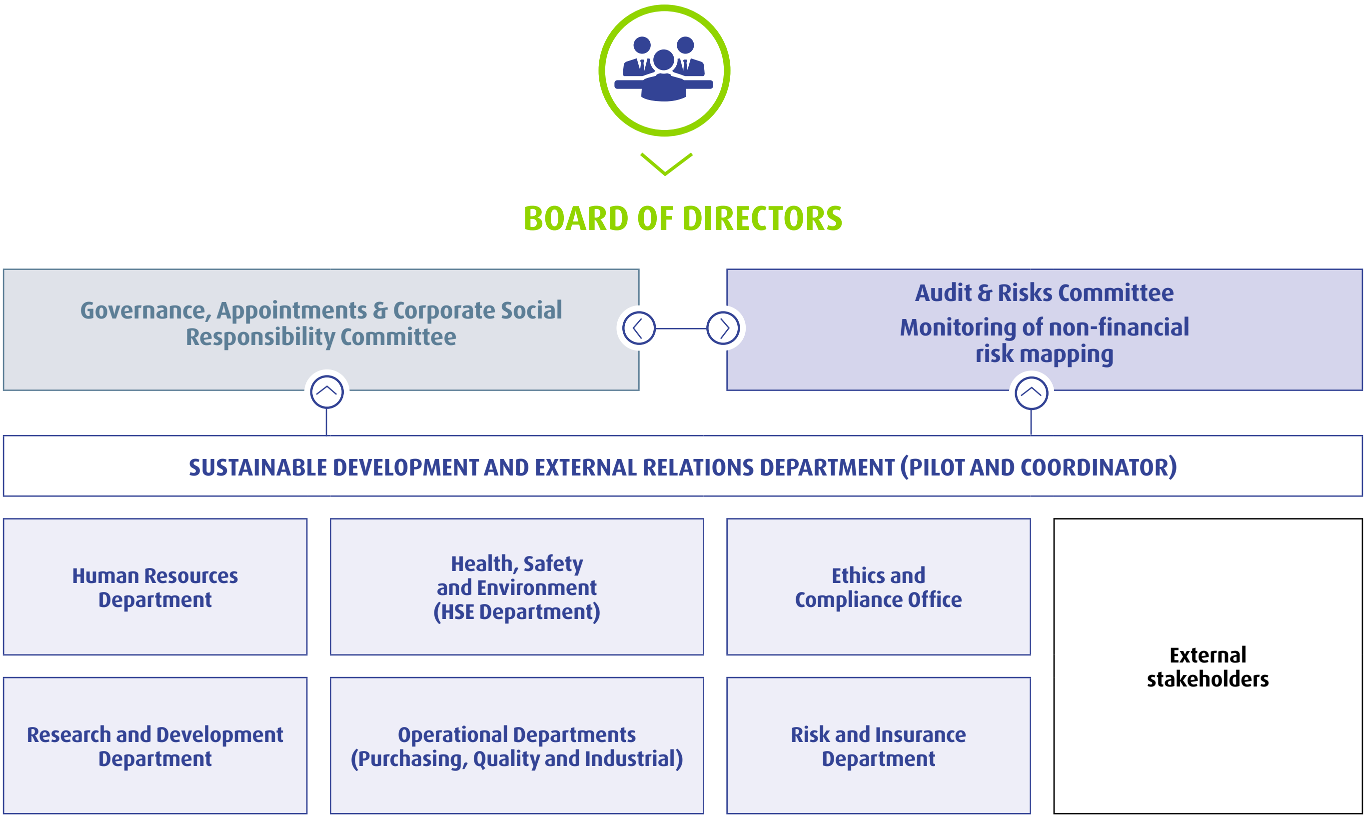
(1) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.
(2) Change compared with 2015.

CORPORATE GOVERNANCE COMMITTED TO SUSTAINABLE DEVELOPMENT



In 2010, the Group set up a sustainable development unit 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.

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

RECOGNITION OF VALEO'S COMMITMENT TO SUSTAINABLE DEVELOPMENT

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

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

Lastly, Valeo was awarded the CAC Large 60 Grand Prix in 2018, at the 9th annual Regulatory Information Transparency awards, thereby ranking it first among the 60 largest companies in the SBF 120 stock market index. The prize recognizes the importance placed by Valeo on the rigor, relevance, transparency and ease of access to regulatory financial and non-financial information aimed at investors, shareholders and analysts.

FROM MEGATRENDS TO INNOVATION: PRODUCT ECO-DESIGN

The Group's research, development and innovation policy serves to make its strategic choices a reality. It draws primarily on:

- strategic industrial partnerships (research partnership with Safran), a range of acquisitions, and joint ventures, such as the one formed with Valeo Siemens eAutomotive;
- an open innovation strategy and the development of links with start-ups;
- collaborative research programs;
- multifaceted academic partnerships.

Since 2009, the Group has constantly focused its strategy **on the design, development and production of products contributing to the reduction of CO_2 emissions,** hinged on the following two pillars:

- innovation for the reduction of CO_2 emissions by products during their use phase;
- rollout of a product eco-design strategy geared towards reducing their carbon impact well beyond the simple use phase, representing 90% of total impacts.

The eco-design 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.

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 affordable products. 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.

To support this activity, a used parts collection system has been set up, enabling immediate recognition of product references. Once parts have been retrieved, Valeo disassembles, inspects and cleans them, and subjects them to electrical and electronic tests. It then initiates a remanufacturing process, which most importantly involves eliminating any traces of hazardous substances to guarantee personal protection.

EXPERTS

1,151
UP 23% VERSUS 2016

GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

€2,073M
UP 8.6% VERSUS 2017

PATENTS FILED

2,144
~100 MORE THAN IN 2017

% INNOVATIVE PRODUCTS(1) IN THE ORDER INTAKE

53%

FOR MORE INFORMATION

See Chapter 4 of the 2018 Registration Document, section 4.2 "Research and Development at Valeo: from megatrends to innovation", on pages 192 to 201.

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

ENERGY CONSUMPTION AS A PROPORTION OF SALES

140 MWH/€M
DOWN 2% VERSUS 2015

INDUSTRIAL CARBON FOOTPRINT

10.37 mt
OF DIRECT CO_2 EMISSIONS: ~3.5%

TOTAL CONSUMPTION OF PACKAGING MATERIALS AS A PROPORTION OF SALES

5.7 t/€M
DOWN 24% VERSUS 2008

WATER CONSUMPTION

210 cu.m/€M
DOWN 43% VERSUS 2008

ENVIRONMENTAL ECO-EFFICIENCY: USING ENVIRONMENTALLY FRIENDLY MANUFACTURING PROCESSES TO REDUCE ITS ENVIRONMENTAL IMPACT

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:

- eliminate the use of substances that are hazardous to the environment or health;
- 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.

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,** and to ensure the supply of good quality water for its staff. 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 of **reducing its direct and indirect GHG emissions** (scopes 1 and 2) as a proportion of sales by 8% between 2016 and 2020 and 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 2018 Registration Document, section 4.3 "Environmental management and performance of Valeo sites", pages 202 to 218.

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 proportion of sales ($tCO_2eq./€m$)

	2015	2016	2017	**2018**
Scope 1 DIRECT EMISSIONS	10.1	9.6	9.9	**9.9**
Scope 2 INDIRECT EMISSIONS	46.2*	46.9	45.6	**49.3**
Scope 3 OTHER INDIRECT EMISSIONS	426	482	493	**528**

In total, direct and indirect greenhouse gas emissions as a proportion of sales were up 5% compared with the 2015 baseline (56.3 $tCO_2eq./€m$). While Valeo has been able to stabilize its direct GHG emissions (Scope 1) as a proportion of sales, the Group's growth in Asian countries is generating an increase in indirect emissions (Scope 2).

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

(1) See Sustainable Development Glossary, page 46.

BRUNO GUILLEMET

Senior Vice-President, Human Resources

"To take its equal pay policy further, the Group has decided to extend the gender equality index, set up by the French government, to all of its countries. This index, based on the evaluation of five criteria(1), will allow Valeo to measure and close the pay gap between women and men."

AN EMPLOYER THAT PROMOTES EMPLOYEE WELL-BEING

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. Valeo has therefore set itself the goal of more than halving the rate of lost-time accidents (FR1)(2) 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 is a key challenge for Valeo in achieving its goals 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 is a priority for the Group. The Group relies on its employees to support its growth and maintain relationships with its customers worldwide. To this end, Valeo is committed to **recognizing and valuing talent**, while retaining talented employees thanks to an ambitious compensation, professional development, training and internal mobility policy. At Group level, as well as at the country and plant levels, the managers responsible for talent development, training, compensation and benefits work together to develop ambitious policies that meet employee demands and match the Group's strategy.

Valeo believes that **employee progress** is inseparable from economic performance. As employee trust is essential to its business and development, the Group has undertaken to respect fundamental rights, and promotes open communication between employers and unions. The involvement of all employees through social dialog is a guarantee of success for all the policies undertaken by Valeo.

FOR MORE INFORMATION

See Chapter 4 of the 2018 Registration Document, section 4.4 "Valeo and its employees", pages 219 to 235.

RESPECTING AND PROMOTING DIVERSITY

In a competitive environment and diverse society, encouraging diversity among employees is a means of driving performance and attracting and retaining talent. A key element of its culture, Valeo works for diversity on four themes: gender equality, cohesion between the younger and older generations, a multicultural mindset and the inclusion of people with disabilities. Objectives in this area and the measures implemented to meet them are defined by a Diversity Committee, which was set up in 2012 at the initiative of General Management. It is chaired by the Group Senior Vice-President, Human Resources, who is assisted by the champions of each of the four diversity themes.

SEVERITY RATE (SR1(3)) OF OCCUPATIONAL ACCIDENTS

0.06
DOWN FOR THE PAST 4 YEARS

ATTRACTING TALENT

"GLOBAL TOP EMPLOYER" FOR THE **5th** YEAR IN A ROW

QUALITY OF LIFE AT WORK

5,939 employees work from home,
I.E., 19% OF MANAGERS AND PROFESSIONALS

DIVERSITY

2,376 employees with disabilities
+35% VS 2017

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

SOCIAL FOOTPRINT: COMPLIANCE AND COMMITMENT TO LOCAL DEVELOPMENT

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

Due to the Group's global presence and its growing number of employees, the Ethics and Compliance Office has introduced **a specific and comprehensive program to fight corruption and anti-competitive practices, and to promote compliance with economic sanctions and export controls** (the Compliance Program). In 2018, the Compliance Program was extended to cover the protection of personal data. Run by General Management and the Ethics and Compliance Office, endorsed by all management teams and relayed worldwide by 32 Compliance Champions, the Group's compliance program meets the highest international standards, including France's Sapin II[(1)] law. It breaks down into different policies, instructions, recommendations, tools and training modules.

Broad change in supplier chains, the emergence of new forms of indirect subcontracting and the desire to control risks of disruption to 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. The Group's aim is to include sustainable development performance as a criteria for the selection and regular assessment of its suppliers. The criteria for selecting suppliers and awarding contracts cover economic, financial risk, logistics, corporate governance, environmental and 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 20% in the supplier's final score**, and any failure to meet these criteria automatically disqualifies them from Valeo's supplier panel.

The Group has also introduced a system for assessing its suppliers' sustainable development practices. Each year, a significant portion of its production suppliers (representing 77% of its production purchases) are assessed on their practices, and a certain number are assessed via dedicated audits.

ACTION BY VALEO SITES WITH LOCAL COMMUNITIES

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 help to create and enhance 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, 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 the site Human Resources Departments and site Research and Development managers, the site managers decide on actions that can be carried out to help the local population and employees. **For the third year running, all sites organized at least one corporate citizenship initiative.**

FIGHT AGAINST CORRUPTION

32 *COMPLIANCE CHAMPIONS*

GENERAL DATA PROTECTION REGULATION

3,500 TARGET EMPLOYEES TRAINED

SHARE OF PRODUCTION PURCHASES FOR WHICH VALEO ASSESSES THE SUPPLIERS' SUSTAINABLE DEVELOPMENT PRACTICES

77% OF SUPPLIERS

FOR MORE INFORMATION

See Chapter 4 of the 2018 Registration Document, "Sustainable Development", section 4.5 "Valeo's social footprint", pages 236 to 249.

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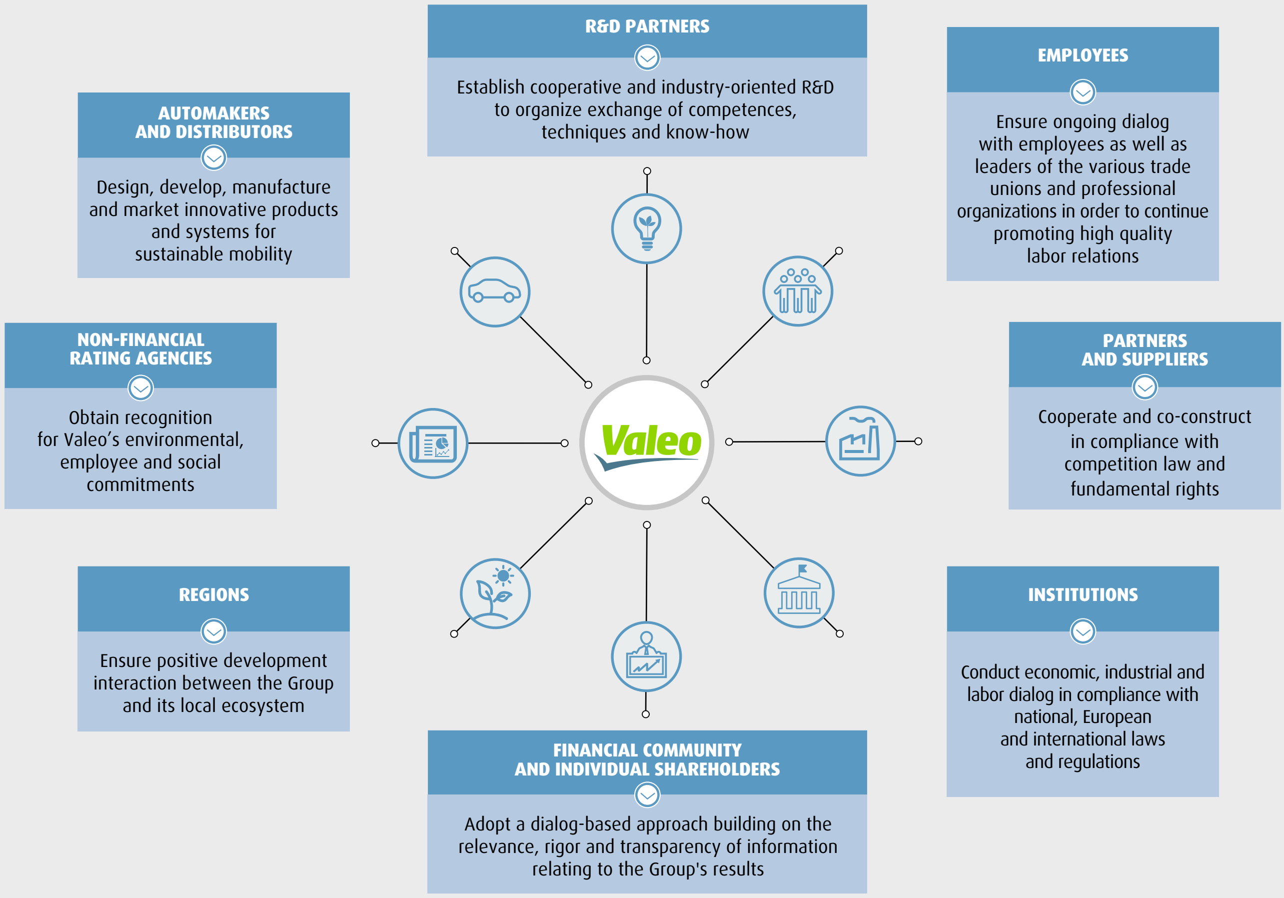
(1) Law No. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization, known as the Sapin II law.



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, enabling it 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 2018, Valeo launched its global engagement and satisfaction survey of all employees, enabling each country to improve its performance in this area in 2019.

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

Keen to be involved 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 1,600 institutional investors and analysts at these events during 2018, 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 competences.

NON-FINANCIAL RATING AGENCIES

Valeo saw its non-financial performance acknowledged by various rating agencies in 2018, reflecting the successful cross-functional deployment of sustainable development and communication that respects the principles of transparency, rigor and relevance. The Group featured in CDP's[1] A List of best performers.

AUTOMAKER CUSTOMERS AND DISTRIBUTORS

Committed to its customers, Valeo undertakes to design, develop, manufacture and market innovative products and systems for sustainable mobility. Customers continued to recognize the high standard of the Group's performance, particularly in the area of quality, awarding it 101 distinctions in 2018.

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(1) See Sustainable Development Glossary, page 46.

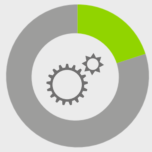
VALEO'S VALUE CREATION MODEL

VALUE CREATION SHARED

Sales - Purchasing and other costs = Value generated by Valeo(1) =>

Employees(2)

Investments in the Group's future growth(3)



Promoting innovation

42,500 patents,
of which **2,144** filed in 2018

60% of order intake
for innovative products(6)

Attracting and retaining talent

Workforce **DOUBLED** in ten years

25h of training
per employee on average

Taking quality to the highest level

Order intake up 10%
per year over past ten years

Customer return rate of **2.9 parts**
per million products delivered

A GROWTH STRATEGY SPANNING THE 3 TECHNOLOGICAL

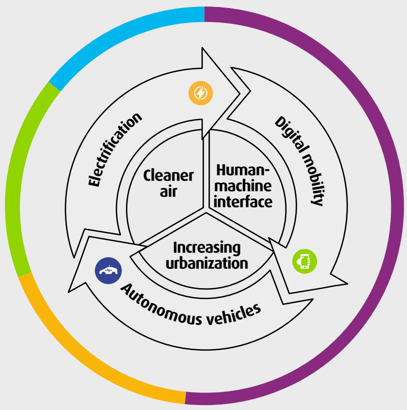
Valeo's solutions to mobility challenges

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

19,800 R&D employees working
at **59** centers worldwide

€2bn in gross R&D expenditure

People, the key to excellence

113,600 employees,
139 nationalities

Employee representative bodies
for nearly **2/3** of sites

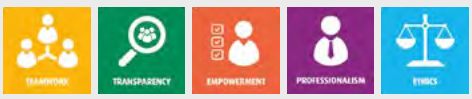
High-performance plants

186 plants
in **33** countries

6 million products
delivered per day

A CULTURE OF EXCELLENCE

Valeo's culture is underpinned by five core values:



NB: Figures relate to the year ended December 31, 2018. The main indicators are defined in the Financial Glossary, page 46, and in the Sustainable Development Glossary, page 46.

(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) 2018 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 for 2018 proposed to the Shareholders' Meeting and cost of net debt.

BY ALL STAKEHOLDERS

States[4]

Investors[5]

Contributing to a cleaner world

€6m in environmental investments

17% of sites certified ISO 50001

91% of produced waste recovered

Supporting local communities

Purchases close to consumption location

Higher education partnerships: **82%** of sites

Rewarding investors

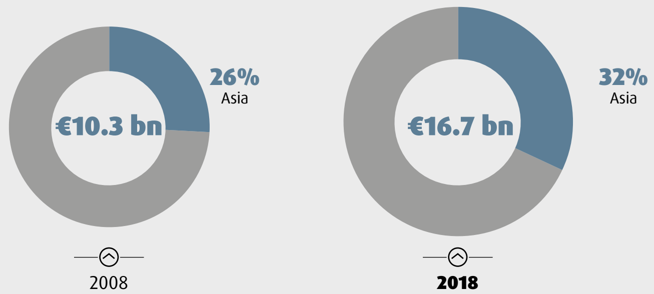
Payout ratio of **54%** or **€1.25** per share[7]

B-, Prime, Industry Leader, ranked no. 1 among automotive suppliers by Oekom

REVOLUTIONS TAKING PLACE IN THE AUTOMOTIVE MARKET

Original equipment sales

In billions of euros and as a %



Geographic expansion in high-growth potential regions

SUPPORTED BY SOLID FUNDAMENTALS

Environmental stewardship

92% of plants certified ISO 14001 and **91%** certified OHSAS 18001

€21m in operating expenses related to the environment

Social footprint

1,151 suppliers account for **95%** of production purchases

Business Partner **Code of Conduct**

Financial solidity

€19.3bn in sales

Operating margin at **6.3%** of sales

€161m 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

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

(7) Dividends to be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2018.

GOVERNANCE

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, as well as the **Operations Committee** comprising the Chairman and Chief Executive Officer and the 14 Functional Directors and Operational Directors. 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, 2018

	Personal information				Experience	Position on the Board				
	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[3]
Jacques Aschenbroich Chairman and Chief Executive Officer	64	M		832,833	2	X	03/20/2009	2019 Shareholders' Meeting[2]	10 years	-
Bruno Bézard	55	M		1,500	0	✓	10/24/2017	2022 Shareholders' Meeting	2 years	-
Éric Chauvirey Director representing employees	44	M		N/A[4]	0	N/A[5]	06/30/2017	06/30/2021	2 years	CC
Pascal Colombani	73	M		1,800	2	✓	05/21/2007	2019 Shareholders' Meeting[6]	12 years[7]	GACSRC/CC/SC
C. Maury Devine	67	F		3,500	3	✓	04/23/2015	2021 Shareholders' Meeting	4 years	GACSRC/CC
Michel de Fabiani	73	M		1,500	0	✓	10/20/2009	2019 Shareholders' Meeting[8]	10 years	GACSRC/CC/ARC
Mari-Noëlle Jégo-Laveissière	50	F		1,500	1	✓	05/26/2016	2021 Shareholders' Meeting	3 years	ARC
Noëlle Lenoir	70	F		3,000	0	✓	06/03/2010	2022 Shareholders' Meeting	9 years	ARC
Gilles Michel	62	M		1,500	3	✓	05/23/2018	2022 Shareholders' Meeting	1 year	GACSRC/CC
Thierry Moulonguet	67	M		1,500	0	✓	06/08/2011	2020 Shareholders' Meeting	8 years	ARC (Chairman)/SC
Georges Pauget Lead Director	71	M		1,500	1	✓	04/10/2007	2020 Shareholders' Meeting	12 years[9]	GACSRC (Chairman)/ CC (Chairman)/SC
Ulrike Steinhorst	67	F		1,500	2	✓	02/24/2011	2020 Shareholders' Meeting	8 years	GACSRC/CC/SC (Chair)
Véronique Weill	59	F		2,390	0	✓	05/26/2016	2021 Shareholders' Meeting	3 years	ARC/SC

NATIONALITIES

: *French* : *American* : *German*

N/A = Not applicable.

(1) Except for the directorship in the Company.

(2) At the Shareholders' Meeting on May 23, 2019, shareholders will be asked to approve the reappointment of Jacques Aschenbroich as a director. The Board of Directors has decided that, subject to Jacques Aschenbroich's reappointment as a director, it will reappoint him as Chairman and Chief Executive Officer at the meeting to be held immediately after the Shareholders' Meeting. During the first two years of his new term as Chairman and Chief Executive Officer, the offices of Chairman of the Board of Directors and Chief Executive Officer will be separated.

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

(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 8.3 of the AFEP-MEDEF Code.

(6) Pascal Colombani does not intend to stand for reappointment at the Shareholders' Meeting on May 23, 2019.

(7) Pascal Colombani was first appointed as a director on May 21, 2007 and will therefore have served for 12 years on May 21, 2019.

(8) Michel de Fabiani does not intend to stand for re-appointment at the Shareholders' Meeting on May 23, 2019.

(9) Georges Pauget was first appointed as director on April 10, 2007 and will therefore have served for 12 years on April 10, 2019. For a description of the review of his independence after April 10, 2019, see paragraph "Director independence review upon preparation of the Corporate Governance Report" of the 2018 Registration Document, Chapter 3, section 3.2.1 "Composition of the Board of Directors", pages 106 to 108.

FOR MORE INFORMATION

See Chapter 3 of the 2018 Registration Document, "Corporate Governance", pages 103 to 176.

OPERATION OF THE BOARD OF DIRECTORS

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

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

The Board of Directors' 13 members at December 31, 2018 have different backgrounds and enable the Group to benefit from their experience and skills in a variety of fields relating to economics, manufacturing and finance. Currently, 42%(1) of the Board's members are women and 69% are under 70 and, except for the director representing the 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.

Georges Pauget, an independent director, is Lead Director and Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee, and a member of the Strategy Committee.

A process is carried out every year to assess the Board of Directors, and its operating procedures, composition and organization. The Board decided to appoint an outside firm to conduct the 2018 assessment. The assessment was conducted by the specialized consulting firm between the end of 2018 and beginning of 2019 through individual interviews with all the directors based on an interview guide that was reviewed and approved by the Lead Director and the Secretary of the Board of Directors. The consulting firm noted that Valeo's governance had continued to improve and gain in strength since the previous assessment, thanks to a balanced governance structure, as a result of the role fully assumed by the Lead Director, the renewal of directorships, which was prepared and anticipated sufficiently in advance, and the transparency of management in its relations with the Board during Board meetings, committee meetings and the strategy seminar. One of the main areas of satisfaction is the unified governance adapted to the Company's situation, characterized in particular by:

- an effective dynamic between the Chairman and Chief Executive Officer, who is transparent and attentive to the Board of Directors' work, and the Board of Directors, which is particularly involved and committed to contributing effectively to the Group's performance by providing quality information and engaging in active debate;
- the Board of Directors' full confidence in the Chairman and Chief Executive Officer. Under his chairmanship, the Board of Directors works in a spirit of cooperation and collegiality, and its members feel genuinely invested;
- a Lead Director who contributes effectively to the sound balance and operation of the Group's governance and exercises his duties with great care and attention. The Lead Director plays a key, stabilizing role in the Group's governance by liaising with the directors. He acts as an effective sparring partner to the Chairman and Chief Executive Officer, coordinates the independent directors and ensures balanced governance for the markets.

Based on the results of the assessment, the directors drew up a list of certain particular items that should be addressed by the Board of Directors. The specialized consulting firm also assessed each director's individual contribution to the Board of Directors' work. The Lead Director then met with each director to discuss the outcome of the assessment.

As is the case every year, the annual strategy seminar, which was held in Prague, Czech Republic, was considered a key moment for the Board of Directors, in view of the quality of its organization and the issues covered. The seminar was an opportunity for the Board of Directors to have direct contact with the Group's management and operations over three days, enabling it to further grasp the Group's strategic challenges.

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

(2) For more information, see section "Independence of directors", page 109 to 111 of the 2018 Registration Document.

ROLES OF THE BOARD OF DIRECTORS' FOUR COMMITTEES AT DECEMBER 31, 2018

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.

AUDIT & RISKS COMMITTEE

5 independent members out of 5
6 meetings
93% attendance rate

- Ensure that accounting standards 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 statutory audit engagements
- 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
4 meetings
100% 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 attendance fees and the individual amounts to be paid
- Recommend to the Board an aggregate amount of attendance fees to be proposed at the Shareholders' Meeting
- Give its opinion to the Board on general policy as well as stock option and free share or performance share plans set up by the Group's General Management
- Remain informed about the compensation policy for the main executive managers (excluding corporate officers) of the Company and of other Group companies
- Review any questions submitted to the committee by the Chairman about the above matters, as well as plans to issue shares exclusively for employees

GOVERNANCE, APPOINTMENTS & CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

6 independent members out of 6
5 meetings
100% 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 recommendations regarding the appointment of executive corporate officers, directors and committee members
- Draw up a succession plan for executive corporate officers and directors
- Examine the independence of each Board member
- Select candidates for the position of director
- Review CSR and safety policy, determine CSR objectives and challenges, and ensure that previously defined objectives are met
- Take note of the risks related to corporate social responsibility challenges and stay informed regarding the resources available to the Group in pursuing its strategy in this area
- As required, issue opinions and recommendations to help the Board make informed decisions

STRATEGY COMMITTEE

5 independent members out of 5
4 meetings
95% 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 representing more than 50 million euros per transaction

FOR MORE INFORMATION

See Chapter 3 of the 2018 Registration Document, "Corporate Governance", pages 103 to 176.

AN OPERATIONS COMMITTEE TO IMPLEMENT THE GROUP'S STRATEGY

COMPOSITION OF THE OPERATIONS COMMITTEE AT DECEMBER 31, 2018

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

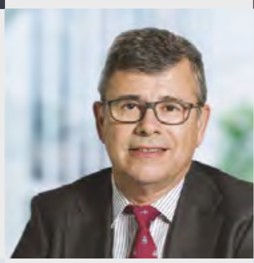
Jacques Aschenbroich
Chairman and Chief Executive Officer

Fabienne de Brébisson
Vice-President, Communications
since 2011

Robert Charvier
Chief Financial Officer
since 2010

Éric Antoine Fredette
General Counsel
since 2015

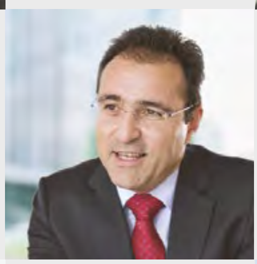
Bruno Guillemet
Senior Vice-President, Human Resources
since 2015



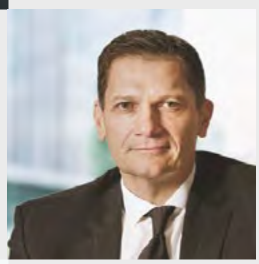
Catherine Delhaye
Chief Ethics and Compliance Officer
since 2012

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

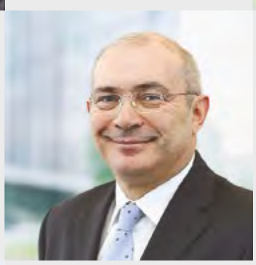
Christophe Périllat
Chief Operating Officer
since 2011



Xavier Dupont
President, Powertrain Systems Business Group
since 2015



Maurizio Martinelli
President, Visibility Systems Business Group
since 2014

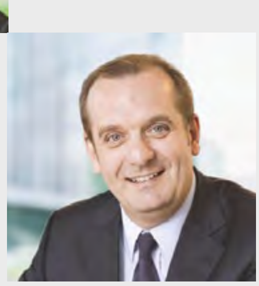


Jean-François Tarabbia
Senior Vice-President, Research & Development and Product Marketing
since 2013

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



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

FOR MORE INFORMATION

See Chapter 1, pages 47 to 80 and Chapter 3 of the 2018 Registration Document, "Corporate Governance", pages 103 to 176.

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 2018 Registration Document, "Corporate Governance", pages 103 to 176.

	FIXED PORTION	VARIABLE PORTION	PERFORMANCE SHARES	SUPPLEMENTARY PENSION	ATTENDANCE FEES
BENEFICIARIES	Chairman and CEO/members of the Operations Committee				Corporate officers other than the Chairman and CEO
FORM OF PAYMENT	Cash	Cash	Shares	Cash	Cash
PERFORMANCE TYPE	Short-term	Short-term	Long-term	Long-term	Short-term
PERFORMANCE PERIOD	Continuous	1 year	3 years	Continuous	Continuous
DECISION-MAKER	**Chairman and CEO:** Board of Directors on recommendation of the Compensation Committee(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)	Boardof 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(1)
PERFORMANCE METRIC	Not applicable	**Chairman and CEO(2):** ▪ 5 financial criteria (operating margin rate, ROCE rate, free cash flow, net income, 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, ROCE rate(3))	**Chairman and CEO(2):** additional retirement benefits allotted based on variable compensation **Members of the Operations Committee:** additional retirement benefits not subject to performance criteria	Attendance

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(1) The compensation policy for the Chairman and Chief Executive Officer is subject to *ex ante* and *ex post* votes.
(2) Criteria applicable for 2018 compensation.
(3) See Financial Glossary, page 46.

COMPENSATION OF JACQUES ASCHENBROICH, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, IN 2018[1]

Fixed portion €1,000,000

Excluding benefits in kind and supplementary pension

SHORT-TERM

Variable portion €530,000

(53% of fixed compensation versus max. 170%)

5 quantitative criteria (0% of fixed compensation versus max. 115%):
- Operating margin rate[2] (0% of fixed compensation versus max. 25%)
- Free cash flow[2] (0% of fixed compensation versus max. 25%)
- Net income[2] (0% of fixed compensation versus max. 20%)
- ROCE rate[2] (0% of fixed compensation versus max. 20%)
- Consolidated order intake[2] (0% of fixed compensation versus max. 25%)

3 qualitative criteria (53% of fixed compensation versus max. 55%):
- Strategic vision (20% 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: 55,026 shares

(€2,599,979[3] i.e., 260% of fixed portion versus max. 270%)

Performance conditions over 3 years:
- ROA rate[2], operating margin rate[2] and ROCE rate[2]: average over 3 years (2018-2020) of the ratio between the actual return achieved and the target return set by the Board of Directors at the beginning of each reference year, which must be at least equal to the guidance for the year under review, equal to or greater than one.

3-year vesting period:
- 3 criteria met: 100%, 2 criteria met: 60%, 1 criterion met: 30% and no criteria met: 0

Mandatory 2-year holding period following the 3-year vesting period.

At the end of the holding period, at least 50% of the vested performance shares allotted must be held until the term of office expires.

FOR MORE INFORMATION

See Chapter 3 of the 2018 Registration Document, "Corporate Governance", pages 103 to 176.

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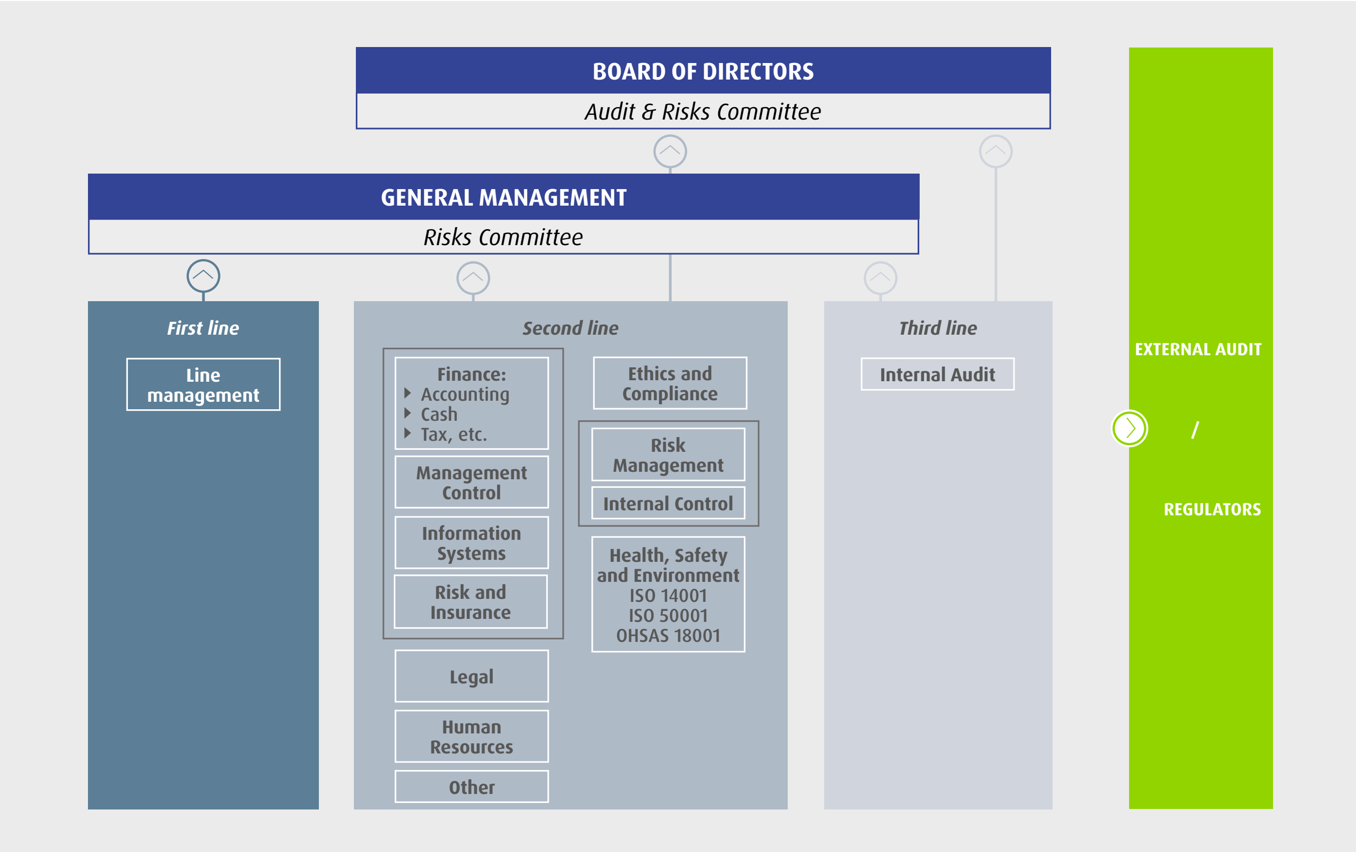
(1) Subject to *ex post* vote at the Shareholders' Meeting to be held on May 23, 2019.
(2) See Financial Glossary, page 46.
(3) Performance shares measured in accordance with IFRS (unit value of 47.25 euros at the allotment date).

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

OPERATIONAL RISKS

- Risks related to changes in the technological environment CSR
- Risks related to the development and launch of new products CSR
- Industrial risks related to growth
- Risks related to attracting and retaining talent CSR
- Cybersecurity and IT systems failure risk CSR
- Supplier failure risk CSR
- Risks associated with the automotive equipment industry
- Environmental or technological risks CSR
- Geopolitical risks
- Customer credit risk

Pages 82 to 89

LEGAL RISKS

- Risks related to products and services sold CSR
- Intellectual property risks (patents and trademarks) CSR
- Risks of non-compliance with the Code of Ethics or the law CSR

Pages 90 to 93

FINANCIAL RISKS

- Commodity risk
- Foreign currency risk
- Liquidity risk
- Interest rate risk
- Banking counterparty risk
- Equity risk

Pages 93 to 94

CSR Non-financial risks (described in Chapter 4 "Sustainable Development" of the 2018 Registration Document, pages 177 to 266).

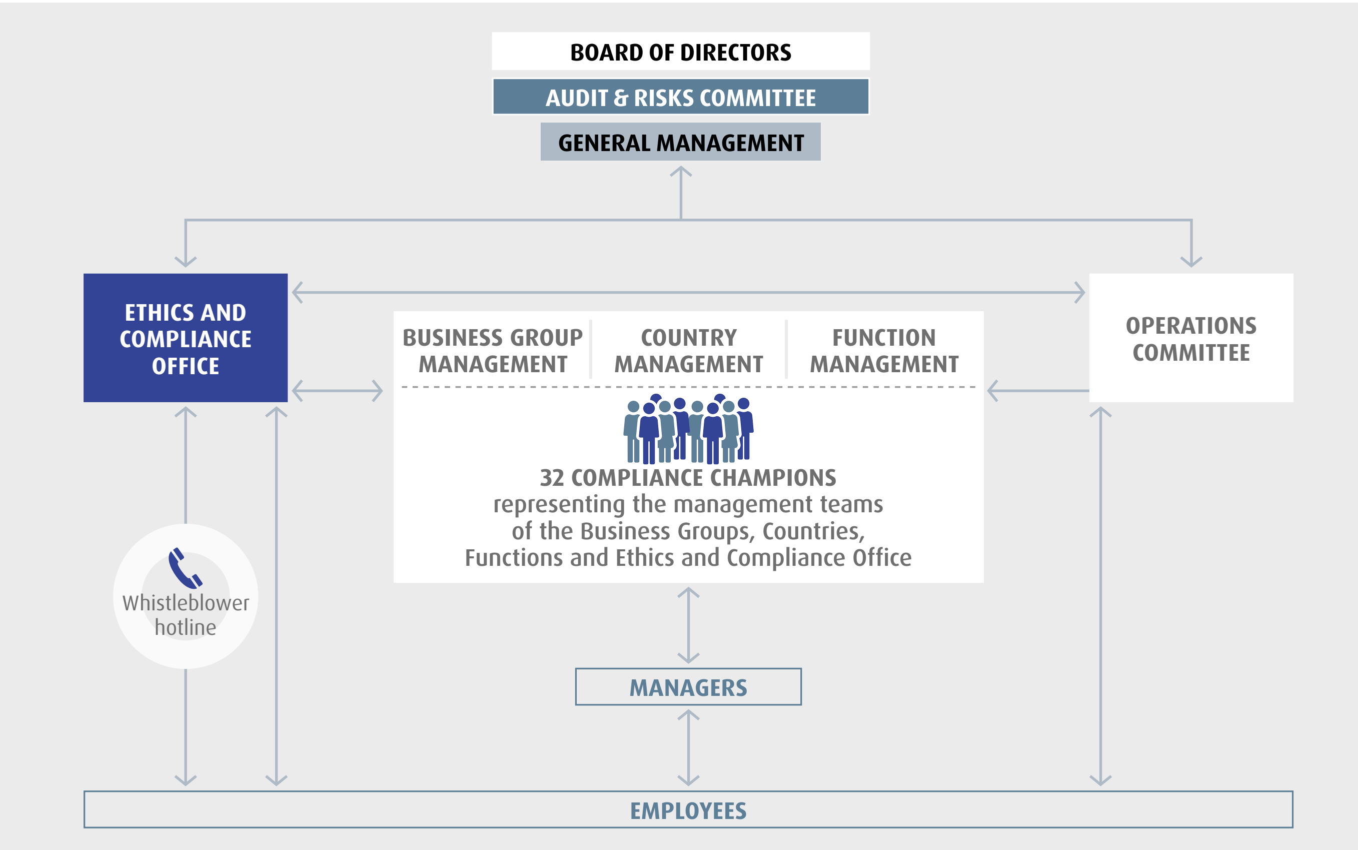
STRICT ADHERENCE TO ETHICS AND COMPLIANCE PRINCIPLES

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 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 violations of fundamental rights, threats to the environment and personal health and safety, and 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



- Created by **General Management, the Ethics and Compliance Office** is tasked with proposing, managing, and coordinating the global and local implementation of the Compliance Program, as decided by the Operations Committee, of which it is a member.
- 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 **Operations Committee** is responsible for determining the focuses and priorities of the Compliance Program, allocating the funds and resources necessary and ensuring that its implementation is supervised and verified.
- The **32 Compliance 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.

A COMPREHENSIVE FRAMEWORK

Valeo's commitments

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

99%
of employees that joined the Group in 2018 signed a declaration acknowledging receipt of a copy of the Code of Ethics

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."

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

98.4%
of newcomers completed the anti-corruption training module

e-learning
on personal data protection provided to the relevant 3,500 employees

Whistleblowing system improved in 2018

In addition to the various opportunities offered by Valeo since 2014 to report behaviors or practices that appear to be unlawful, its Code of Ethics, its Business Partner Code of Conduct and/or its compliance policies and procedures, **Valeo has now expanded and extended its whistleblowing system.**

It allows **internal and external** whistleblowers to report:

- suspected or proven cases of bribery or influence peddling, or suspected or proven breaches of the Valeo anti-corruption program or Code of Conduct;
- corruption or influence peddling;
- proven or suspected cases that may constitute:
  - a crime or offense,
  - a serious and manifest violation of an international commitment duly ratified or approved by 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,
  - anti-competitive practices;
- the existence or materialization of risks associated with corruption, serious violations of human rights and fundamental freedoms and threats to personal health and safety and the environment.

A 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 2018 Registration Document, "Risks and Risk Management", pages 81 to 103.

FINANCIAL GLOSSARY

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

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.
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.).
SAE International	Society of Automotive Engineers International: a US-based association. Similarly to the VDA, 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 and diversification, into thermal systems and electrical equipment, and of international development in Europe (Spain, Italy, Germany, United Kingdom, Turkey), South America (Brazil), North America (United States, Mexico), Asia (South Korea) and North Africa (Tunisia).

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

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

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

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

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

Since 2009: an innovative, fast-growing tech company

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

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

Valeo's innovation strategy is underpinned by:

ACQUISITIONS AND JOINT VENTURES:

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

INVESTMENTS IN TECHNOLOGY START-UPS:

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

INVESTMENTS IN VENTURE CAPITAL FUNDS:

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

In 2018, the Group generated sales of 19.3[(1)] billion euros and invested close to 13% of its original equipment sales in Research and Development. Valeo has 186 plants, 21 research centers, 38 development centers and 15 distribution platforms, and employs 113,600 people in 33 countries worldwide. Valeo is a member of the CAC 40, Euronext Paris' benchmark index.

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

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

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

1.2.3 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.

(1) *For the sake of consistency in our financial communications, the sales figures presented above have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).*

Ensuring tax costs are correctly calculated

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

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

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

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

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

1.3 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. 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 1.5.2 of this chapter, "Sales and Business Development", 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 2018

€3.6bn(1)
Sales
19%
of Group sales

+3%
change in original equipment sales
on a like-for-like basis(2)

€528m
EBITDA
14.0%
of the Business Group's sales

24,600
employees

27 plants

7 development centers
&
6 research centers

(1) For the sake of consistency in our financial communications, the sales figures presented above have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).

(2) See Financial Glossary, page 46.

▶ 2018 highlights

- World-first autonomous vehicle test in the streets of Paris with the level 4 Drive4U™ demonstrator.
- 2018 PACE Award for the Valeo SCALA™ laser scanner, the world's first LiDAR device certified for mass automotive production.
- Substantial orders for autonomous driving sensors from a major Californian new mobility player.

Description of the Business Group

Tomorrow's cars will be automated and connected. Innovative, intuitive interfaces will be needed to support this functional enhancement. The Comfort & Driving Assistance Systems Business Group focuses on the driver experience, developing solutions to make mobility safer, more intuitive 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 (360Vue™ and 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 ultrasound sensors, cameras, radars, and LiDAR (Light Detection and Ranging) systems. They act as the vehicle's eyes and ears, and the data they output is processed by artificial intelligence systems (calculation algorithms and software) to enable the vehicle to operate safely in its environment.

In 2017, Valeo successfully launched its SCALA™ laser scanner, the world's first LiDAR device certified for mass automotive production.

Connected Cars

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

- telematics technologies, which are taking off worldwide: in-vehicle connectivity modules will facilitate the development of new services and improve vehicle management;

(1) The SAE classification specifies five autonomous driving levels, from "driver assistance" (level 1) to "full automation" (level 5).

- connectivity solutions: vehicle-to-vehicle (V2V), vehicle-to-infrastructure (V2I), and vehicle-to-pedestrian communication will increase safety and allow anticipation on certain decisions;
- 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, working on the emergence of V2X (vehicle-to-vehicle and vehicle-to-infrastructure) and 5G technology in connected vehicles. Valeo has also partnered with Docomo (Japan's leading mobile operator) to jointly develop innovative solutions using 4G/5G connectivity.

Intuitive Controls

Valeo is one of the world's leading players in human-machine interfaces. Building on extensive experience and in-depth knowledge of vehicle architecture as well as excellence in resistive and capacitive touch-screen technology, this Product Group develops innovative, high-perceived-quality interfaces focused on end-user experience. Valeo has filed more than 500 human-machine interface patents in the last five years.

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) or interior monitoring system (IMS), comprising cameras, infrared illuminators, sensors and a proprietary algorithm.

An innovative vehicle interior experience is made possible by immersive interfaces, featuring intelligent surfaces and an augmented reality head-up display.

Solutions offered by the Intuitive Controls Product Group include:

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

2018 highlights

Autonomous driving

- In a world-first, Valeo carried out an urban autonomous test drive with its level 4 Drive4U™ demonstrator. The specifics of the Paris city test route included dense traffic, intersections, traffic circles, pedestrian crossings, traffic lights, stop signs, obstacle avoidance areas and road works.
- In autumn 2018, Valeo Cruise4U, the level 3-4 autonomous driving demonstrator, set off on a Japanese road trip. After the 2015 journey around France, the trips around the United States and Europe in 2016, and the 24-hour Paris beltway run in 2017, Valeo Cruise4U took up the fresh challenge of Japanese road conditions.

Partnerships

- Valeo and Capgemini created Mov'InBlue™ in 2016, the first industrial-scale secure vehicle reservation and fleet management solution, based on Valeo's InBlue™ smart key technology for car rental companies and corporate fleets. The number of vehicles deployed rose from 1,100 in 2017 to 3,000 in 2018. Mov'InBlue™, now operating in Paris and Berlin, has more than 20 rental and corporate fleet customers. Preparations are under way for entry on new markets and new solutions for direct in-vehicle delivery.
- Valeo and Docomo, Japan's leading mobile operator, have teamed up to develop and bring to market new vehicle connectivity solutions. The partners will be pooling expertise and solutions to offer telecommunication services and onboard devices for connected cars.
- Valeo has signed an agreement with WABCO, a leading player in technologies that improve the safety, efficiency and connectivity of commercial vehicles, to bring the latest active safety technologies to the commercial vehicles market.
- Valeo is working with the open platform Apollo, founded by Baidu, the leading Chinese-language internet search provider. Valeo is contributing its expertise in sensors, and gaining access to the full range of software, hardware and data tools provided by Apollo to its partners, with a view to stepping up development, tests and rollout of autonomous vehicles.

Commercial successes

- Greater market share for the Business Group in China, despite unfavorable economic conditions.
- Substantial orders for autonomous driving sensors from a major Californian new mobility player.
- Front cameras.
- Automatic parking: major order intake from a Korean automaker.
- Telematics: first order intake from a major global automaker.
- Contract for the Valeo Bluetooth solution designed to prevent relay attacks (a hacking technique).
- Driver monitoring cameras and gesture recognition systems: first orders from Chinese automakers and renewed orders from a German automaker.
- Valeo's global leadership in steering sensors (angle and torque) confirmed, with orders in particular from a Japanese customer.

Shows

- The Business Group's latest innovations, along with Mov'InBlue™, and Kuantic and CloudMade solutions, were exhibited at major motor and technology shows across the world: Consumer Electronics Show (CES) in Las Vegas (United States), Paris Motor Show (France), Auto Beijing (China), CVPR in Salt Lake City (United States), ITS in Copenhagen (Denmark), and JSAE and CEATEC in Tokyo (Japan). Valeo systems on show included My Mobius, a human-machine interface that learns drivers' habits to anticipate their needs and suggest custom routes, and Valeo XtraVue™, a set of interconnected computer-vision cameras that show drivers what is happening on the road ahead.

Miscellaneous

- A new test track was opened in Auburn Hills (Michigan, United States), extending Valeo's capabilities in North America for testing and validating its driving assistance technologies as well as other innovative products and applications.

Market trends and outlook

Autonomous driving, powertrain electrification and new mobility services are changing the way people use their cars. All three trends involve digitalization of products and services, and lead to the development of disruptive offerings focused on the end customer.

Different industries are coming together in ecosystems to develop systems and components for mobility solutions involving passenger vehicles or shared mobility vehicles such as robotaxis and autonomous shuttles. All of this is being driven by connectivity. 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. New ecosystems are emerging around these disruptive offerings, capable of generating and managing substantial value relating to mobility, data use and the modernization of traditional industrial processes.

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

More automated driving

- Developments in automated parking and autonomous driving cover a broad field, ranging from partial to full automation. As active safety devices become standard on many markets, the proportion of vehicles fitted with them is expected to triple or quadruple in the next five years[1]. The underlying architecture enables automakers to offer drivers attractive optional automation features.
- The first conditional, highly automated driving systems (SAE[2] levels 3 and 4), announced for around 2020, require triple redundancy when it comes to perception (sensors), and this will bring an average three-fold increase in content per car compared with level 2 (based on technology prices known in 2016)[3].
- Mobility services using fully automated vehicles (SAE[1] levels 4 and 5) are expected by 2025 for private cars and are already in the testing phase for taxi fleets. These systems, operating in complex urban environments, will need multiple-redundancy detection cocoons (sensors) and highly sophisticated data processing, which means a very substantial increase in content value per vehicle[2].
- More and more vehicles are being fitted with front cameras, in part because of the active safety demands of the Euro NCAP tests. In Europe, most vehicles from the B segment upwards will be fitted with front cameras, and this brings additional opportunities for Valeo.

(1) Based on Valeo estimates.

(2) See Sustainable Development Glossary, page 262.

(3) Based on Valeo estimates.

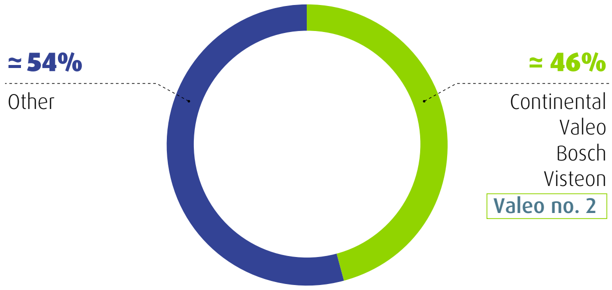
More connected driving

- The connected vehicle increasingly interacts with the digital world and with (incoming and outgoing) cloud data in particular, opening prospects for new features and new economic models, with the vehicles of the future offering innovative mobility solutions. This market is characterized by the rollout of eCall standards, the definition of vehicle-to-vehicle and vehicle-to-infrastructure communication standards, and the emergence of digital platforms offering high-added-value services for drivers, fleet managers, automakers and automotive suppliers. Telematics are a central feature of this transformation. The rollout of 5G already factored into automakers' development programs offers new growth prospects.

More intuitive driving

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

Main competitors on the comfort & driving assistance systems market(1)



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

1.3.2 Powertrain Systems

► KEY FIGURES IN 2018

€5.1bn[1]
Sales
26%
of Group sales

0%
change in original equipment sales
on a like-for-like basis[2]

€674m
EBITDA
13.1%
of the Business Group's sales

23,700
employees

55 plants

16 development centers
&
8 research centers

(1) *For the sake of consistency in our financial communications, the sales figures presented above have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).*

(2) *See Financial Glossary, page 46.*

► 2018 HIGHLIGHTS

- First order intake for a 48 V system in an "urban mobility object" (four-wheel passenger vehicle).
- Partnership with French electric utility EDF on tracking future battery technologies and charging solutions along with developments in mobility services.
- First contract for the Valeo-Kapec joint venture (a few months after it was formed in 2017), to produce torque converters for a European automaker.

Description of the Business Group

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

- Powertrain Electrification Systems;
- Transmission Systems;
- Combustion Engine Systems;
- Powertrain Actuator Systems.

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 combustion engines.

48 V low-voltage powertrain systems

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

The 48 V system, which can be used in all-electric and hybrid applications, has the advantage of being on average 50% more affordable than high-voltage motors, owing to a less complex architecture requiring less safety equipment. And some of its components derive from parts that are already mass-produced, which further reduces development costs. Valeo's 48 V 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 2017 and 2018, Valeo developed eight demonstration vehicles, illustrating the versatility of its 48 V electric powertrain system:

- three light urban vehicles: three two-seat prototypes, two in China and one in Europe. These have a driving range of 150 km, a top speed of 100 km/h and a full-charge time of just over three hours from a classic power outlet;
- city car: four-seat prototype with a driving range of 80 km and a top speed of 80 km/h;
- plug-in hybrid: prototype based on a family car, with a traditional combustion engine plus a 48 V electric motor. This hybrid solution offers a driving range up to 40 km in all-electric mode with a top speed of 70 km/h. It is also eligible to drive in the zero-emission areas of certain towns. A full battery charge takes just 1 hour 45 minutes;
- three-wheel vehicle: this demonstrator, with swappable batteries, has a top speed of 45 km/h and a driving range of 75 km. It is aimed primarily at Asian markets. The vehicle could help ease environmental problems in major cities where this transport mode is widespread;

- two-wheel vehicle: Valeo's demonstration bike is equivalent in power to a 125 cc scooter. It is fitted with a 48 V starter-alternator that gives performance similar to all-electric power. Finalization is scheduled for 2019;
- truck: this demonstration hybrid truck has a traditional combustion engine backed by an electric motor. The additional power given by the electric motor during acceleration phases brings fuel savings of 5% to 10%.

High-voltage all-electric powertrain systems

High-voltage electric powertrain systems, for vehicles from the B segment upwards, allow for versatile vehicle usage, in towns and cities and on the freeway. 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. 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 60 V upwards (up to a power rating of 347 kW, or the equivalent of over 470 hp) and give higher performance, lower fuel consumption and greater comfort.
- 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 all-electric and hybrid powertrain systems are designed for integration in all types of vehicle architecture: on the engine shaft, before/in/after the transmission and/or on the rear axle, with an appropriate transmission system if needed.
- For all-electric powertrain (high-voltage or 48 V low-voltage), Valeo systems include all the necessary components, not just the motor.
- 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.
- 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 by means of high-precision sensors, mechatronic actuators and electric superchargers.

2018 highlights

The Business Group's product roadmaps continued to earn positive automaker feedback in 2018, expressed at various events organized by the Group.

Low-voltage powertrain systems and clean engine performance

- More than 4.5 million vehicles now fitted with iStARS 12 V starter-alternator systems worldwide.
- Ramp-up of series production for 48 V electric architectures: Valeo continues to lead the field in belt-driven electric machines and 48 V DC/DC converters, especially in Asia.
- Development launch, and first prototype, for a 48 V charger designed for small-scale electric mobility applications.
- Production of an electric rickshaw and scooter (125 cc equivalent) using the 48 V electric machines developed for series-production hybrid applications.
- First order intake for a 48 V system in an "urban mobility object" (four-wheel passenger vehicle).
- Confirmation of projects, with two orders, on throttle valves for gasoline engines, to meet the new Euro 7 standard.
- Advances for the sensor development team, for the second year running, with two new premium automakers.
- First order intake with major US automaker for high-temperature sensors.
- Confirmation of projects on diesel EGR valves for gasoline applications.

High-voltage all-electric powertrain systems

- Series development of high-power inverter and motor products for electric vehicles from the Valeo Siemens eAutomotive joint venture, for production start-up in 2019.

Transmission systems for all vehicle architectures

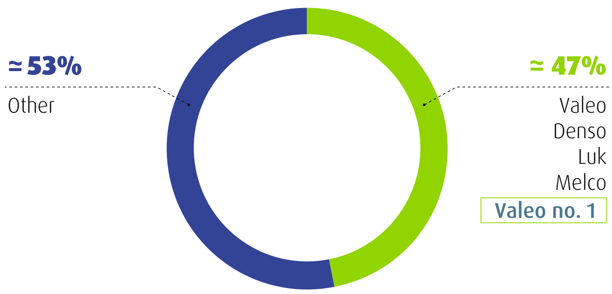
- Growing customer portfolio for transmission systems, in Asia and the United States in particular.
- First contract signed by the Valeo-Kapec joint venture on a torque converter for a European automaker.
- Launch of a comprehensive dual-clutch transmission system offering, thanks to the creation of the Powertrain Actuator Systems Product Group, following the acquisition of FTE automotive in 2017.

Market trends and outlook

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

- **Smart engines and transmissions:** in 2018, internal combustion engines powered over 98% of vehicles made in the world, or 94 million units. The number of vehicles manufactured with an internal combustion engine will continue to grow over the term of Valeo's 2021 plan. In addition, more and more drivers are beginning to appreciate the comfort of automatic transmissions. Driving automation, another major market trend, calls for automatic transmissions. These two trends are generating sustained growth in the transmissions field. With its strong position on this market (number two worldwide) and its growing product range (to include actuators for dual-clutch transmissions, for example), the Group is reaping the full benefit of this wave of innovation, with a two-fold increase in content per car versus manual transmissions (based on prices and technologies available in 2016)[1].
- **Medium-power electrification:** under mounting regulatory pressure to reduce fuel consumption and thereby vehicle CO_2 emissions, automakers are increasingly turning to powertrain electrification solutions. By 2030, 75% of vehicles made in the world will be hybrid, plug-in hybrid or all-electric[1]. Medium-power solutions offer a very attractive cost/performance trade-off, and market take-up will continue to grow. Valeo is the world's leading player in this field, and has developed new technological solutions that anticipate automakers' future needs. It is therefore ideally placed to benefit from this situation, with content per vehicle up to three times higher than in vehicles with a traditional internal combustion engine (based on prices and technologies available in 2016)[1].
- **High-power electrification (>60 V):** the market for electric and plug-in hybrid vehicles continues to grow. Increasingly stringent measures are being brought in to reduce urban pollution, which has become a major global concern. High-power electric powertrain systems thus hold great promise in this respect, by enabling vehicles to run in zero-emissions mode in urban environments. The Valeo Siemens eAutomotive joint venture will offer a full range of products that meet expectations for this wave of innovation, resulting in up to nine times higher content per vehicle than with a traditional internal combustion engine (based on prices and technologies available in 2016)[1]. The first all-electric vehicles powered by Valeo Siemens eAutomotive motors will be on roads in Europe and Asia from 2019/2020. These account for the bulk of the joint venture's 10 billion euro order intake so far.

Main competitors on the powertrain systems market[2]



(1) Based on Valeo estimates.

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

1.3.3 Thermal Systems

► Key figures in 2018

€5.0bn(1)
Sales
26%
of Group sales

+1%
change in original equipment sales
on a like-for-like basis(2)

€495m
EBITDA
10.8%
of the Business Group's sales

24,500
employees

64 plants

10 development centers
&
3 research centers

(1) *For the sake of consistency in our financial communications, the sales figures presented above have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).*

(2) *See Financial Glossary, page 46.*

► 2018 highlights

- Robust order intake.
- Major contracts with German, French and Chinese automakers on battery thermal management for electrified vehicles.
- Joint studies with specialist start-ups on artificial intelligence applied to passenger comfort and well-being.

Description of the Business Group

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

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

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

To anticipate new mobility trends, the Thermal Systems Business Group harnesses its extensive expertise through an approach focused on passenger health and well-being. With the emergence of electric and autonomous cars, life on board the vehicle is being re-imagined. The Thermal Systems Business Group offers smart, self-adjusting comfort systems that consider factors such as outdoor pollution levels and passengers' physiological and emotional conditions. The use of artificial intelligence enhances driver and passenger well-being by enabling the vehicle to adapt to different situations and adjust comfort settings to passenger usages and preferences. Soothing or stimulating cabin atmospheres can be produced, while minimizing energy consumption.

Thermal Systems has five Product Groups:

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

1

Thermal Climate Control

This 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. As well as HVAC (heating, ventilation & air conditioning) modules and heat pump systems for hybrid and electric vehicles, the Product Group also offers a range of solutions for improving air quality in the cabin. One focus of design is to reduce the weight, size and energy consumption of modules and components and thereby significantly reduce the vehicle's CO_2 emissions.

Traditional heating and air conditioning (HVAC) units

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

The Business Group develops new compact and lightweight HVAC architectures addressing the need to optimize cabin space and dashboard design. It also offers PWM (pulse width modulation) brushless motors, which reduce module energy consumption.

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

Protection and well-being

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

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

- sensors detecting multiple sources of exterior and interior pollution, coupled with intelligent management of air intake for the air conditioning systems, such as closing the air-grille shutters under high pollution conditions;
- an extended range of cabin filters, including a very-high-performance model able to eliminate more than 98% of very fine particles (PM1.0), and a combined filter cutting out VOCs (volatile organic compounds)[(1)], smells and pollutant gases.

The Thermal Climate Control Product Group takes the notion of passenger protection further still, developing a range of digital services such as preventive maintenance of cabin filters adapted to recurrent user profiles, and proposals of alternative "clean" routes under high outdoor pollution scenarios.

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

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

- a full range of PTC (positive temperature coefficient) heaters with various degrees of control electronics integration, addressing all heating requirements, including those for additional heating capacity at cold start in winter. This range covers all electrification voltages (12 V, 48 V, 400 V, 800 V);
- thermodynamic heating systems based on a heat-pump concept, for all-electric vehicles. These systems, which absorb heat from the air and thereby reduce the need for power from the batteries, provide passenger thermal comfort without impacting vehicle driving range. The air conditioning system using natural refrigerant (R-744) is one of the innovations recognized with a 2018 PACE (Premier Automotive Suppliers' Contribution to Excellence) Award.

Vehicle electrification is driving the Product Group to reduce noise in air conditioning modules, by using insulating materials, relocating the HVAC units and reconfiguring thermal comfort for closer proximity to passengers.

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.

The various circuits include:

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

(1) See Sustainable Development Glossary, page 262.

The Thermal Powertrain Product Group covers the following:

- air intake systems fitted directly onto the engine (gasoline or diesel) for optimal exchanger integration. This technology has won a PACE award;
- a water-cooled condenser that delivers more comfortable air conditioning and more flexible integration possibilities. It also helps optimize the performance of heat pumps to boost the driving range of electric vehicles. This innovation has also won a PACE award;
- a full range of battery temperature regulation technologies for high-voltage Li-Ion batteries in hybrid and electric powertrains. Solutions range from air-cooled modules through to tube or plate cooling solutions. They are integrated in the battery pack for compactness, power density, reliability and service life.

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

Thermal Compressor

This Product Group designs and produces compressors for efficient air conditioning systems. Compressors are a key component in these systems. These compressors are compatible with all refrigerants used in the auto industry.

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

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

The Product Group has extended this range with high-capacity electric compressors addressing growing demand from automakers. It aims to guarantee soundproofing at full charge.

Thermal Front End

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

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

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

The specific focus of this Product Group's work in 2018 included:

- lighter component design to reduce the pollutant emissions from internal combustion engines. Composite materials are used to bring significant weight reductions without compromising strength. World-first series production of the Product Group's composite bolster began in 2018, for a German automaker. Further developments will continue with composite-material protective crash boxes, bumpers and battery packs;
- front-end aerodynamics, to optimize the drag coefficient and thereby help to reduce fuel consumption and CO_2 emissions. Two examples are the air-grille shutters developed by the Product Group, which regulate airflow through the front-end exchangers, and the air curtain for small trucks, integrated in the module structure. The portfolio also includes encapsulated airflow modules for the electric vehicle market. These improve vehicle noise reduction during rapid charge phases.

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 climate control systems for customers worldwide, adapted to widely differing local weather conditions.

This Product Group develops and manufactures:

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

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

2018 highlights

The Thermal Systems Business Group posted a slight 1% increase in consolidated sales for 2018 with respect to 2017 (on a like-for-like basis), largely from operations of the Thermal Front End and Thermal Commercial Vehicles Product Groups. New contracts with German, French and Chinese automakers, on new electric platforms in particular, enabled the Business Group to secure a robust order book.

Despite sluggish market conditions during the second half of the year, it seized growth opportunities in a number of key areas:

- major contracts with German, French and Chinese automakers on battery thermal management for electrified vehicles;
- sustained sales of front-end modules, with multiple orders from German, Japanese and US automakers;
- a major order for a truck air conditioning unit;
- series production start-up for the first composite-material front-end structural part for a premium German platform;
- extended refrigerated transportation operations in Brazil, following the acquisition of South African company Transfrig.

The Business Group has also widened its lead in innovation, through a range of achievements:

- opening of a business incubator in partnership with the École Polytechnique in Paris, on improving cabin comfort and well-being;
- signature of an agreement with the University of Liège on a medical chair for multi-disciplinary research in health, medicine and engineering applied to transportation and mobility;
- creation of a joint laboratory with the École des Arts et Métiers in Paris, specializing in digital and experimental tools for the development of innovative thermal systems and components;
- joint studies with specialist start-ups on artificial intelligence applied to various aspects of passenger comfort and well-being: passenger emotions, contactless measurement of biometric parameters, physiological monitoring of passengers, and rapid, quiet, low-consumption heating solutions;
- development work on dynamic mapping of pollution in Paris, giving a real-time picture of urban air quality and enabling the monitoring of fluctuations in air quality in both space and time;
- prestigious PACE Award for the Business Group's air conditioning system using R-744 natural refrigerant.

The Business Group made substantial industrial investments in production plants across the world, primarily in Morocco, Mexico and China, to prepare for forthcoming automaker platforms.

Market trends and outlook

The value of the Thermal Systems Business Group's addressable market is expected to grow by around 4.3%[(1)] per year through to 2028.

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

- **internal combustion engine emissions decrease and improved energy efficiency:** in 2018, internal combustion engines powered over 98% of vehicles made in the world, or 95 million units. The number of vehicles manufactured with an internal combustion engine will continue to grow over the term of Valeo's 2021 plan. In response to regulations on vehicle emission reductions, the Thermal Systems Business Group develops products and systems offering lower weight, improved aerodynamics and higher energy efficiency. Significant developments here include:
  - the composite-material bolster – a world first – which provides a significant reduction in vehicle front-end weight, for lower fuel consumption,
  - brushless fan unit, reducing the electricity consumption of the engine cooling function and lengthening the product's service life,
  - air conditioning system using R-744 natural refrigerant, offering a better overall energy performance thanks to exchangers with a higher power density;
- **improved electric vehicle range and reliability:** the market for electric and plug-in hybrid vehicles continues to grow. Valeo Thermal Systems offers a full range of products and systems aimed at this segment. To ensure passengers' thermal comfort under all circumstances, it has developed R-1234 and R-744 heat pump systems with high energy efficiency that preserves the electric vehicle's driving range.

  The Business Group offers cooling systems meeting the battery reliability and service life needs of plug-in hybrid and full-electric vehicles, and derivative applications for stationary batteries. Another market trend is towards ultra fast-charging electric vehicles that need just a few minutes to add driving range of several hundred kilometers. The introduction of this technology could potentially replace the need for internal combustion engines in the future. Valeo Thermal Systems is anticipating this demand by developing:
  - more powerful cooling systems for battery cells,
  - more powerful and more efficient front-end cooling modules, for noise-free release of the heat produced,
  - specially adapted air conditioning circuits ensuring passengers' thermal comfort even during ultra-fast charging.

  For thermal systems overall, the average content per vehicle proposed by Valeo in value terms for plug-in hybrid and full-electric vehicles is currently around twice as high as for internal combustion-engine vehicles (based on 2017 prices and technologies)[(1)], meaning this market holds major growth opportunities;

(1) Based on Valeo estimates.

- **in-vehicle health and well-being:** as new forms of mobility emerge (car-pooling, vehicle fleets, autonomous vehicles), the car interior is increasingly becoming a living space in its own right, meaning comfort is no longer seen as a simple matter of ergonomics and climate control. In electric vehicles with their quiet-running motors, ventilation noise in the cabin interior becomes more noticeable to vehicle occupants. Engineers therefore need to pay more attention to passengers' heightened awareness of distracting noise.

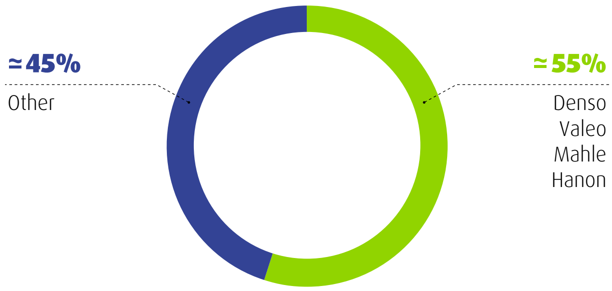
At the same time, growing public concern over the pollution generated by internal combustion-engine vehicles, in Asia (especially China) and Europe, will create increasing demand for systems capable of improving air quality. The vehicle cabin will increasingly be considered a safe zone, and over time, with developments in artificial intelligence, the onboard computer will be able to analyze usages to adapt and customize thermal comfort to individual passengers, and even offer further well-being features.

The Thermal Systems Business Group is also anticipating demand shifts through the Health and Well-Being by Valeo concept, which integrates a silent, cocoon-like, rapid heating mode coupled with adaptive, customizable digital control of passenger thermal comfort using biometric sensors, infrared cameras and machine-learning capability. In 2018, this was extended to include a summer auxiliary air conditioning system bringing optimized vehicle energy consumption management by adapting cooling to individual passenger needs.

Growth in the in-vehicle health and well-being market is estimated at 27% per year through 2028, which will offer Valeo an opportunity to increase its average content per vehicle[1].

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

Main competitors on the thermal systems market[1]



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

1.3.4 Visibility Systems

▶ KEY FIGURES IN 2018

€5.7bn(1)	-2%	€642m	36,900	
Sales	change in original equipment sales on a like-for-like basis(2)	EBITDA	employees	49 plants
29%		11.1%		16 development centers & 4 research centers
of Group sales		of the Business Group's sales		

(1) For the sake of consistency in our financial communications, the sales figures presented above have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).

(2) See Financial Glossary, page 46.

▶ 2018 HIGHLIGHTS

- Valeo no. 1 in automotive lighting following takeover of Ichikoh.
- First joinable high-definition LED solution for automotive lighting system, from Valeo and Cree.
- Substantial order intake for autonomous vehicle sensor cleaning systems, and advanced driving assistance systems.

Description of the Business Group

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

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

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

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

Visibility Systems has two Product Groups:

- Lighting Systems;
- Wiper Systems.

Lighting Systems

The Lighting Systems Product Group is world leader in its field, thanks to its broad portfolio of solutions covering all market needs.

Exterior lighting

The Business Group develops exterior lighting solutions tailored to automakers' specific requirements. These attractive systems help automakers to produce high-tech vehicles for added comfort and safety, and represent cost-effective innovations affordable to all:

- higher-performance dynamic lighting systems: the Product Group strives to offer an increasing number of innovations such as glare-free high beam. These innovative products, designed to improve driver safety and comfort, use new technologies such as highly pixelated LED lamps. Several vehicles are now equipped with the BiLED™ Access Matrix module, a market first. This compact module combines high- and low-beam functions, with MatrixBeam, ensuring other road users are not inconvenienced by high beam;
- appealing lighting solutions: exterior lighting plays a dominant role in vehicle design. LED daytime running lamps already enable automakers to give their cars a daytime identity, and the Business Group's new LED low- and high-beam lighting solutions allow designers to give them a night-time identity too;

- economical lighting solutions: Valeo always strives to make its innovations widely affordable, offering comfort, safety and style on all types of vehicle. The Business Group offers solutions for replacing halogen lamps with affordable LED modules that give drivers enhanced visibility, with light quality closer to daylight, have a longer lifetime, 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 several automakers.

The Product Group also develops innovative signaling solutions that improve communication with the vehicle's surroundings and provide information to other road users, including pedestrians. This is an increasingly important function with the emergence of autonomous and electric vehicles. The product offering is enhanced by LED and OLED (organic light emitting diodes) technologies, for greater stylistic freedom and unparalleled illumination homogeneity.

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 experience of traveling:

- 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.

Wiper Systems

Sensor cleaning for autonomous vehicles

An unobstructed view of the road for the driver, and for vehicles' optical sensors too, is essential for road safety. With the development of automated cars and advanced driving assistance, the car's many cameras, LiDARs (laser detection systems) and infrared lamps 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 flow, for safety and comfort. These systems consume very little wiper fluid, minimizing the amount of fluid carried and thereby keeping vehicle weight to a minimum.

The Wiper Systems Product Group designs and will shortly be producing complete roof- and side-mounted pods including 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 (cooling systems and sensors, for example).

Windshield 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, for example);
- rear wiper systems with integrated washing based on a new line of motors designed to simplify integration into the vehicle;
- AquaBlade™ wipers for under-windshield cameras. Using AquaBlade™ technology, which is already series-produced on several types of vehicle, this system ensures a clear and unobstructed view for automated vehicles. With its enhanced nozzle precision and range of positioning, AquaBlade™ technology reduces wiper fluid consumption and fluid tank dimensions. This helps keep down the overall vehicle weight.

2018 highlights

Lighting Systems

Significant events for the Lighting Systems Product Group in 2018 include:

- launch of a number of smart LED glare-free headlamps:
  - the first BiLED™ Access Matrix module on the latest Mini Cooper, BMW i3 and Ford Edge SUV in Europe and China, illustrating increasing take-up of intelligent lighting systems,
  - launch of the 15-segment Thin Lens MatrixBeam headlamp on the DS 3 Crossback in Europe, a world-first on this market segment,
  - 11-segment Compact MatrixBeam module on the Toyota Alphard in Japan and the Toyota Corolla in Europe,
  - glare-free full-LED headlamp on the Volvo XC40 SUV in Europe and China;
- take-up of interior lighting systems on several premium models, including the Peugeot 508 and the Audi Q3;
- growth in the electronics market thanks to the Business Group's expertise in drivers and control units;
- development of the first high-definition LED solution for automotive lighting systems by Valeo and CREE.

Wiper Systems

Numerous systems were brought to market in 2018, including:

- sensor wipers for autonomous vehicles: full sensor cleaning systems (from tank to nozzle, including control electronics, Pump2Lens) from the Wiper Systems Product Group were selected for use on several vehicles in 2018, by traditional automakers in Europe and the United States and by new market entrants;
- the AquaBlade™ embedded washing system for Volvo's 60-platform models in China;
- the electronic wiper system for the BMW G05 in North America;
- production start-up of wiper systems for the Nissan Sylphy worldwide.

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

The Product Group was also selected for design and assembly of complete pods. The final assembly leaving the Product Group's plants will comprise sensors (cameras, LiDARS), cleaning and cooling systems, and the full mechanical structure complete with style features.

Market trends and outlook

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

- **generalization of LEDs:** speeding up the replacement of halogen and xenon lamps by LED lighting across all vehicle segments. Second-generation, higher-performance BiLED™ systems have been launched, and selected by eight automaker brands to date. PeopLED™ 2G, which efficiently couples LED technology with intelligent thermal management, has been rapidly taken up by 11 customers on all continents. Some 4 million vehicles will be using this technology by 2021[(1)]. Advanced features such as the Lighting Systems Product Group's glare-free high-beam headlamps, are becoming more and more widespread, and are now available on many models in Europe and China. Changes in US regulations expected for 2020 should enable rapid take-up of this technology on the US market. Additional exterior lighting features include HD (high-definition) front and rear lights that can project information onto the road using display technologies such as LCD (liquid crystal display). These features will use a greater volume of elaborate electronics and software content. This means an increase in average content per vehicle for Valeo;
- **reinvented wiper systems:** wiper systems are being reinvented, with new-generation wiper motors. The Wiper Systems Product Group addresses the field of electronic wiper system motors, which bring weight down and thereby reduce CO_2 emissions. The new motors are lighter, which makes for lower CO_2 emissions, and quieter, an important factor for electric vehicles. The need for lighter vehicles and smaller washer fluid tanks, and for lower costs, is pushing more and more automakers toward systems that clean the windshield using systems located on the wiper system rather than a mechanism located on or under the engine hood. The Wiper Systems Product Group portfolio contains solutions that are perfectly matched to such needs. The new wiper motors also take-up less space and are quieter. Following the successful release of the AquaBlade™ wiper system on the original equipment market, this technology is also gaining momentum on the aftermarket. This trend will intensify with the rise of autonomous vehicles. Vehicle cameras and other optical sensors are becoming increasingly commonplace with the rapid development of advanced driving assistance systems and the emergence of automated cars. These devices need to be cleaned properly to ensure video flow quality and thereby passenger safety. This new type of cleaning requirement is a major growth opportunity for the Wiper Systems Product Group. Thanks to the Wiper Systems Product Group's expertise in assembly and cleaning, as well as synergies with the Lighting Systems Product Group, the Business Group leads the field in assembly of pods for robotaxis and autonomous delivery vehicles;

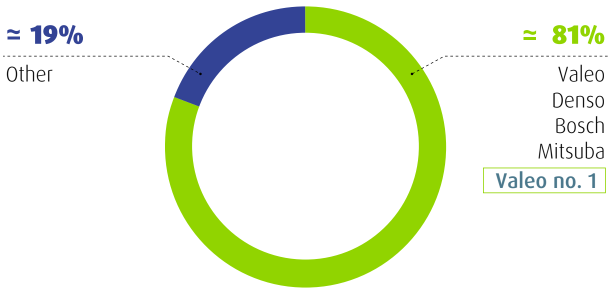
(1) Based on Valeo estimates.

- **experience of traveling:** the Business Group is designing advanced, intuitive interior lighting solutions 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.

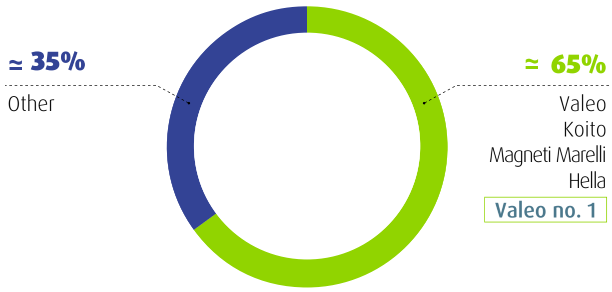
As the integration of electronics gathers pace, the Business Group is strengthening its development capacities (in areas including data sciences and artificial intelligence) and production capabilities (deployed since 2015) to cover all the requirements of the two Product Groups.

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

▶ Wiper Systems



▶ Lighting Systems



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

1.3.5 Valeo Service, products and services for the aftermarket

KEY FIGURES

- 320 product categories
- 13 product lines for passenger cars
- 10 product lines for industrial vehicles
- More than 13,000 new products added in 2018[1]
- 15 distribution platforms
- A footprint in more than 150 countries

2018 HIGHLIGHTS

- Ramp-up of e-services for workshops and fleets.
- Faster development of dedicated product offering.
- Strong appreciation from Valeo Service customers.

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, building on Valeo's original equipment expertise, and developing innovative aftermarket solutions.

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

- traditional and online distributors, key partners of Valeo Service;
- workshops, who 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 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.

2018 highlights

Ramp-up of e-services for workshops and fleets

- **Widening worldwide rollout of e-platforms: addressing key users (distributors, workshops, drivers), with an emphasis on user experience and customization**. The international platform valeoservice.com, along with 17 national websites, today cover the United Kingdom, France, Spain, Portugal, Italy, Germany, Poland, the Netherlands, Belgium, Russia, the United States, Mexico, Brazil, Argentina, India and Turkey.
- **Launch of the new Valeo Tech@ssist online technical support platform for workshops.** This program was developed with input from interviews with 600 distributors in seven countries (Brazil, China, France, Germany, India, Spain and the United Kingdom). 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 type (brand, model or version), vehicle identification number (VIN) or product. An autocompletion feature brings faster access to parts details;
  - 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. That's why Valeo Tech@ssist provides access to technical information based on product references to increase efficiency and reduce risk of errors;

(1) *Independent aftermarket.*

- 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 (GiPA repairer survey, 2017). Ongoing training for professionals is particularly challenging owing to lack of time and the difficultly of interrupting mechanics' everyday routines. To overcome these limitations, Valeo Service has made online training modules available via Valeo Tech@ssist. Some 360 webinars were run in 2018, with 6,500 participants, an increase of 30% on 2017.

Following rollout across Valeo Service's European websites in 2018, Tech@ssist will be launched worldwide in 2019.

- **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 cutting out packaging, and no documents to collect 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 offers rewards on industrial vehicle parts.

  The program was launched in Spain in September 2018. International launch, beginning in major European countries, will take place in 2019.

- **Launch of new telematic solutions in partnership with Kuantic.** Following Valeo's acquisition of a stake in Kuantic in 2017, Valeo Service is extending its range of services addressing automaker aftermarket networks with new telematic solutions. A Kuantic web-based fleet management platform produces reports based on vehicle data collected using a Valeo-made telematic sensor. Fleet managers use the reports produced by the platform to optimize use and maintenance of the vehicles in the fleet, and to improve user service quality and safety. By targeting priority sites in Europe, Latin America and Turkey, jointly with Kuantic sales teams, Valeo Service OES and Kuantic have received their first order intake for fulfillment in 2019.

Faster development of dedicated product offering

More than 13,000 new products listed, 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 stepping up the development of dedicated aftermarket solutions. More than 13,000 products were added in 2018, up from 7,700 in 2017.

Extended offering in transmission 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.

Launch of Valeo AquaBlade™ technology within the new Valeo Silencio™ range

Valeo's new patented Valeo AquaBlade™ technology was launched on the aftermarket in the Silencio™ range, renewed in 2018. Valeo AquaBlade™ performs instant, uniform wiping regardless of vehicle speed, spraying wiper fluid directly onto the windshield via the wiper blades, rather than via nozzles mounted on the hood. This makes for perfect and uninterrupted visibility. The front-facing cameras increasingly found on car windshields also benefit from an improved field of vision.

According to a study including 7,500 tests carried out by Fraunhofer IOSB in Karlsruhe, driver reaction in vehicles equipped with Valeo AquaBlade™ is 315 milliseconds faster than in those with traditional windshield wiper systems. That faster reaction time translates into a braking distance four meters shorter in urban driving conditions at speeds of 50 km/h.

Aftermarket launch for MatrixBeam technology

These latest-generation LED headlamps enable drivers to use their high beams at all times without dazzling oncoming drivers, ensuring maximum visibility in all conditions.

The range also includes Valeo BiLED™ modules combining low- and high-beam functions in a single, highly compact component. Driving comfort can be further improved with the directional lighting function.

As well as significantly increasing user safety, these high-tech headlamps, which require mechanical expertise, also add value to the work of automotive repair and maintenance professionals.

Valeo Service's strategy rewarded

At the Innovation Awards of the Automechanika trade show dedicated to the automotive service industry in Frankfurt (Germany), Valeo won a prize in the original equipment category and Valeo Service was a finalist in the Repair & Maintenance category, with its high-efficiency cabin filtration solutions that cut out up to 98% of fine particles (particle size of 2.5 microns) and its Valeo Aquablade™ wiper blades.

Valeo Service's new Valeo VBLADE™ clutch technology won two awards:

- AutoEXPERT magazine's Product of the Year in the Spare Parts category;
- Innovation of the Year in the Innovations category at the INOTECH show in France, an authoritative event on new aftermarket developments.

FAW-Volkswagen, the joint venture between Volkswagen and FAW, China's second biggest automaker, with a very strong aftermarket profile, recognized Valeo Service with two Excellence Awards for its aftermarket contribution and marketing cooperation throughout the year. This is Valeo Service's first award from a Chinese automaker.

- Groupauto France gave Valeo Service its Best Innovation 2018 Award in the Truck Parts and Consumables category for its Connected Assistance service.
- Chinese online shopping platform JD.com gave Valeo Service its Highest Growth Brand Award in recognition of the exceptional sales growth achieved in the wiper blade range (300% in a year), which reflects Chinese motorists' strong interest in Valeo products.

Market trends and outlook

The aftermarket is expected to show continued growth in the coming years, at about 3% per year, to reach 1,200 billion euros by 2030[1].

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 turbulent market context, vehicle maintenance and repair specialists face uncertainty, and must address challenges relating to productivity, efficiency and profitability.

With its We Care 4 You strategy, 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) *McKinsey & Company, "The Automotive Aftermarket in 2030" (2018).*

1.4 Geographic and industrial footprint

Geographic footprint at December 31, 2018

	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	31,028
CENTRAL AND EASTERN EUROPE					
Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Turkey	18	-	6	3	19,133
AFRICA					
Egypt, Morocco, South Africa, Tunisia	8	-	1	-	4,511
NORTH AMERICA					
Canada, Mexico, United States	24	1	5	2	18,061
SOUTH AMERICA					
Argentina, Brazil	6	-	3	2	2,924
ASIA & MIDDLE EAST/OCEANIA					
China, India, Indonesia, Japan, Malaysia, South Korea, Thailand	82	5	12	3	37,943
TOTAL	**186**	**21**	**38**	**15**	**113,600**

At December 31, 2018, the net carrying amount of the Group's real estate portfolio (land and buildings) was 1,078 million euros (see Chapter 5, section 5.4.6, Note 6.3 "Property, plant and equipment" to the consolidated financial statements, pages 327 to 329). 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 3,201 million euros at December 31, 2018, 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 327 to 329).

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 risks", page 88 and Chapter 4, section 4.3 "Environmental management and performance of Valeo's sites", pages 202 to 218).

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 Research and Development and Product Marketing

Strategy and organization

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

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

Valeo's successful open innovation program has opened the way to various types of partnership with start-ups and universities in Europe, Asia and North America. It has 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 stepped up to share experience, best practices and research efforts in a spirit of collaborative innovation.

(see Chapter 4, section 4.2.1 "Group Research and Development policy", pages 192 to 195)

Achievements

Gross Research and Development spend totaled 2.1 billion euros in 2018, representing more than 13% of original equipment sales, and was up by 9% in absolute terms on 2017. In 2018, some 19,800 employees were working at 21 research centers and 38 development centers worldwide. Innovation is central to the function, and the Group's innovative products(1) accounted for 53% of order intake in 2018. Valeo gives priority to protecting its innovations, and its policy has proved effective on several counts. In 2018, Valeo filed 2,144 patents to protect its innovations. INPI ranked Valeo as the leading patent filer in France in 2018. The Group manages a portfolio of more than 42,000 titles.

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

To ensure the most efficient use of resources, the Research and Development function optimizes development 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. Development processes, methods and tools are continually adapted to improve team performance. One example comes with rollout of the new Product Life Cycle Management (PLM) system. Skills developed in product cybersecurity and artificial intelligence capabilities places Valeo among the front-runners in this field.

1.5.2 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 technologies and products designed to meet the automotive industry's major challenges in powertrain electrification and the emergence of autonomous and connected vehicles and digital mobility.

In view of the very strong growth in order intake over the past five years, Valeo adopted a more selective approach in 2018, focused on optimizing the development and industrialization of its numerous ongoing projects. Valeo's total order intake for 2018 (excluding Valeo Siemens eAutomotive) was 24.2 billion euros or 1.5 times original equipment sales.

Strategy and organization

The Sales and Business Development function is organized around:

- the **Sales network**, consisting of four Sales Directors reporting to each of the four Business Groups' General Management teams. These Sales Directors head up a network comprising the Sales Directors for each Product Group. The network is responsible for defining Group sales strategy and handling day-to-day customer relations. Its global structure is organized by customer both for the Business Groups and for each Product Group;
- the **Group Customer Directors**, who are the Sales Directors responsible for the key automaker customers. Each represents Valeo in its dealings with a given automaker and coordinates relations with this customer across all of the Group's Business Groups;
- the **National Directorates**, whose aim is to promote the Valeo brand and establish close relationships with key customers in their geographic area and, if necessary, resolve any legal or employee-related issues at a local level. There are 12 National Directorates, based in China, Germany, India, Italy, Japan-ASEAN, North America, Poland, Russia, South America, South Korea, Spain-Morocco and Turkey;
- an **International Development network**, which consists of one International Development Director in each of the Group's four Business Groups. It identifies market opportunities in high-growth countries, defines and implements the external growth strategy for the Business Groups and manages relations with external partners.

Automaker customers(1)

Asian automakers (including Nissan) remain the Group's biggest customers, accounting for 34% of original equipment sales in 2018, in line with Valeo's strategy of pursuing growth in Asia, especially in China, where Valeo continues to make inroads with local automakers. German customers accounted for 29%, US customers (including Chrysler) accounted for 18%, and French customers (excluding Nissan) accounted for 13% of original equipment sales.

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

Valeo's top 23 customers are (in alphabetical order):

- BAIC Group;
- BMW Group;
- Chery Group;
- Daimler Group;
- FAW Group;
- Fiat Chrysler Automobiles;
- Ford Group;
- Geely Group;
- General Motors Group;
- Great Wall Motors;
- Honda Group;
- Hyundai Group;
- Marcopolo;
- Mazda Motors;
- PSA Group;
- Renault-Nissan-Mitsubishi;
- SAIC Group;
- Subaru;
- Suzuki;
- Tata Group;
- Toyota Group;
- Volkswagen Group;
- Volvo Group.

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

(1) *For the sake of consistency in our financial communications, the sales figures presented above have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).*

1.5.3 Human Resources

Valeo's growth is driven by the men and women who work for it. They strive to achieve constant improvements in productivity and international expansion.

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

Its multiple aims address primordial challenges (see Chapter 4, section 4.4 "Valeo and its employees", pages 219 to 235):

- ensuring employee safety and well-being at work, by making sure workplaces are free of accident risks and by 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.

Ensuring employee safety and well-being at work

(see Chapter 4, section 4.4.2 "Non-financial employee-related risks", paragraph "Health and safety", pages 221 to 223 and Chapter 4, section 4.4.3 "Valeo's employee-related commitments", paragraph "Quality of life at work", page 230)

Ensuring that all employees in all positions work under optimum safety conditions is the top priority of Valeo's Human Resources policy. It is a key component of the Valeo Group's values and strategy. **The responsibility is shared by all managers, Health, Safety and Environment (HSE) specialists and the Human Resources teams.**

Attracting and developing talent

(see Chapter 4, sections "Non-financial risks" and "Non-financial employee-related risks", paragraphs "Attracting talent" and "Developing and retaining talent", pages 224 to 229)

Attracting the best talent throughout the world, particularly in areas relating to CO_2 emissions reduction and the development of autonomous, connected and intuitive driving, is a major challenge for Valeo. The Group is constantly stepping up its visibility on social networks through clear, transparent communications on its businesses, objectives and recruitment opportunities.

To develop talent across the workforce, all employees benefit from a skills development and monitoring program involving regular interviews with their managers. Valeo encourages internal mobility by running an annual analysis of opportunities for employees' medium-term career development. It adapts its practices by offering consistent compensation conditions throughout the world, to ensure competitive performance and team motivation.

A comprehensive ongoing training program ensures career-long skills development for all employees. Skilled teams ensure that Valeo can add value for its customers around the world in terms of innovation, total quality and competitive solutions and services.

Promoting diversity

(see Chapter 4, section 4.4.3 "Valeo's employee-related commitments", paragraph "Respecting and promoting diversity", pages 231 to 233)

For several years now, Valeo has been promoting diversity with regard to disability, age, gender and culture at all levels and in all countries. Valeo sees diversity as a key performance lever, as well a social challenge.

Planning and actions on diversity are coordinated by a committee chaired by the Group Senior Vice-President Human Resources. Each aspect of diversity (disability, age, gender, culture) is placed under the responsibility of a Director or a member of the Human Resources Department, who coordinates global working groups to determine priority actions, run employee awareness-raising operations, and share best practices.

Promoting labor relations and fundamental rights

(see Chapter 4, section 4.4.3 "Valeo's employee-related commitments", paragraph "Promoting and respecting fundamental rights", pages 234 to 235)

Valeo aims to achieve constructive labor relations through employee involvement and engagement. The Group is firmly committed to a forward-looking employment and skills management policy, as well as to engaging regularly with labor organizations in mutual respect. Employee engagement also extends to involvement in the respect for fundamental labor rights. Since 2015, all employees have received an updated version of the Code of Ethics, along with training on its content.

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

1.5.4 Operations

Purchasing

Strategy and organization

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

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

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

  The six commodities, divided into segments, are:

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

  A seventh commodity concerns indirect purchasing of products, equipment and services used in the design of Valeo products or in manufacturing processes;
- a projects and product life priority, focusing on day-to-day operations. This priority permits the initiation of projects using cost-effective parts and the implementation of technical efficiencies, as well as ensuring the re-sourcing needed to maintain the Group's competitiveness, particularly as regards the productivity gains that it must grant customers during the product life cycle.

Furthermore, the Purchasing network is in place across all of the Group's sites. The network's global reach allows Valeo to develop its sourcing from cost-competitive regions while remaining close to customers. Valeo is particularly vigilant that suppliers comply with its Code of Ethics, focusing special attention on labor rights, human dignity and environmental protection. Any supplier that fails to respect these rules of conduct may be sanctioned.

Achievements

In 2018, Valeo sustained its efforts to raise supplier awareness on compliance and ethics, by continuing to roll out the Valeo Business Partner Code of Conduct. This document sets out Valeo's expectations of its business partners and offers advice on CSR (corporate social responsibility) conduct in all operating areas. Requirements are issued through a self-assessment questionnaire and audits.

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

By awarding new contracts to the Group's most high-performing suppliers, in terms of quality, technology and productivity, Valeo confirms its strategy of integration and loyalty towards its partners. The team set up in 2012 to partner the Group's suppliers in emerging countries (India, China and Russia, primarily) continued its field operations, addressing an updated panel of around 30 suppliers. This reflects Valeo's commitment to supporting its suppliers in their own quality initiatives, and to integrating them into Group projects.

Thanks to these resources, Valeo is able to integrate a growing number of its suppliers at the earliest stages of new projects. In its efforts to reduce the cost of raw materials and components, Valeo has devised several measures to improve productivity:

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

Led by the Supplier Risks Committee under the authority of the Group Purchasing Department, a supplier risk plan aimed at anticipating the consequences of a sourcing crisis has been rolled out to every Product Group. Valeo carefully observed and assessed all suppliers in order to anticipate and respond as quickly as possible to potentially critical situations that could have an impact on future sourcing. In 2018, special attention was given to aspects concerning supplier financial risk, product civil liability and capacity risk management, and the specific action plan set up in 2017 was rolled out extensively. The effectiveness of this plan allows Valeo to protect its customers from possible supplier default. There were no significant production stoppages at Valeo plants or at those of its customers in 2018.

Industrial

Strategy and organization

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.

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

- managing growth and innovation;
- improving industrial performance;
- rolling out the plant of the future.

Growth and innovation management first involves strict application of standardized industrial and logistics methodologies and tools. These are based on a set of robust and cost-effective standards that enable the Group to steer its industrial projects and operations. The standards are taught by expert teams through local training and individual development programs. A total of 150,000 training hours were given in 2018. Each plant also has its own operator training center, providing the instruction needed for operators to carry out their work in compliance with Valeo standards, especially as regards safety, quality and performance.

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

Achievements

The continuous improvement of industrial performance helps to boost the Group's profitability. Application of Valeo Production System tools and methodologies generated more than 43 million euros in savings in 2018, compared to 35 million euros in 2017, while ongoing efforts to optimize and centralize storage and transportation logistics costs saved an additional 26 million euros. The Logistics function continues to develop and strictly apply just-in-time production and supply principles to manage stocks, making due allowance for electronic component shortages, with customer satisfaction uppermost in mind.

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

Quality

Strategy and organization

Total Quality is defined as the ability of products and services to meet the needs, whether expressed or not, of automakers and end customers throughout the product life cycle. This approach lays the groundwork for Valeo's profitable, long-term growth in today's automotive industry, against a backdrop of technological and regulatory upheaval.

In this context, Valeo is firmly committed to a strategy of Zero Defect deliveries.

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

The Quality network's specific roles are to:

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

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

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

Achievements

In 2018, Valeo received 101 quality distinctions from customers worldwide (two every week on average), an increase of 20% on 2017.

The level of quality delivered to automakers rose by 10% on a constant scope basis, with customer returns of 2.7 parts per million products delivered. Including acquisitions, it was 2.9 parts per million products delivered, a good indication of Valeo's ability to rapidly converge new businesses to its high-quality level.

Working with its main customers, Valeo has set up a system for collecting and analyzing rejects at dealerships worldwide. With this system, Valeo can detect weak warranty signals before the parts are physically returned or a customer alert is received. This unique system on defect prevention and continuous improvement in warranty quality is in line with our customers' 3MIS quality and durability targets. All Valeo sites had successfully completed transition to the IATF automotive quality management system by the end of third-quarter 2018.

Valeo continued to strengthen its systems and software quality organization in response to the challenges of autonomous driving.

In a context of strong technological innovation and shortening development times, these results reflect well on Valeo's ability to manage the technology transition.

1.5.5 Finance

The Finance Department comprises the following departments: Management Control, Reporting, Accounting, Financing and Treasury, Tax, Investor Relations (see Chapter 6, section 6.2 "Investor relations", pages 409 to 410), Strategic Operations, Information Systems and Risk and Insurance. Operating either on a Group-wide network basis or centrally from headquarters, these functions carry out Valeo's financial strategy. In particular, they are tasked with:

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

Management Control

The management 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

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

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

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

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

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

The notes to the consolidated financial statements were revised for the 2013 Registration Document. This work has continued in recent years, resulting in improved transparency, relevance and readability for the financial information reported by the Group.

In 2018, Valeo received the CAC Large 60 Transparency Grand Prix at the ninth Regulatory Information Transparency awards, ranking first among the 60 largest companies in the SBF 120 stock market index.

Financing and Treasury

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

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

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

Tax

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

The Tax Department is divided into three functions:

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

Information Systems

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

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

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

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

Risk and Insurance

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

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

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

Risks that could impact Valeo's business are set out in Chapter 2, section 2.1.1 "Operational risks", pages 82 to 89. Details on insurance and risk coverage are given in Chapter 2, section 2.2 "Insurance and risk coverage", page 95.

1.5.6 Legal

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

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

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

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

The General Counsels of the Business Groups and Valeo Service are supported by and collaborate with the other functional departments to ensure maximum overall business security. They also oversee legal matters at Group entities. The team also has a Deputy Group General Counsel who is mainly responsible for handling due diligence and negotiating and drafting contracts for mergers and acquisitions.

1.5.7 Communications

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

It is structured around five units:

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

1.6 Distinctions

In 2018, the Group enjoyed widespread recognition from its customers and partners for innovation capability and product and service quality, attesting to its operational excellence.

1.6.1 Innovation rewarded

- Valeo won two Automotive News 2018 PACE[(1)] (Premier Automotive Suppliers' Contribution to Excellence) Awards: for its Valeo SCALA™ laser scanner and for a new air conditioning system using a natural refrigerant. Valeo was the only automotive supplier to win two PACE Awards in 2018. It also took home a Finalist award for its 48 V belt-driven starter alternator;
- at motoring monthly AutoMOTO's 2018 Innovation Awards, Valeo took second prize in the Equipment of the Year category for 48 V technology bringing an affordable solution for vehicle hybridization and electrification;
- at the Automechanika 2018 trade show in Frankfurt (Germany), Valeo won an innovation award for its natural refrigerant for heating and air conditioning (HVAC) systems;
- Valeo's Drive4U™ autonomous vehicle demonstrator won Coyote's Équipement 2019 prize, awarded for the technological innovation whose development promises the greatest impact on everyday life, across all sectors. Coyote, developed by Coyote System, is a European system that warns motorists of hazard areas ahead by enabling information to be shared between users over the GSM network;
- Valeo's dual-mass flywheel for the aftermarket was voted 2018 Product of the Year in the auto parts and accessories category by AutoEXPERT, one of Poland's most popular motoring magazines.

1.6.2 Outstanding excellence

Customers continued to recognize the high standard of the Group's performance, particularly in the area of quality. Valeo received 101 distinctions in 2018 (20% more than in 2017), including:

European customers

- Groupe PSA awarded its Best of the Best Supplier Plants of the Year 2018 trophy to Valeo's Issoire site (Visibility Systems, France), which had already received the Best Supplier Plant of the Year distinction three years running. Best Supplier Plant trophies for 2018 went to the Valeo sites in Reims (Thermal Systems, France) and Ben Arous (Comfort & Driving Assistance Systems, Tunisia);
- Nissan Europe gave its Top Quality Award to the Valeo Comfort & Driving Assistance Systems site in Nogent-le-Rotrou (France);
- Daimler gave its Excellent Second Tier Supplier Award to the Chonburi site (Valeo Thermal Systems and Comfort & Driving Assistance Systems, Thailand);
- Volvo Cars gave its Quality Excellence Award to the Valeo Thermal Systems site in Rakovnik (Czech Republic).

US customers

- two prizes went to the Valeo Visibility Systems Business Group in North America: Toyota Motors' Excellent Quality Award to the Lighting Special Products Product Line and Fiat Chrysler Automobiles' Commodity Excellence Award to the Lighting Product Group;
- Daimler Trucks North America gave its Master of Quality Award to Valeo Compressors (Thermal Systems Business Group);
- Ford gave its Q1 Award to the Valeo Visibility Systems site in Wenling (China) and its Q1 Achievement Award to the Valeo Thermal Systems site in Togliatti (Russia);
- General Motors gave Supplier Quality Excellence Awards to the Valeo Visibility Systems sites in Juarez (Mexico), San Luis Potosi (Mexico), Foshan Special Products (China) and Wenling (China) and to the Comfort & Driving Assistance Systems site in Itako (Japan);
- Toyota North America's Excellent Quality Awards went to the Valeo Visibility Systems Querétaro Special Products site (Mexico) and the Seymour site (United States) and to the Powertrain Systems site in San Luis Potosi (Mexico).

(1) The PACE Awards distinguish automotive suppliers' achievements in innovation, technological progress and operational excellence. They are voted by a panel of independent experts and enjoy worldwide authoritative status in the recognition of automotive industry innovation.

Asian customers

- Nissan gave Superior Quality Awards to the Valeo Thermal Systems sites in Kanda, Khonan, Nakatsu and Oura (Japan);
- the Valeo Powertrain Systems site in Pune (India) earned Toyota – Kirloskar Motor's Zero PPM Award in the quality category, Hyundai Motors' Best Performer Award and Maruti Suzuki's award for Excellent Performance in Delivery and Human Resources Excellence;
- Honda gave its Superior Quality Award to the Valeo Thermal Systems site in Kohnan (Japan) and its Excellent Supplier Award to the Comfort & Driving Assistance Systems site in Guangzhou (China);
- the Valeo Thermal Systems site in Chonburi (Thailand) earned a Quality Award from Mitsubishi Motors Thailand;
- the Valeo Powertrain Systems site in Taicang (China) earned an Excellent Supplier Quality Award from General Motors China;
- the Valeo Thermal Systems site in Shashi (China) earned an Excellent Development Performance Award from Chery;
- the Valeo Visibility Systems Foshan Special Product site (China) earned a Quality Award from Great Wall.

Other distinctions

- Valeo received the CAC Large 60 Transparency Grand Prix at the ninth Regulatory Information Transparency awards, ranking first among the 60 largest companies in the SBF 120 stock market index. The award recognizes the hard work of Valeo's teams and the Group's commitment to publishing thorough, transparent information for all of its stakeholders;
- Valeo was named Company of the Year in Japan at the French Business Awards ceremony in March 2018, in recognition of excellence, innovation, corporate social responsibility and remarkable achievements across all its operations in Japan;
- Valeo India won three prizes: Best Talent Management Strategy, Best Diversity & HR and Asia's Top 100 HR Innovators at the Global HR Excellence Awards organized by the World HRD Congress, which recognizes global best practices in human resources;
- the Industrial Development Authority of Ireland awarded its Use of R&D prize to Valeo Vision Systems (Tuam, Ireland), of the Comfort & Driving Assistance Systems Business Group, for its positive impact on the Irish economy;
- Valeo Service in Brazil was named one of the most admired auto repair brands for the third year running at the ninth Sindirepa SP Best of the Year Awards.

2 RISKS AND RISK MANAGEMENT

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

The environment in which the Group conducts its business is constantly changing. Valeo is therefore exposed to risks which, if they materialized, could have a negative impact on its operations, earnings, financial position, image and outlook. This chapter sets out the most material risks to which Valeo considers it is exposed, including operational risks inherent to its business, legal risks and financial risks. The procedure for communications and crisis management is regularly updated in order to adapt it to every situation or event and limit the consequences for the Group. 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.

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

2.1 Risk factors AFR

Note: CSR Non-financial risks (described in Chapter 4, "Sustainable development", pages 177 to 266).

2.1.1 Operational risks

RISKS RELATED TO CHANGES IN THE TECHNOLOGICAL ENVIRONMENT CSR

Risk factor	Management of risk

Valeo's sales and earnings growth depends on the ability of the Group to anticipate technological and regulatory changes and to adapt to major changes and shifts in the market.
 	
The automotive industry is highly competitive and characterized by rapid technological change. Unexpected advances in a given technology, or difficulties encountered in its development, could prevent Valeo from seizing opportunities relating to technological breakthroughs and as a result could impact the Group's technological 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 (see the Integrated Report, section "Rising to society's major mobility challenges", pages 10 to 15). To meet its various customers' requirements and maintain its technological leadership, Valeo constantly develops and adapts its range of products and systems. Research and Development policy is rooted in anticipation, integration, localization and collaboration and is focused on customer needs (see Chapter 4, section 4.2.1 "Group Research and Development Policy", pages 192 to 195). 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 were recently made to support Valeo's value creation model based on innovation (see Chapter 5, section 5.4.6, Note 2.2 "Changes in the scope of consolidation" to the consolidated financial statements, pages 296 to 298),
	  ▪ 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 acceleration in the 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 "Order intake reflecting the success of Valeo's innovations", page 18).

RISKS RELATED TO THE DEVELOPMENT AND LAUNCH OF NEW PRODUCTS

Risk factor	Management of risk
The Group is exposed to the risks inherent in developing and manufacturing new products. The Group may encounter problems in connection with project management, from design through to industrialization and including management of changes to orders already made. These may be detrimental to the Group's image or reputation in terms of its ability to deliver innovative solutions to customers on time, and this in turn can impact the Group's financial position.	Initiatives to mitigate risks inherent in developing and manufacturing new products include: ▪ 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; ▪ 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 2018, 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 24,000 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. In addition, Valeo systematically incorporates an environmental approach into each stage in the life of its products and processes, from design and production to utilization and end-of-life management. Experts in environmental matters and in Research and Development work together to reduce the environmental impacts of processes and products over their entire life cycle and to ensure that they comply with applicable regulations. The Group constantly looks to anticipate changes in technology and in the regulatory landscape. However, it cannot be sure to anticipate all such changes. For more on Valeo's Research and Development policy, see Chapter 4, section 4.2 "Research and Development at Valeo: from megatrends to innovation", pages 192 to 201.

INDUSTRIAL RISKS RELATED TO GROWTH

Risk factor	Management of risk
For several years, the Group's growth has come from a sharp rise in its order intake as a result of its successful innovations. This situation makes industrial risk management crucial. 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.	The Group's industrial strategy is rolled out in a strong growth environment and is aimed at preserving that environment. The key aspects of this strategy are based on: ■ managing capacity, in terms of plants, investments 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 1.5.4 "Operations", pages 74 to 76.

RISKS RELATED TO ATTRACTING AND RETAINING TALENT CSR

Risk factor	Management of risk
The Group operates in a fast-changing competitive environment against a backdrop of robust growth. This requires a sustained increase in human resources as well as a broad spectrum of skills to ensure that it can adapt to changes in the automotive industry. However, Valeo may face difficulties in attracting and retaining talent and in adapting and taking on the necessary qualifications and skill sets to develop and manufacture its systems and products. The Group's massive investments in innovation mean that it must hire a growing number of Managers and Professionals. In addition, the scarcity of labor in certain employment areas makes it difficult to hire the employees needed to increase production.	For more information on the program, policies and actions implemented by the Human Resources Department and the related results, see Chapter 4, section 4.4.2 "Non-financial employee-related risks", paragraphs "Attracting talent" and "Developing and retaining talent", pages 224 to 229.

CYBERSECURITY AND IT SYSTEMS FAILURE RISK CSR

Risk factor	Management of risk
The Group depends on infrastructure and IT applications common to all of its businesses. These include procurement, production, distribution, billing, reporting and consolidation software, as well as new product design and development. Cybersecurity risks can include 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. 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 issued by various government information system security organizations. All information system security rules are formally documented in an Information Systems Security Policy (ISSP), set out in an Information and Communications Technologies User Charter put in place by the Group and applied by all users. This charter is explained and illustrated in a practical guide that aims to raise users' awareness of the importance of safeguarding the Group's assets on a daily basis through the 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.

SUPPLIER FAILURE RISK CSR

Risk factor	Management of risk
In purchasing primarily specific products, Valeo is exposed to the risk that one of its suppliers fails to deliver on schedule the quantities required and that the products supplied fail to meet the requisite quality standards. This could cause interruptions to supplies and prevent the Group from delivering to its customers.	Valeo's growth results in increased business and more contracts with its most efficient suppliers. The size of its supplier base remains relatively stable on a like-for-like basis. The Group's policy is to ensure secure relations with its suppliers, through: ▪ a solid risk identification and monitoring process for each new contract and each time business is 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 launched (see Chapter 4, section 4.5.2 "Non-financial social risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 242 to 245); ▪ 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 capacity allocation issues. To address this, production purchases are made with a broad range of suppliers, with several suppliers for each business and in each region where necessary and where possible. Ninety-five percent of Valeo's needs are handled by 1,151 suppliers. The Group's biggest supplier accounts for 4% of its purchases, its five biggest suppliers, 10%, and its ten biggest suppliers, 17%. 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.

RISKS RELATED TO THE AUTOMOTIVE EQUIPMENT INDUSTRY

Risk factor	Management of risk
The Group's sales are directly dependent on the level of automotive production, which itself depends on car registrations and automaker sales and production policies. In turn, these are influenced by a number of contextual factors linked to the geopolitical and macroeconomic landscape. A deterioration in the automotive market or a change in regulations, customs, taxes or other challenges to doing business in the regions in which the Group and its customers are present, particularly Europe, Asia or North America, could lead to a decline in the Group's earnings and/or to the default of some of its customers or suppliers, and could thereby affect Valeo's financial position. It should also be pointed out that supply contracts with automakers take the form of open orders, with no minimum volume guarantee.	Valeo has the appropriate expertise and resources to undertake the necessary restructuring measures should the automotive market experience a downturn or a geographic shift in automotive production. The Group maintains a tight rein on fixed costs, particularly by ensuring good workforce flexibility. The diversity of the Group's sales in terms of region, customer, brand and vehicle model makes it less vulnerable to negative trends in one of its markets. In line with its development strategy, Valeo seeks to ensure that its original equipment sales are well balanced. The Group's two largest customers account for 31% of its original equipment sales, its five largest customers, 55%, and its ten biggest customers, 82%. Valeo also derives 10% of its sales from the aftermarket, which is less vulnerable to fluctuations in the economic climate. The balanced geographic alignment of Valeo's businesses and its diversified customer portfolio are described in Chapter 5, section 5.1.1 "Business review", pages 268 to 271.

ENVIRONMENTAL OR TECHNOLOGICAL RISKS CSR

Risk factor	Management of risk
The environmental protection regulations applicable to Valeo's businesses are diverse, constantly evolving and increasingly strict. The Group is exposed to the risk of non-compliance with these regulations. Depending on their geographic location, Valeo's sites may be exposed to risks relating to climate change, natural events such as earthquakes or extreme weather events including hurricanes, cyclones and floods. When choosing where to locate new plants or the measures to be taken to protect existing sites in vulnerable areas, Valeo takes into account the frequency and intensity of weather events caused by global warming. Lastly, Valeo's production facilities may be exposed to accident risks resulting from their activities including fire, explosions and/or machine breakages, which could affect the availability of said facilities. The Group has always had a policy of providing the highest level of protection for its sites against natural events and technological or environmental risks (see Chapter 4, section 4.3 "Environmental management and performance of Valeo's sites", pages 202 to 218).	Valeo's Health, Safety and Environment (HSE) Department, which manages environmental and accident risks, is described in Chapter 4, section 4.3.1 "Valeo's environmental policy", paragraph "Organization of the Health, Safety and Environment (HSE) network", page 203. In order to protect itself effectively against such risks, Valeo has put in place various standards: ▪ before it builds or acquires a site, Valeo performs an audit to identify the potential existence of an environmental liability 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. All these standards are described in Chapter 4, section 4.3.1 "Valeo's environmental policy", paragraph "Demanding risk-control standards", page 204. As decided by the Risk and Insurance Department, supervised by the Group's Operations Department via the Health, Safety and Environment Department, Valeo has put in place a Worldwide program to ensure use of and compliance with these standards (see Chapter 4, section 4.3.1 "Valeo's environmental policy", paragraph "External audits worldwide", page 205). 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 93). 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 95); and ▪ maintaining environmental and technological risk provisions (primarily for site restoration) which amounted to 15 million euros at December 31, 2018 (see Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the consolidated financial statements, pages 333 to 334).

GEOPOLITICAL RISKS

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

CUSTOMER CREDIT RISK

Risk factor	Management of risk
The automotive sector is by nature fairly concentrated around several large international automakers. Valeo is exposed to credit risk and, more specifically, to the risk of default by its automaker or distribution customers.	Valeo works with all automakers and endeavors to balance its customer portfolio as far as possible, in particular by including new Asian players as well as companies emerging in the new technologies sector (see Chapter 5, section 5.1.1 "Business review", pages 268 to 271). The customer base of independent dealer networks (3% of the Group's accounts and notes receivable at December 31, 2018) is by nature highly diversified and is constantly monitored. Credit insurance policies have been taken out to protect the Group against the risk of payment default. The average days' sales outstanding, after the sale of trade receivables, stood at 50 days at December 31, 2018, compared to 51 days at December 31, 2017. For more information on the aging of trade receivables and impairment of doubtful receivables, see Chapter 5, section 5.4.6, Note 4.2 "Accounts and notes receivable" to the consolidated financial statements, pages 303 to 304.

2.1.2 Legal risks

RISKS RELATED TO PRODUCTS AND SERVICES SOLD CSR

Risk factor	Management of risk
Valeo is exposed to warranty claims from customers due to faulty products sold, non-compliance with specific product regulations or compatibility issues (particularly if the products are complex systems) with regard to regulatory provisions. Regulations seeking to protect car users and/or defend the public interest, particularly in terms of the environment, are increasingly strict and checks that such regulations have been complied with are ever more frequent and thorough. If, despite Valeo's policy which aims to achieve excellency in terms of quality, quality problems were to trigger a major recall, it could have a substantial impact on the Group's financial position and image. In addition to the risk of fines, Valeo is also exposed to the risk of individual or group liability claims in the event that defective products sold are said to have caused damage to users and/or third parties. Valeo is also exposed to the risk of liability claims by its customers for failure to comply with highly demanding contractual commitments imposed by these customers, which reflect the excellence they expect from their suppliers in terms of operational performance. This requires complete control over development and industrialization projects run in connection with new vehicle model or equipment launches. It also requires Valeo to be able to meet demand in terms of volumes at all times, as well as full compliance with delivery deadlines and reliable logistics operations.	During the product design and development phase, the Research and Development and Quality Departments are in charge of managing these risks. These departments ensure that the product has a robust design and complies with customer specifications, standards and regulations. During volume production, the Purchasing, Industrial and Quality functions (see Chapter 1, section 1.5.4 "Operations", pages 74 to 76), 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. Sales of products and services are covered by statistical provisions that are regularly reviewed to reflect past return rates. These provisions cover the cost of replacing products under contractual warranty. To protect itself against the risk of recalls, the Group has an insurance policy that covers recall costs above the deductible amount and within a certain limit, i.e., the cost of returning vehicles to the garage, removing the faulty part, fitting the replacement part, and (to a limited extent) the costs for the replacement part itself. To protect itself against the risk of liability claims, Valeo has taken out an insurance policy to cover the financial impact (above the deductible amount and within a certain limit) of claims resulting from damage caused. However, it is uncertain whether the insurance policy would be adequate to cover the full financial consequences of any such claims. In any case, criminal liability risk cannot be insured and certain coverage exclusions can be applied. The Group's insurance policy is presented in section 2.2 "Insurance and risk coverage" of this chapter, page 95. Provisions for product warranties amounted to 309 million euros at December 31, 2018 (see Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the consolidated financial statements, pages 333 to 334).

INTELLECTUAL PROPERTY RISKS (PATENTS AND TRADEMARKS) CSR

Risk factor	Management of risk
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. These actions have an immediate adverse financial impact and can harm the reputation and quality image of the products concerned; ▪ be committed involuntarily by Valeo as a result of the time it takes for patents filed by third parties to be published. Products under development or recently brought to market could be impacted and Valeo may have to increase the Research and Development expenditure for the project, or negotiate a license for the patented item. 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. In both of these cases, the profitability of the project would be affected. Valeo also faces with the risk of its trademarks being infringed by third parties. The Group's growing visibility is a key factor in the increasing infringement risk, particularly in Asia and the Middle East.	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 2,144 new inventions patented in 2018. 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. Intellectual property 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 totaled 146 million euros at December 31, 2018 and cover intellectual property disputes in particular. Details of these provisions are provided in Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the consolidated financial statements, pages 333 to 334.

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

Risk factor	Management of risk
Ethics and integrity are core values for Valeo. Like any international group, Valeo may be exposed to legal risks resulting from breaches of its Code of Ethics or from a failure by its employees or stakeholders to comply with applicable laws and regulations. These shortcomings may expose the Group or its employees to criminal or administrative sanctions and could adversely impact its reputation and results. They could also lead to customers bringing legal proceedings against the Group. This calls for firm preventive measures based on the highest ethical standards, stringent rules of conduct and in-depth training and awareness initiatives.	For more information on the work of the Ethics and Compliance Office, please refer to "Strict adherence to ethics and compliance principles" under the "Governance" section in the Integrated Report, page 44, and to Chapter 4, section 4.5.2 "Non-financial social risks", pages 240 to 245.

Claims, litigation, and governmental, legal and arbitration proceedings

Proceedings arising within the ordinary course of business

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

In 1999, French law introduced an early retirement scheme for workers having been employed at sites officially recognized by decree as having contained asbestos. Under certain conditions, the workers concerned are entitled to early retirement. Pursuant to rulings previously handed down by the Supreme Court (*Cour de cassation*), many former employees 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, totaling 146 million euros, notably cover risks relating to former employees, particularly in connection with asbestos. A provision for 73 million euros has been set aside for tax disputes. Details of these provisions are provided in Chapter 5, section 5.4.6, Note 7.1 "Other provisions" to the consolidated financial statements, pages 333 to 334.

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 investigations" to the consolidated financial statements, page 334).

Valeo reached a settlement with the US Department of Justice in 2013, which brought the US federal authorities' proceedings against the Group to an end.

On March 8, 2017, the European Commission handed down a decision fining the automotive air conditioning and engine cooling suppliers under investigation, including Valeo. On June 21, 2017, it issued another decision fining automotive lighting system suppliers, marking an end to the investigations targeting Valeo. Valeo was among those identified by the Commission in the automotive lighting system case, but was granted immunity and was therefore not fined.

Three class actions were filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, for alleged antitrust violations in the climate control industry. Each of these class actions was settled following court approval. Separately, Valeo reached settlement agreements in connection with two prospective actions relating to access mechanisms (which were under investigation in the United States, under which Valeo was granted immunity and was therefore not fined) over which automotive dealers and end customers were threatening to file claims. The settlement with the end customers was approved by the competent court, which is also expected to approve the settlement reached with the automotive dealers in 2019. A small number of customers opted out of the aforementioned settlement agreements and initiated separate legal action. Valeo is continuing its defense against these actions and is also in contact with a number of European automakers regarding potential claims for damages resulting from the European Commission's proceedings.

In addition, two class actions remain ongoing in Canada.

Other proceedings

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

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

2.1.3 Financial risks

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

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

COMMODITY RISK

Risk factor	Management of risk
The Group uses a variety of raw materials for its industrial operations, including non-ferrous metals, steel, plastics and rare-earth metals. 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 347 to 348.

FOREIGN CURRENCY RISK

Risk factor	Management of risk
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.	See Chapter 5, section 5.4.6, Note 8.1.4.1 "Fair value of foreign currency derivatives" to the consolidated financial statements, pages 345 to 347.

LIQUIDITY RISK

Risk factor	Management of risk
In order to maintain a certain level of liquidity to meet its commitments and investment requirements, the Group borrows from banks and on capital markets, which exposes it to liquidity risk in the event that these markets partly or wholly dry up.	See Chapter 5, section 5.4.6, Note 8.1.2 "Gross debt" to the consolidated financial statements, pages 337 to 341, and Note 8.1.3 "Net debt" to the consolidated financial statements, pages 342 to 343.

INTEREST RATE RISK

Risk factor	Management of risk
Interest rate risk depends on the Group's debt and financial investments and on financial conditions (i.e., the fixed/variable interest rate mix).	See Chapter 5, section 5.4.6, Note 8.1.4.3 "Fair value of interest rate derivatives" to the consolidated financial statements, pages 348 to 349.

BANKING COUNTERPARTY RISK

Risk factor	Management of risk
The Group is exposed to counterparty risk on financial market transactions carried out for the purposes of managing risks and cash flows – essentially on cash and securities deposited with financial institutions, which are recognized at fair value in the consolidated statement of financial position.	See Chapter 5, section 5.4.6, Note 8.1.1 "Fair value of financial assets and liabilities" to the consolidated financial statements, pages 336 to 337, Note 8.1.3.2 "Cash and cash equivalents" to the consolidated financial statements, pages 342 to 343, and Note 8.1.4 "Derivative financial instruments" to the consolidated financial statements, pages 344 to 345.

EQUITY RISK

Risk factor	Management of risk
Equity risk for the Group consists mainly of three elements: ▪ risk on treasury shares, or the risk of changes in equity when it is adjusted to reflect the fair value of treasury shares purchased or sold; ▪ risk on equity investments for pension funds, and their returns; ▪ risk on non-current financial assets when these are listed on an active market.	A detailed presentation of movements in treasury shares held in respect of the liquidity agreement or to cover stock purchase option and free share plans, is provided in Chapter 6, section 6.5.2 "Treasury shares", page 420. A detailed presentation of plan assets is provided in Chapter 5, section 5.4.6, Note 5.3.5 "Breakdown and movements in plan assets" to the consolidated financial statements, pages 318 to 319. A detailed presentation of non-current financial assets is provided in Chapter 5, section 5.4.6, Note 8.1.5 "Other financial assets and liabilities" to the consolidated financial statements, pages 350 to 351.

2.2 Insurance and risk coverage

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

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

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

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

The risks covered include:

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

Property damage and business interruption events are insured for 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.

The general liability insurance policy provides 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 20 million euros in premiums for its insurance coverage in 2018.

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

2.3 Internal control and risk management AFR

The 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.

Internal control and risk management

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 are implemented to mitigate any problems and weaknesses identified.

GENERAL MANAGEMENT

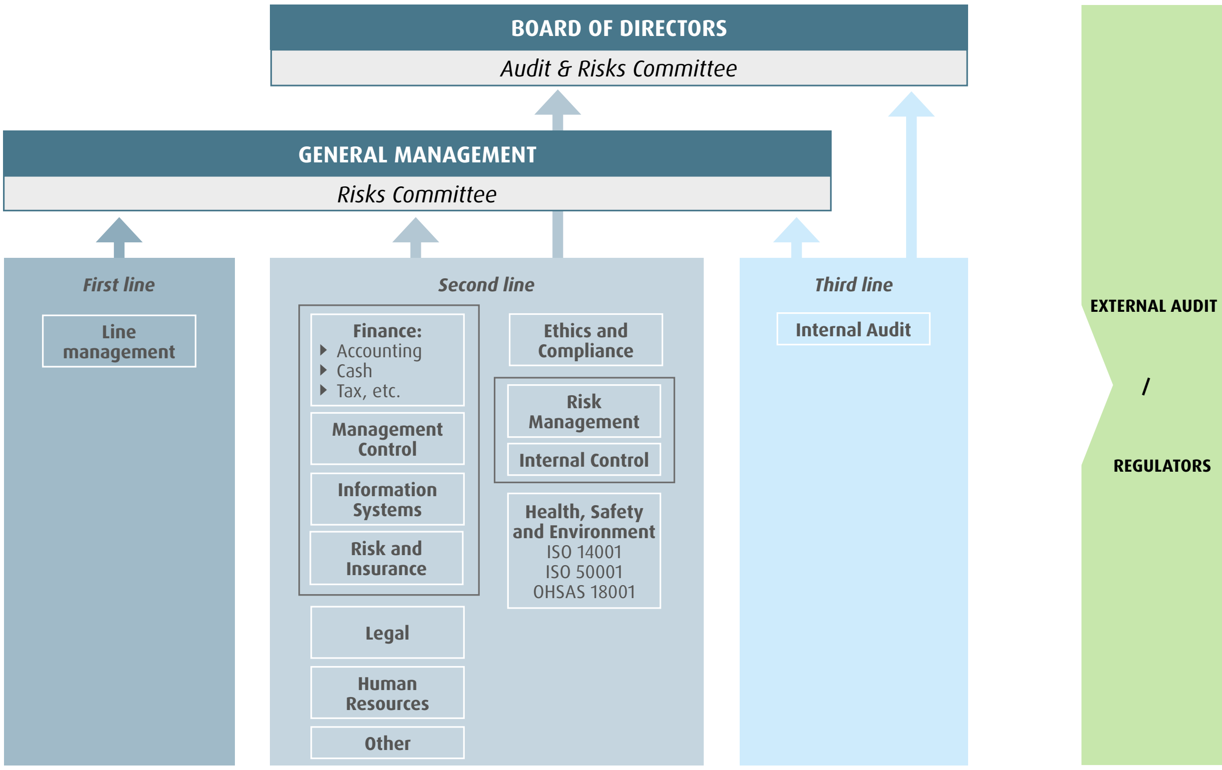
General Management sets strategic guidelines, arbitrates the allocation of resources to the Business Groups/Product Groups and Valeo Service, develops synergies between the Business Groups and National Directorates through the functional networks, and ensures that internal control procedures are duly 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 dynamic 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 293 to 299).

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

Capitalizing on its Code of Ethics and its culture of integrity, the Group has implemented a compliance initiative since 2012 under the aegis of the Ethics and Compliance Office, which created an in-depth program to fight corruption and anti-competitive practices. This program is both specific and well-suited to the regulatory constraints and the culture of the countries where Valeo operates. It uses annual and mandatory training campaigns for all Group Managers and Professionals. In 2017, the entire program was reviewed in order to bring it up to date with the provisions of France's Sapin II law[1]. 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 was updated following 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).

Risk management assessment and procedures

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

Risk management procedures are coordinated by a Risks Committee made up of nine permanent members: the Chief Operating Officer; the Chief Financial Officer; the Group Risk and Insurance Director; the Group Accounting Director; the Group Internal Audit and Control Director; the Vice-President, Corporate Strategy and External Relations; the Chief Ethics and Compliance Officer; the Senior Vice-President, Human Resources; and the General Counsel. This committee met six times in 2018 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 21, 2018. Accordingly, the risk of a changing environment in the aftermarket was added to the map. A 2019 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 82 to 94. They are:

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

Control activities

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

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

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

Every year, letters of representation regarding compliance with the Group's internal control and management guidelines are drawn up at the different levels of the operational organization. At the end of 2018, 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.

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

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 2018, the Internal Audit Department performed financial and IT audits at the operational entities and finance and accounting Shared Services Centers (SSC) in addition to cross-functional audits examining the application of procedures for attracting and retaining talent as well as monitoring compliance of projects with applicable regulations and with customer specifications, taking into account intellectual property issues, customer payment security procedures and the IT security of some Human Resources and Research and Development software.

In 2018, 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, 2018, 129 plants had been certified ISO 14001 and 127 plants had been certified OHSAS 18001, out of a total of 140 eligible plants. The percentage of ISO 14001 and OHSAS 18001 certified plants is therefore 92% and 91%, respectively (see Chapter 4, section 4.3.1 "Valeo's environmental policy", paragraph "ISO 14001, ISO 5001 and OHSAS 18001 certification audits", pages 202 to 206).

In 2013, Valeo launched a certification program for its manufacturing plants in accordance with ISO 50001 (relating to energy management systems). At December 31, 2018, 24 plants (17%) had been certified ISO 50001, out of a total of 140 eligible plants (see Chapter 4, section 4.3.1 "Valeo's environmental policy", pages 202 to 206).

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 2018, it was made up of a team of 15 people, exclusively dedicated to internal control at Group and regional level. In 2018, 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 2018, 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 289 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 2018 was presented to the Audit & Risks Committee on November 21, 2018. 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 101.

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 13 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 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 2019, 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 rolling out 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 46.*

3 CORPORATE GOVERNANCE AFR

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

The Company refers to the AFEP-MEDEF Corporate Governance Code for Listed Companies as amended in June 2018, 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 104 to 175, 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's executive managers are presented below.

Chairman and Chief Executive Officer

JACQUES ASCHENBROICH

(Current term of office began on May 26, 2015 and expires at the close of the Shareholders' Meeting that will be called to approve the financial statements for the year ended December 31, 2018[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) *At the Shareholders' Meeting on May 23, 2019, the Board of Directors, acting on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, will propose the reappointment of Jacques Aschenbroich as a director for a term of four years ending at the Shareholders' Meeting to be called to approve the 2022 financial statements. The Board of Directors, acting on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, has also decided that, subject to Jacques Aschenbroich's reappointment as a director, it will reappoint him as Chairman and Chief Executive Officer at the meeting to be held immediately after the Shareholders' Meeting. However, it should be noted that during the first two years of his new term as Chairman and Chief Executive Officer, the offices of Chairman of the Board of Directors and Chief Executive Officer will be separated.*

OPERATIONS COMMITTEE
(composition at December 31, 2018)

Jacques Aschenbroich
Chairman and Chief Executive Officer

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

Fabienne de Brébisson
Vice-President, Communications
since 2011

Robert Charvier
Chief Financial Officer
since 2010

Éric Antoine Fredette
General Counsel
since 2015

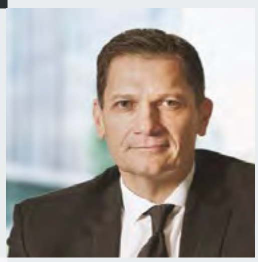
Bruno Guillemet
Senior Vice-President, Human Resources
since 2015

Catherine Delhaye
Chief Ethics and Compliance Officer
since 2012

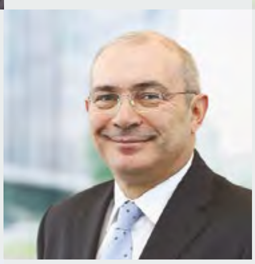
Hans-Peter Kunze
Senior Vice-President, Sales & Development
since 2018

Christophe Périllat
Chief Operating Officer
since 2011

Xavier Dupont
President, Powertrain Systems Business Group
since 2015



Maurizio Martinelli
President, Visibility Systems Business Group
since 2014

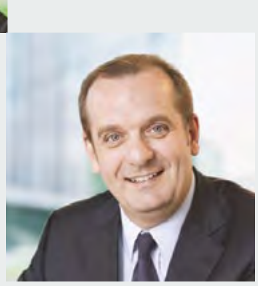


Jean-François Tarabbia
Senior Vice-President, Research & Development and Product Marketing
since 2013

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

Éric Schuler
President, Valeo Service
since 2016

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

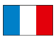


3.2 Composition of the Board of Directors, and preparation and organization of its work

3.2.1 Composition of the Board of Directors

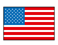
Composition of the Board of Directors at December 31, 2018 and changes during 2018

The composition of the Board of Directors at December 31, 2018 is shown in the table below.

	Personal information				Experience	Position on the Board				
	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	64	M		832,833	2	-	03/20/2009	2019 Shareholders' Meeting	10 years	-
Bruno Bézard	55	M		1,500	0	✓	10/24/2017	2022 Shareholders' Meeting	2 years	-
Éric Chauvirey Director representing employees	44	M		N/A[(3)]	0	N/A[(4)]	06/30/2017	06/30/2021	2 years	CC
Pascal Colombani	73	M		1,800	2	✓	05/21/2007	2019 Shareholders' Meeting[(5)]	12 years[(6)]	GACSRC/CC/SC
C. Maury Devine	67	F		3,500	3	✓	04/23/2015	2021 Shareholders' Meeting	4 years	GACSRC/CC
Michel de Fabiani	73	M		1,500	0	✓	10/20/2009	2019 Shareholders' Meeting[(7)]	10 years	GACSRC/CC/ARC
Mari-Noëlle Jégo-Laveissière	50	F		1,500	1	✓	05/26/2016	2021 Shareholders' Meeting	3 years	ARC
Noëlle Lenoir	70	F		3,000	0	✓	06/03/2010	2022 Shareholders' Meeting	9 years	ARC
Gilles Michel	62	M		1,500	3	✓	05/23/2018	2022 Shareholders' Meeting	1 year	GACSRC/CC
Thierry Moulonguet	67	M		1,500	0	✓	06/08/2011	2020 Shareholders' Meeting	8 years	ARC (Chairman)/SC
Georges Pauget Lead Director	71	M		1,500	1	✓	04/10/2007	2020 Shareholders' Meeting	12 years[(8)]	GACSRC (Chairman)/ CC (Chairman)/SC
Ulrike Steinhorst	67	F		1,500	2	✓	02/24/2011	2020 Shareholders' Meeting	8 years	GACSRC/CC/SC (Chair)
Véronique Weill	59	F		2,390	0	✓	05/26/2016	2021 Shareholders' Meeting	3 years	ARC/SC

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) 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.
(4) The director representing employees does not count, in accordance with the recommendation in Article 8.3 of the AFEP-MEDEF Code.
(5) Pascal Colombani does not intend to stand for reappointment at the Shareholders' Meeting on May 23, 2019.
(6) Pascal Colombani was first appointed as a director on May 21, 2007 and will therefore have served for 12 years on May 21, 2019.
(7) Michel de Fabiani does not intend to stand for reappointment at the Shareholders' Meeting on May 23, 2019.
(8) Georges Pauget was first appointed as a director on April 10, 2007 and will therefore have served for 12 years on April 10, 2019. For a description of the review of his independence after April 10, 2019, see paragraph "Director independence review upon preparation of the Corporate Governance Report" of this section, pages 109 to 111.

NATIONALITIES

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

The changes in the composition of the Board of Directors and Board committees in 2018 are shown in the table below:

	Departures	Appointment	Reappointment
Board of Directors	Daniel Camus(1) (May 23, 2018)	Gilles Michel(2) (May 23, 2018)	Noëlle Lenoir(2) (May 23, 2018) Bruno Bézard(2) (May 23, 2018)
Governance, Appointments & Corporate Social Responsibility Committee	N/A	Gilles Michel(3) (July 25, 2018)	N/A
Compensation Committee	N/A	Gilles Michel(3) (July 25, 2018)	N/A
Audit & Risks Committee	Daniel Camus(1) (Chairman) (May 23, 2018)	Thierry Moulonguet(4) (Chairman) (May 23, 2018) Véronique Weill(3) (July 25, 2018)	N/A
Strategy Committee	N/A	N/A	N/A

N/A: Not applicable.

(1) Until the end of his term on May 23, 2018.

(2) At the Shareholders' Meeting on May 23, 2018. Gilles Michel brings the Board of Directors the benefit of his expertise in the automotive sector and his experience as an executive corporate officer. The reappointment of Noëlle Lenoir is a valuable asset to the Board of Directors thanks to her considerable legal experience in European regulations, competition law and compliance. The reappointment of Bruno Bézard brings the Board of Directors the benefit of his experience in the most prestigious roles in the French civil service, spanning the economic, industrial and financial spheres, as well as in the private equity world, and his extensive knowledge of China.

(3) Decision of the Board of Directors on July 25, 2018, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee.

(4) Decision of the Board of Directors on April 25, 2018, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, effective as of May 23, 2018, the date on which Daniel Camus stood down. Thierry Moulonguet was already a member of the Audit & Risks Committee before being appointed Chairman.

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. The Board of Directors currently has 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 (Article L. 225-27-1 of the French Commercial Code), the directors representing employees are appointed in accordance with the arrangements provided for in the articles of association. The articles of association, amended for that purpose in the twentieth resolution of the Shareholders' Meeting of May 23, 2017, provide that the director representing employees shall be appointed by the Group Works Council, and if the number of directors appointed by the Shareholders' Meeting is more than 12 (which is not the case as of the date of this Corporate Governance Report), a second director representing employees shall be appointed by the Group's European Works Council. The rules presented above as regards term and renewal of office also apply to the director representing employees (other than the rule regarding the reappointment of one quarter of the Board of Directors' members), insofar as his term of office will end at the expiration of that four-year term. If a seat as director representing employees becomes vacant for any reason, it shall be filled under the conditions provided for by law, i.e., in the same way as the outgoing director representing employees was appointed. If the requirement to appoint a director representing employees no longer applies, the director or directors representing employees shall stand down at the close of the Board meeting at which the Board of Directors duly notes that Valeo is no longer subject to that requirement.

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 111 to 113.

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 2018" of this section, pages 118 to 131.

Attendance rate at Board of Directors' meetings

The Board of Directors met nine times in 2018, including the Board of Directors' meeting that closed the three-day strategy seminar held in Prague (Czech Republic), i.e., three more than the minimum number of meetings stipulated by the Internal Procedures.

The average attendance rate of directors at Board of Directors' meetings held in 2018 was: (i) 99% of directors present or represented, and (ii) 97% of directors present (excluding directors represented).

In addition, 19 Board committee meetings were held in 2018[1]:

- the Governance, Appointments & Corporate Social Responsibility Committee met five times with an attendance rate of 100%;
- the Compensation Committee met four times with an attendance rate of 100%;
- the Audit & Risks Committee met six times with an attendance rate of 93%;
- the Strategy Committee met four times with an average attendance rate of 95%.

The attendance rate of directors at Board and committee meetings in 2018 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)	89%	N/A	N/A	N/A	N/A
Daniel Camus[2] (Independent director)	100%	N/A	N/A	100%	N/A
Éric Chauvirey (Director representing employees)	100%	N/A	100%	N/A	N/A
Pascal Colombani (Independent director)	100%	100%	100%	N/A	100%
C. Maury Devine (Independent director)	89%	100%	100%	N/A	N/A
Michel de Fabiani (Independent director)	100%	100%	100%	100%	N/A
Mari-Noëlle Jégo-Laveissière (Independent director)	100%	N/A	N/A	83%	N/A
Noëlle Lenoir (Independent director)	100%	N/A	N/A	83%	N/A
Gilles Michel (Independent director)	100%[3]	100%[4]	100%[5]	N/A	N/A
Thierry Moulonguet (Independent director)	100%	N/A	N/A	100%	100%
Georges Pauget (Lead Director and independent director)	100%	100%	100%	N/A	100%
Ulrike Steinhorst (Independent director)	100%	100%	100%	N/A	100%
Véronique Weill (Independent director)	89%	N/A	N/A	100%[6]	75%

N/A: Not applicable.

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

(2) Until the end of his term on May 23, 2018.

(3) Since he was appointed as a director on May 23, 2018.

(4) Since his appointment as a member of the Governance, Appointments & Corporate Social Responsibility Committee on July 25, 2018.

(5) Since his appointment as a member of the Compensation Committee on July 25, 2018.

(6) Since her appointment as a member of the Audit & Risks Committee on July 25, 2018.

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

Independence of directors

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.

Director independence review on appointment and reappointment in 2018

Pursuant to the Board of Directors' decision to propose the reappointment of Bruno Bézard and Noëlle Lenoir as directors at the Shareholders' Meeting of May 23, 2018, the Board of Directors, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, noted that the independence review carried out for the purposes of the 2017 Annual Report remained valid and that they were therefore independent.

Furthermore, pursuant to the Board of Directors' decision to propose the appointment of Gilles Michel as a director at the Shareholders' Meeting of May 23, 2018 to replace Daniel Camus, outgoing director, the Board of Directors reviewed Gilles Michel's independence at its meeting of February 22, 2018 and concluded that he qualified as independent based on the recommendation made by the Governance, Appointments & Corporate Social Responsibility Committee at its meeting of February 13, 2018. The qualitative and quantitative criteria used to determine whether or not Gilles Michel has a significant business relationship with the Company were the same as those described below.

Director independence review upon preparation of the Corporate Governance Report

In accordance with the Internal Procedures and the AFEP-MEDEF Code, the independence of the directors in office was reviewed at the Board of Directors' meeting of January 24, 2019.

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 updated in line with the latest version of the AFEP-MEDEF Code (June 2018), 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 Group represents a significant portion of its business. The issue of whether or not the relationship with the Company or the Group qualifies as significant is discussed by the Board of Directors, and the quantitative 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, 2018, 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	✖	✔	✔	✔	✔	✔	N/A	N/A
Bruno Bézard	✔	✔	✔	✔	✔	✔	N/A	N/A
Éric Chauvirey(2) Director representing employees	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pascal Colombani(3)	✔	✔	✔	✔	✔	✔	N/A	N/A
C. Maury Devine	✔	✔	✔	✔	✔	✔	N/A	N/A
Michel de Fabiani	✔	✔	✔	✔	✔	✔	N/A	N/A
Mari-Noëlle Jégo-Laveissière	✔	✔	✔	✔	✔	✔	N/A	N/A
Noëlle Lenoir	✔	✔	✔	✔	✔	✔	N/A	N/A
Gilles Michel	✔	✔	✔	✔	✔	✔	N/A	N/A
Thierry Moulonguet	✔	✔	✔	✔	✔	✔	N/A	N/A
Georges Pauget Lead Director	✔	✔	✔	✔	✔	✔	N/A	N/A
Ulrike Steinhorst	✔	✔	✔	✔	✔	✔	N/A	N/A
Véronique Weill	✔	✔	✔	✔	✔	✔	N/A	N/A

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) The director representing employees does not count, in accordance with the recommendation in Article 8.3 of the AFEP-MEDEF Code.
(3) Pascal Colombani, currently Honorary Chairman, is not and has not in the last five years been an executive corporate officer, as he held the position of Chairman of the Board of Directors until February 18, 2016. He is therefore independent within the meaning of the Internal Procedures and the AFEP-MEDEF Code.

During the independence review, the Board of Directors paid particular attention to the independence of Bruno Bézard and Gilles Michel 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, Sino-French (Innovation) Fund II and Cartech (the "**Cathay Funds**" managed by Cathay Capital (two of which were made before Bruno Bézard's co-optation as a director). The review to determine whether these business relationships should be classified as significant was based on several quantitative and qualitative criteria. As regards financial transactions, the Group's investments in the Cathay Capital group via the Cathay Funds represent approximately 0.5% of its revenues and less than 4% of the Cathay Capital group's assets under management, 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 involved in running the Cathay Funds or any committee responsible for the Group's investments in the Cathay Capital group's fund management companies. 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, which has many other potential investors. 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 the Group are not material. The review to determine whether these business relationships should be classified as significant was based on several quantitative and qualitative criteria. As regards financial transactions between the Group and Solvay, the total amount of polyamides purchased by the Group from Solvay in 2018 represented (i) less than 0.2% of the Group's total production purchases and (ii) a very tiny percentage of the Group's 2018 revenues (0.10%) and Solvay's 2017 revenues (0.20%). There

is no relationship of exclusivity or dependency, economic or otherwise, between the Group and Solvay inasmuch as the Group has more than ten 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 agreement governing the business relationship between the Group and Solvay is an arm's length agreement for both parties and has therefore not been reviewed by the Board of Directors of either group. Furthermore, Gilles Michel does not hold any executive office in either 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.

Gilles Michel is also Chairman of the Board of Directors of the Imerys group, whose business relationships with the Group are not material. As regards financial transactions between the Group and Imerys, the total amount of the Group's purchases from Imerys is negligible (less than 70,000 euros) and Imerys does not purchase anything from the Group. A review of the other independence criteria was therefore not considered necessary given the non-material nature of the financial transactions between the two groups.

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

The Board also reviewed Jacques Aschenbroich's independence. Jacques Aschenbroich cannot be considered as independent inasmuch as he is the Chairman and Chief Executive Officer of the Group. 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, 2018, 11 of the 12 directors were independent (the director representing employees does not count in accordance with the recommendation set out in Article 8.3 of the AFEP-MEDEF Code): Bruno Bézard, Pascal Colombani, C. Maury Devine, Michel de Fabiani, Mari-Noëlle Jégo-Laveissière, Noëlle Lenoir, Gilles Michel, Thierry Moulonguet, Georges Pauget, Ulrike Steinhorst and Véronique Weill. For the avoidance of doubt, apart from Bruno Bézard and Gilles Michel, no other independent directors have a business relationship with the Company or the Group.

On the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors reviewed the position of Georges Pauget, Lead Director, who will have served on the Board for 12 years as of April 10, 2019, to determine whether he could continue to qualify as independent after that date (see paragraph "Appointment of a Lead Director" of this section, pages 113 to 114). The Board found that:

- Georges Pauget has acquired extensive knowledge of the Group during his years on the Board, giving him a deep understanding of the issues and challenges facing Valeo and their full import, and enabling him to make an effective contribution to the Board of Directors' work, in the interests of both Valeo and its shareholders. In these conditions, long-term experience on the Board of Directors is considered to be a strength for providing insight into the Board's work;
- Georges Pauget's length of service on the Board, combined with his extensive knowledge of the Group and expertise in finance and banking, gives him better ability not only to challenge but also to support General Management, particularly as regards defining the Group's strategy. Given the difficulties experienced by the automotive industry and the current turbulence in the financial markets, Georges Pauget's experience is extremely useful in putting the Group's decisions into perspective;
- he has always shown objectivity in his duties and has the ability to express his beliefs and form a critical, independent and balanced judgment in all circumstances. His commitment and leadership skills, acknowledged by Valeo's shareholders, who voted in favor of his reappointment by 98.36% on May 23, 2016, are guarantees of his independent judgment.

In light of the above analysis, 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 could 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. For information, Georges Pauget has informed the Board of Directors that he will not stand for reappointment at that stage.

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 (see Chapter 4, section 4.4.3, paragraph "Respecting and promoting diversity", pages 231 to 233).

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, 2018, 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 8.3 of the AFEP-MEDEF Code.

Diversity of backgrounds and experience

At December 31, 2018, nine of the directors held directorships in French or international listed companies outside the Group. Jacques Aschenbroich (Chairman and Chief Executive Officer) was the only executive corporate officer, and Éric Chauvirey (director representing employees) was the only director to hold a position within the Group.

The appointed members of the Board of Directors at December 31, 2018 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, its businesses, markets, customers and expertise. For a presentation of the background and experience of each Board member, see paragraph "Presentation of directors in 2018" of this section, pages 118 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 Olivier Piou and Patrick Sayer as potential directors. Acting on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors decided to propose the appointment of Olivier Piou and Patrick Sayer as independent directors at the Shareholders' Meeting on May 23, 2019, to replace Pascal Colombani and Michel de Fabiani, whose terms of office are due to end at the next Shareholders' Meeting and who have decided not to stand for reappointment.

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 2018, 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 in both 2017 and 2018);
- a continued high proportion of independent directors (91.5% in both 2017 and 2018);
- continued international experience within the Board of Directors, with the reappointment of Bruno Bézard (who was co-opted on October 24, 2017) due to his extensive knowledge of China, where he lived for several years and still spends a substantial amount of time in his current position with Cathay Capital. He also speaks the language;
- strengthening manufacturing and automotive expertise as well as experience gained in executive corporate officer roles, with the nomination of Gilles Michel, previously Chairman and Chief Executive Officer of Imerys and now Chairman of its Board of Directors. He has extensive experience in the automotive industry, having spent a number of years in senior management positions at PSA Peugeot Citroën, where he was brand manager for Citroën and Management Board member of Peugeot SA.

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 and 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. The Operations Committee has 14 members (excluding Jacques Aschenbroich), two of whom are women: Catherine Delhaye (Chief Ethics and Compliance Officer) and Fabienne de Brébisson (Vice-President, Communications).

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

There is further progress to be made and the Group is taking all possible measures to improve gender diversity within the governing bodies. Action and measures taken by Valeo to promote diversity and equality between men and women are presented in Chapter 4, section 4.4.3, paragraph "Respecting and promoting diversity", pages 231 to 233.

Appointment of a Lead Director

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

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.

As Georges Pauget will have served on the Board of Directors for 12 years on April 10, 2019, the Board reviewed his position as Lead Director to determine whether or not he could continue in that role after April 10, 2019. At its meeting on January 24, 2019 and on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors decided that Georges Pauget would remain independent after April 10, 2019. The Board of Directors' review is described in paragraph "Director independence review upon preparation of the Corporate Governance Report" of this section, pages 109 to 111. At the same meeting, the Board of Directors agreed unanimously (Georges Pauget did not take part in the deliberations or the vote) that Georges Pauget could continue to act as Lead Director until the end of his term of office (i.e., until the close of the 2020 Shareholders' Meeting), in order to maintain continuity within Valeo's current governance structure in the context of the Chairman and Chief Executive Officer's reappointment. Since his appointment as Lead Director:

- the directors have expressed their satisfaction with the role played by Georges Pauget, who contributes to the balance of the Group's current governance structure, in particular by

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

encouraging and stimulating discussion among the independent directors at "executive sessions" generally held after each Board of Directors' meeting;

- Georges Pauget has developed a relationship with various Valeo shareholders as well as with proxy advisory firms.

The Board of Directors considered that this decision would give the Board a further year of transition in which to seek a new Lead Director. The Governance, Appointments & Corporate Social Responsibility Committee is already working on the succession of Georges Pauget as Lead Director, as he has informed the Board of Directors that he does not intend to stand for reappointment at the end of his term as a director.

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

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

In addition, the Lead Director is in regular, open contact with each director, and if necessary may act as a spokesperson to the Chairman and Chief Executive Officer. To guarantee the transparent operation of the Board of Directors, the Lead Director ensures that the directors are provided with the information necessary to carry out their duties and verifies that this information is provided to them prior to the Board of Directors' meetings. At least once a year, the Lead Director holds and chairs meetings for purposes including but not limited to the assessment of (i) the performance of General Management, and (ii) the operating procedures 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.

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, Secretary of the Board of Directors.

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

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, Georges Pauget reports on the due diligence and tasks performed as Lead Director (as defined below) since February 22, 2018, the date of his last report, until February 21, 2019, the date on which this report was finalized.

Appointment and duties of the Lead Director

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

As Georges Pauget will have served on the Board of Directors for 12 years on April 10, 2019, the Board reviewed his position as Lead Director to determine whether or not he could continue in that role after April 10, 2019. At its meeting on January 24, 2019 and on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors decided that Georges Pauget would remain independent after April 10, 2019. The Board's review is described in paragraph "Director independence review upon preparation of the Corporate Governance Report" of Valeo's 2018 Registration Document. At the same meeting, the Board of Directors agreed unanimously (Georges Pauget did not take part in the deliberations or the vote) that Georges Pauget could continue to act as Lead Director until the end of his term of office (i.e., until the close of the 2020 Shareholders' Meeting), in order to maintain continuity within Valeo's current governance structure in the context of the Chairman and Chief Executive Officer's reappointment. Since his appointment as Lead Director:

- the directors have expressed their satisfaction with the role played by Georges Pauget, who contributes to the balance of the Group's current governance structure, in particular by encouraging and stimulating discussion among the independent directors at "executive sessions" generally held after each Board of Directors' meeting;
- Georges Pauget has developed a relationship with various Valeo shareholders as well as with proxy advisory firms.

The Board of Directors considered that this decision would give the Board a further year of transition in which to seek a new Lead Director. The Governance, Appointments & Corporate Social Responsibility Committee is already working on the succession of Georges Pauget as Lead Director.

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

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 relations with the General Counsel and Secretary of the Board of Directors, the Chief Financial Officer and the Human Resources Director. During these exchanges, key governance matters and strategic issues were discussed with General Management. His expertise in finance and banking and his knowledge of the financial markets contributed to General Management's insights.

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

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

Executive meetings

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. The Board of Directors thus held three meetings in 2018.

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 and of each director's individual contribution, conducted with the assistance, this year, of an external service provider.

The assessment was carried out between late 2018 and early 2019 by a specialized consulting firm by means of individual interviews with all the directors based on an interview guide reviewed and approved by the Lead Director and the Secretary of the Board of Directors to obtain the directors' 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 paragraph "Assessment of the Board's operating procedures and the individual contribution of the directors". The assessment of each director's individual contribution to the Board of Directors' work was also conducted by the specialized consulting firm using the same method as used to assess the Board's operating procedures. The Lead Director receives the findings of the individual assessment and discusses the outcome with each of the directors.

The Lead Director also led the work of the Governance, Appointments & Corporate Social Responsibility Committee as regards its review of the Company's practices in light of the recommendations contained in (i) the AFEP-MEDEF Code applicable at the time and its implementation guidance, and (ii) the 2018 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, particularly the law on the freedom to choose one's professional future and the proposed law on corporate growth and transformation (PACTE law).

In addition, he actively participated in the work on diversity and equality within the Group, in particular equal treatment and gender equality. Valeo takes a determined and proactive approach to these issues, which are closely monitored by the Governance, Appointments & Corporate Social Responsibility Committee. The Lead Director also oversaw compliance within the Board of Directors of the diversity policy, as well as its implementation.

He supervised the review of the Board of Directors' renewal plan, thus playing an active role in recruiting future members of the Board of Directors and, in particular, leading the selection process for candidates. The process was conducted with the assistance of a recruitment firm and consisted in holding interviews with the identified candidates and drawing up a list of identified profiles to submit to the Governance, Appointments & Corporate Social Responsibility Committee and the Board of Directors. The process led to the identification of Patrick Sayer and Olivier Piou, whose appointment as directors will be proposed at the next Shareholders' Meeting. The Lead Director also took part in preparing the Group's executive succession plan, particularly for the Chairman and Chief Executive Officer, and led the work of the Governance, Appointments & Corporate Social Responsibility Committee in that respect.

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 2019.

Furthermore, he took part in the preparations for the Shareholders' Meeting held on May 23, 2018.

Given his duties and broad powers, the Lead Director has become the main contact point for Valeo's institutional investors on corporate governance matters. Since his appointment, he has developed relationships with some of Valeo's institutional investors and proxy advisory firms, which he met several times in 2018 and in early 2019, in particular to discuss the proposed changes to the 2019 compensation policy for the Chairman and Chief Executive Officer, the reappointment of directors and the governance structure.

Attendance

Since his last report on February 22, 2018 and until February 21 2019, the date on which this report was finalized, Georges Pauget has attended all Board of Directors' meetings (including the strategy seminar in the Prague, Czech Republic) and chaired all meetings of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee.

Succession 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 preparing for his own succession and works with General Management to monitor and train high-potential internal canndidates that meet the selection criteria and objectives set. It may also seek the assistance of external specialized consulting firms to identify potential candidates that meet the selection criteria and objectives set. The Chairman and Chief Executive Officer's succession is also monitored closely and regularly by the Lead Director. 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.

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 2018

(Information updated at December 31, 2018)

JACQUES ASCHENBROICH

Chairman and Chief Executive Officer

French
Age: 64

Valeo
43, rue Bayen,
75017 Paris, France

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

- Director, Valeo Service España, SA (Spain)
- 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: 55

74, rue du Cardinal Lemoine,
75005 Paris, France

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: –

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

–

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)

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.

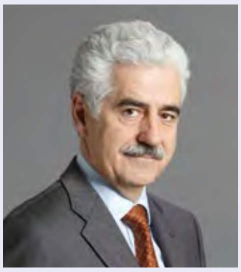
For example, he has held a seat on the boards of EDF, SNCF, Areva, La Poste, Thales, Air France, Engie, PSA and *Fonds Stratégique d'Investissement* (FSI). He was Head of the French Treasury and President of the Paris Club before joining Cathay Capital as Managing Partner in 2016, a private equity fund 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.

DANIEL CAMUS

Independent director (until May 23, 2018)



French and Canadian
Age: 66

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

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

- Audit & Risks Committee (Chairman) (until May 23, 2018)

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

- Senior Advisor, Roland Berger Strategy Consultants (Germany)
- Member of the Supervisory Board (until July 2018), SGL Group SE (Germany) ♦ (Chairman of the Governance and Ethics Committee and member of the Strategy Committee)
- Director, Cameco Corp. (Canada) ♦ (member of the Audit and Compensation Committee) and ContourGlobal Plc (United Kingdom) ♦ (Chairman of the Compensation Committee and member of the Audit Committee)

Directorships and other offices held within the past five years

- Member of the Supervisory Board, Morphosys AG (Germany) and Vivendi SA
- Chief Financial Officer of The Global Fund

Summary of main areas of expertise and experience

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

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

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

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

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

ÉRIC CHAUVIREY

Director representing employees

French
Age: 44
11, allée des Saules,
95250 Beauchamp, France

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.

He was a member and treasurer 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.

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PASCAL COLOMBANI

Independent director – Honorary Chairman

French
Age: 73

Valeo
43, rue Bayen,
75017 Paris, France

First appointed: 05/21/2007
Start of current term of office: 05/26/2015
End of directorship: Shareholders' Meeting called to approve the 2018 financial statements
Number of shares held: 1,800
Membership of Board committees:
- Governance, Appointments & Corporate Social Responsibility Committee
- Compensation Committee
- Strategy Committee

Main position held outside the Company

- Chairman, TII Stratégies SASU
- Senior Advisor, J.P. Morgan Chase (United States)♦ and A.T. Kearney Paris and Truffle Venture
- Director, TechnipFMC (United Kingdom) ♦ (member of the Strategy Committee and the Appointments and Governance Committee) and Noordzee Helikopters Vlaanderen (N.H.V) (Belgium) (Chairman of the Audit Committee and member of the Compensation Committee)
- 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 is Honorary Chairman of the Board of Directors, having been Chairman from March 20, 2009 until February 18, 2016. He has recognized expertise in new technologies and scientific fields. He has held senior management positions in the energy sector and has worked in Europe, the United States and Japan.

Pascal Colombani spent close to 20 years (1978-1997) at Schlumberger in various management positions, in Europe and in the United States, before becoming Chairman of its Japanese subsidiary in Tokyo. Between 1997 and 1999, he was the Director of Technology at the French Ministry for Research.

In January 2000, he was appointed Managing Director of the French Alternative Energies and Atomic Energy Commission (*Commissariat à l'Énergie Atomique* – CEA), a post that he held until December 2002. The instigator of the restructuring of CEA's industrial holdings and of the creation of Areva in 2000, he chaired the Supervisory Board of Areva until May 2003. On March 20, 2009, Pascal Colombani was appointed Chairman of the Board of Directors, a position he held until February 18, 2016.

He served as a director at Energy Solutions Inc. until 2013, member of the AFEP-MEDEF High Committee on Corporate Governance until November 24, 2016, Chairman of the Board of Directors of N.H.V. (Belgium) until December 9, 2016, director at Technip SA until January 16, 2017 and director at Alstom until March 17, 2017.

He has also notably served as a director at EDF, France Telecom, British Energy Group Plc 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: 67

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

–

Directorships and other offices held outside the Group

- Director, John Bean Technologies (United States) ♦ (member of the independent Nominating and Governance Committee and member of the Audit Committee), Georgetown Visitation Preparatory School (United States) (Chair of the Audit Committee and member of the Executive Committee) and ConocoPhillips (United States) ♦ (member of the Audit Committee and the Public Policy Committee)
- Member of the independent Nominating and Governance Committee, Petroleum Geo-Services (Norway) ♦

Directorships and other offices held within the past five years

- Chair of the Nominating and Governance Committee, John Bean Technologies (United States)
- Director, FMC Technologies (United States) and Technip SA (where she was Lead Director)

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

French
Age: 73

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

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, BP France and EB Trans SA (Luxembourg)
- Member of the Supervisory Board, Valco Group
- Chairman of the Board of Directors, British Hertford Hospital Corporation
- Founding Chairman, *Cercle économique Sully* (a think tank) and Association for the Promotion of Ecological Vehicles (*Association pour la promotion des véhicules écologiques*)
- Director, *Œuvre du Perpétuel Secours* (a non-profit association)

Directorships and other offices held within the past five years

- Director, 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: 50

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) and BuyIn SA
- Chair of the Board of Directors, Soft@Home and Viaccess SA

Directorships and other offices held within the past five years

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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

French
Age: 70

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
Number of shares held: 3,000
Membership of Board committees:

- Audit & Risks Committee

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

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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)
- Founding Chair, Cercle des Européens and Association des amis d'Honoré Daumier
- Chair of the Ethics Committee, Radio France (until June 2018)
- Chair of the Scientific and Ethics Council, Parcoursup
- Chair of the Committee for the Attractiveness of the Paris Legal Marketplace (*Comité Attractivité de la Place Juridique de Paris*)
- Vice-President of the International Chamber of Commerce (French section)
- Director, Compagnie des Alpes ♦ (member of the Appointments and Compensation Committee, member of the Strategy Committee) (until October 2018) and Cluster Maritime Français

Directorships and other offices held within the past five years

- Director, Generali France
- 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 (*Conseil constitutionnel*), a director of Generali France, Ethics Officer at the French National Assembly, a director of the Law Committee of the French Senate, a director of the French Data Protection Authority (*Commission Nationale de l'Informatique et des Libertés*) and Mayor of Valmondois (Val d'Oise).

Noëlle Lenoir is a graduate of *Institut d'études politiques de Paris* (IEP) and holds a postgraduate degree in public law.

She is a French citizen and speaks French and English.

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

GILLES MICHEL

Independent director

French
Age: 62

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 (since July 25, 2018)
- Compensation Committee (since July 25, 2018)

Main position held outside the Company
- Chairman of the Board of Directors, Imerys♦ (and member of the Strategy Committee)

Directorships and other offices currently held

Directorships and other offices within the Group
–

Directorships and other offices held outside the Group
- Chairman and Chief Executive Officer, Imerys♦ (until May 4, 2018)
- Director, Charles Telfair Institute (Mauritius), IBL Ltd (Mauritius) ♦ (Chairman of the 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)

Directorships and other offices held within the past five years
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Summary of main areas of expertise and experience

Gilles Michel is currently Chairman of the Board of Directors of Imerys and was Chairman and Chief Executive Officer from April 28, 2011 to May 4, 2018. He has extensive experience in the automotive industry, having spent a number of years in senior management positions at PSA Peugeot Citroën, where he was brand manager for Citroën and Management Board member of Peugeot SA.

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.

Since April 4, 2018, he has been Chairman of the Board of Directors of Imerys, where he was previously director and Deputy Chief Executive Officer from November 3, 2010 and then Chairman and Chief Executive Officer from April 28, 2011.

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: 67

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 since May 23, 2018)
- 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 Compensation Committee), HSBC France (Chairman of the Audit Committee), HSBC Europe (United Kingdom) (Chairman of the Audit Committee) (until September 5, 2018) and Prodways Group ♦ (until May 2018)
- Chairman of the Supervisory Board, Webedia (Fimalac group) (Chairman of the Audit and Risks Committee)

Directorships and other offices held within the past five years

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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.

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

GEORGES PAUGET

Independent director
Lead Director

French
Age: 71

Rue Almirante Pessanha 16
2DTO – 1200-022 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 (Chairman)
- Compensation Committee (Chairman)
- Strategy Committee

Main position held outside the Company

- Legal Manager of ALMITAGE16.LDA (Portugal) and 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

- Honorary Chairman, LCL – Le Crédit Lyonnais
- Member of the Supervisory Board, Eurazeo♦ (member of the Appointment and Compensation Committee and 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 Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee, he has also acquired considerable experience in the corporate governance of listed companies.

He was Chief Executive Officer of the Crédit Agricole SA group from 2005 to 2010. He was also the permanent representative of Crédit Agricole SA on the Supervisory Board of *Fonds de Garantie des Dépôts* and Chief Operating Officer, a member of the Executive Committee and Director of the Regional Banks division of Crédit Agricole SA.

He served as Chairman of the Board of Directors of LCL – Le Crédit Lyonnais, and Chairman of the Board of Directors of Calyon until March 2010, Chief Executive Officer and Chairman of the Executive Committee of LCL – Le Crédit Lyonnais, permanent representative of LCL – Le Crédit Lyonnais at the Fondation de France, and Chairman of the Executive Committee of the French Banking Federation (2008 to 2009). He was also Chairman of the Board of Directors of Viel & Cie until March 14, 2012.

He was previously Scientific Director of the Chair of Asset Management and Adjunct Professor at *Université de Paris Dauphine*, lecturer at *Institut d'études politiques de Paris* (IEP) and Visiting Professor at the University of Beijing until 2015. He also served as Chairman of Économie Finance et Stratégie SAS.

Georges Pauget is a Doctor of Economic Sciences.

He is a French citizen and speaks French, English, Spanish and Italian.

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

ULRIKE STEINHORST

Independent director

German
Age: 67

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

- Director, Mersen SA ♦ (Chair of the Governance and Remuneration Committee and member of the Strategy Committee) and Albioma SA ♦ (Chair of the Nomination, Remuneration & Governance Committee)
- President, Nuria Consultancy, a consulting firm

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Director, F2I (UIMM), the Franco-German Chamber of Commerce and Industry and *École nationale supérieure des Mines ParisTech*

Directorships and other offices held within the past five years

- Strategy, Planning and Finance Director, Airbus group's Technical Corporate division, then Advisor to the Chief Technical Officer
- 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 AG group and EADS, with a strong focus on international business and strategy.

She started her career in France at the office of the Minister for European Affairs. In 1990, she joined Electricité de France. From 1990 to 1998, she held a number of positions in the International division, then within the General Management of the group, before becoming head of the International Subsidiaries in the Industrial division. In 1999, she joined the Degussa AG group in Germany (Head of Human Resources of a division, and then Vice-President, Executive Development). She later headed the subsidiary Degussa France before heading up the group's representative office in Brussels.

In 2007, she joined EADS where she served as Chief of Staff to the Executive Chairman. From 2012 to the end of 2015, she served as Strategy, Planning and Finance Director of the Technical Corporate division before serving as Advisor to the Chief Technical Officer (until June 2017).

Ulrike Steinhorst is a German lawyer and graduate of CPA/HEC, *Université Paris II – Panthéon* (post-graduate degree) and *École nationale d'administration* (ENA).

She is a German citizen and speaks German, English and French.

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

VÉRONIQUE WEILL

Independent director

French
Age: 59

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 (since July 25, 2018)
- Strategy Committee

Main position held outside the Company

- General Manager responsible for IT, Real Estate, Insurance and M&A at Re:Sources, Publicis Groupe

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, BBH Holdings Ltd (Bartle Bogle Hegarty) – Publicis Groupe, Gustave Roussy Foundation, Georges Besse Foundation (since September 2018) 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.

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

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 July 25, 2018. Internal procedures have also been drawn up for the Board of Directors' committees, and are included in the appendices of the Board of Directors' Internal Procedures.

The Internal Procedures are available on the "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 of attendance fees which may be freely allocated by the Board of Directors among its members. The Board of Directors may also grant directors exceptional compensation for specific assignments or tasks entrusted to them. The Board of Directors sets the compensation of the executive corporate officers, based on recommendations made by the Compensation Committee. The executive 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 an *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 the director representing employees.

Although not expressly provided for by the Internal Procedures, in practice the directors attend the Company's Shareholders' Meetings, in accordance with the recommendations 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 insider information. The Code of Conduct was last updated on January 26, 2017 following the entry into force on July 3, 2016 of European Regulation No. 596/2014 on market abuse and the publication on October 26, 2016 of AMF position-recommendation No. 2016-08 on ongoing information and management of insider information. On accepting their position, each member of the Board of Directors agreed to comply with the Code.

This Code sets out the legal and regulatory provisions applicable to the Chairman and Chief Executive Officer, members of the Board of Directors and other executive managers in relation to declaring transactions concerning the Company's financial instruments.

Under the Code of Conduct, it is prohibited for any person to carry out one or more transactions based on insider information at any time. It is prohibited at any time for these people to carry out or attempt to carry out, either on their own behalf or for third parties, directly or indirectly, one or more transactions (including the sale of shares resulting from the exercise of stock purchase or subscription options or the cancelation or modification of an order) on financial instruments (shares, bonds, etc., and any related derivatives) of the Company if they have insider information about the Company or any other Group entity. This Code also prohibits any person having insider information from disclosing or attempting to disclose insider information about the Company or any Group entity, other than in the normal course of their duties, to any person, particularly when the circumstances of such disclosure would enable that person to carry out one or more transactions on the Company's financial instruments. They are also prohibited from advising or attempting to advise any person to carry out one or more transactions in the Company's financial instruments based on insider information about Valeo or any other Group entity, or encouraging or attempting to encourage any person to carry out such transactions in Valeo's financial instruments based on this insider information.

The Chairman and Chief Executive Officer, the members of the Board of Directors, the members of the Operations Committee and the Liaison Committee and other Group executive managers are also prohibited from carrying out, directly or indirectly, the following transactions:

- any speculative transactions in the Company's financial instruments as well as in any related financial instruments, such as transactions in derivatives, margin buying and short selling, as well as rolling over deferred settlement orders;
- hedging the financial instruments of the Company and any related financial instruments, including shares, stock purchase or subscription options, rights over shares which may be allotted free of charge, and shares obtained on exercising stock options or allotted free of charge.

The Code of Conduct also applies to the purchase or sale (or forward transaction) of the financial instruments of any company other than Valeo by any persons having insider information if the transaction concerned is based on insider information obtained in the course of their duties.

In the event of doubt as to whether information is considered insider information, all persons must contact the General Counsel before carrying out any transactions involving the Company's financial instruments. The Chairman and Chief Executive Officer, the directors and members of the Group's Operations Committee must check with the General Counsel before carrying out any transactions involving the Company's financial instruments that they do not have insider information as a result of their position.

Restrictions on trading in the Company's financial instruments apply to any person having insider information up to the third trading day, inclusive, following publication of the press release on the insider information in question.

In addition, within the limits provided for by the applicable law, the members of the Board of Directors, the members of the Operations Committee and the Liaison Committee and any person having permanent or regular access to insider information, as well as the Group employees entered in the list of occasional insiders issued by the Company, are prohibited from carrying out one or more transactions involving the Company's shares, debt securities, derivatives or other related financial instruments (including the sale of free shares and the exercise of stock purchase or subscription options), either on their own behalf or for third parties, directly or indirectly, during the following black-out periods:

- between the thirtieth calendar day inclusive preceding the date of publication of Valeo's press release on the annual and half-yearly results, and the third trading day, inclusive, following the date of publication of said press release on these financial statements;
- between the fifteenth calendar day inclusive preceding the date of publication of Valeo's quarterly information and the third trading day, inclusive, following the date of publication of the press release on this quarterly information.

The statutory 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) and the sale of free shares by their beneficiaries following the lock-up period (Article L.225-197-1 of the French Commercial Code) must also be respected.

In addition, pursuant to this Code, the Chairman and Chief Executive Officer, the members of the Board of Directors, other executive managers and persons having close personal ties with them must comply with obligations to inform the Company and the AMF following transactions in the Company's shares, debt securities, derivatives or other related financial instruments in accordance with applicable laws and regulations.

Rules governing the operation and organization of the Board, and their application

Average notice period for calling Board meetings

In accordance with its Internal Procedures, the Board of Directors meets at least six times a year, at dates that are sent to each director at the beginning of the fiscal year at the latest, and at any other time in the interest of the Company. The average notice period for calling a meeting of the Board of Directors is approximately ten days, allowing the directors to review any useful information for the meetings.

Representation of directors

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 2018, two 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 nine Board of Directors' meetings held in 2018 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 Secretary of the Board of Directors at least two working days before the meeting date (except in an emergency) in order to ensure that the relevant technical information can be exchanged and tests performed before the meeting takes place.

Decision-making on the Board

The Board of Directors is only validly constituted if half of its members are present or deemed present, without taking into account members who are represented. Decisions are made by a majority vote of members present, deemed present or represented. In the event of a tie, the Chairman has the casting vote.

Record of Board decisions

Minutes are drawn up at each meeting and signed by the Chairman and Chief Executive Officer and one other director. The draft minutes must be sent to all directors prior to this and no later than two weeks after the meeting. To ensure a clear account of Board of Directors' meetings, the minutes include, in addition to the information required by law, a summary of the discussions and decisions made, briefly mentioning the issues and reservations raised, along with an explanation of any technical issue related to videoconferencing or telecommunications technology used if it disrupted the meeting. The minutes of Board of Directors' meetings provide a record of the Board of Directors' proceedings.

Frequency and duration of Board meetings and average attendance rates of directors

The frequency of Board of Directors' meetings and the average attendance rate of directors in the 2018 fiscal year are presented in section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", page 108. 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 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. He continued to benefit from training in 2018. 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

In 2018, the General Counsel, in his capacity as Secretary of the Board of Directors, and the Chief Financial Officer attended all meetings of the Board of Directors. Other members of the Group's Management attended for certain specific matters, including the Ethics and Compliance Officer for the equality and diversity policy in the Group, the Health, Safety and Environment Officer for safety within the Group, and the Group Chief Operating Officer and Head of Strategy for matters related to the Group's operations. The Group's Statutory Auditors attended parts of some Board of Directors' meetings.

Role of the Board

The principal role of the Board of Directors, which is a collegial body appointed by the shareholders, is to determine the Company's business strategies and ensure that they are implemented effectively. Subject to the powers expressly granted to Shareholders' Meetings and within the limits of the corporate purpose, it handles any issues related to the proper operation of the Company and takes care of the business that concerns it during its meetings.

In accordance with applicable laws and regulations, the Company's articles of association and the provisions of the Internal Procedures, the Board of Directors has the powers, in particular, to:

- convene Shareholders' Meetings and set the agendas thereof;
- draw up the parent company and the consolidated financial statements, the Annual Management Report and the forecast management documents;
- 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 the attendance fees;
- transfer the head office within French territory provided that the decision is approved at the next Ordinary Shareholders' Meeting;
- acting under the authority of the Extraordinary Shareholders' Meeting, amend the articles of association as necessary to ensure their compliance with applicable laws and regulations, provided that the articles of association are approved at the next Extraordinary Shareholders' Meeting;
- authorize sureties, endorsements and guarantees;
- 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 2018, the main topics addressed by the Board of Directors concerned in particular:

- the financial position, cash position, and commitments of the Group, and in particular:
  - analyzing the 2018 budget,
  - the Statutory Auditors' presentation on the parent company and the consolidated financial statements for the 2017 fiscal year, and on the review of the interim consolidated financial statements for the six months ended June 30, 2018,
  - preparing the parent company and the consolidated financial statements for the 2017 fiscal year,
  - reviewing the results for the first half of 2018, the forecasts for the second half of 2018 and the outlook for the 2018 fiscal year,
  - preparing the Management Report and the related notes for the 2017 fiscal year,
  - handling the proposed payment of a dividend of 1.25 euros per share for 2017,
  - reviewing the quarterly figures and results, and the forecasts and projections prepared for 2018;
- 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 market and competitive trends;
- executive compensation, and in particular:
  - reviewing the Chairman and Chief Executive Officer's variable compensation for 2017,
  - reviewing the Chairman and Chief Executive Officer's supplementary pension entitlement for 2017,
  - reviewing the Chairman and Chief Executive Officer's 2018 compensation policy,
  - proposing changes to the Chairman and Chief Executive Officer's 2019 long-term compensation,
  - drawing up the 2018 compensation of Operations Committee members,
  - reviewing the plan to allot performance shares to the Group's corporate officers and employees,
  - measuring the performance criteria for the 2018 performance share plans,
  - reviewing the Shares4U 2018 and Shares4U 2019 plans;

- corporate governance and internal control, and in particular:
  - reviewing the status of directors in light of the independence criteria set out in the Internal Procedures,
  - reviewing risk mapping,
  - assessing the operation of the Board of Directors and the committees,
  - reviewing the composition and chairmanship of the committees,
  - appointing and reappointing directors and reviewing the succession plan for directors,
  - reviewing the succession and development plan for the Chairman and Chief Executive Officer and the Group's main executive managers,
  - reviewing the attendance fees 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;
- financial operations, and in particular:
  - sureties, endorsements and guarantees,
  - issuance of bonds,
  - share buybacks;
- other issues, and in particular:
  - calling the Ordinary and Extraordinary Shareholders' Meeting (including deciding on the content of draft resolutions and the Board of Directors' Report on the resolutions) and examining a written question,
  - reviewing related party agreements that remain in effect over time,
  - review of the cost savings program and cost control,
  - reviewing press releases,
  - reviewing the ownership structure and any changes,
  - reviewing the diversity and equality policy within the Group,
  - analyzing share price trends,
  - reviewing relations with the social partners,
  - reviewing CSR and safety policies,
  - reviewing the Group's financial and fiscal policy and insurance program,
  - reviewing IT governance.

Committees created by the Board

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

At December 31, 2018, 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 2018.

The various committees reported regularly on their work to the Board of Directors in 2018.

Governance, Appointments & Corporate Social Responsibility Committee

At December 31, 2018, the composition of the Governance, Appointments & Corporate Social Responsibility Committee was as follows:

- Georges Pauget (Chairman, Lead Director and independent director);
- Pascal Colombani (independent director);
- C. Maury Devine (independent director);
- Michel de Fabiani (independent director);
- Gilles Michel (independent director);
- Ulrike Steinhorst (independent director).

Changes in the Committee's composition during 2018 are presented in the table in section 3.2.1 of this chapter, paragraph "Composition of the Board of Directors at December 31, 2018 and changes during 2018", pages 106 to 107.

All the members are independent directors and the Company therefore complies with the provisions of the AFEP-MEDEF Code (Article 16.1) 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 and Corporate Social Responsibility Committee, the Senior Vice-President, Human Resources or any other person designated by the Chairman of the Committee acts as the secretary of meetings of the Committee. The Lead Director, where applicable, may attend and take part in any Governance, Appointments & Corporate Social Responsibility Committee meetings, even if he is not a member. Lastly, the Chairman and Chief Executive Officer is not a member of the

Committee but is involved in its work, except for discussions regarding the renewal of his term of office (including when the offices of Chairman of the Board and Chief Executive Officer are combined).

According to its internal procedures, the roles and responsibilities of the Governance, Appointments & Corporate Social Responsibility Committee are, in particular, as follows:

a) as regards corporate governance:
   - analyzing how the Board of Directors and its committees operate,
   - assessing and updating corporate governance rules and, in particular, ensuring that the assessment of the Board of Directors' operation is carried out in line with market practices;

b) as regards selection and appointments:
   - preparing the composition of the Company's governing bodies, by making reasoned recommendations regarding the appointment of executive corporate officers, directors, including the Lead Director, where applicable, as well as members of the committees and the Chairman of each of these committees (except for its own Chairman) as well as by drawing up a succession plan for the executive corporate officers and directors (see section 3.2.1 of this chapter, paragraph "Succession plan", page 117),
   - 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 set are met,
   - overseeing the gradual and increasing implementation of Valeo's corporate social responsibility policy and assessing the Group's contribution to sustainable development,
   - in conjunction with the Audit & Risks Committee, gaining an understanding of the risks and issues involved in corporate social responsibility, and obtaining information about the resources the Group can call on to pursue its strategy in this area.

It should be noted that within the scope of its roles and responsibilities as regards selection and appointments, the choice of candidates for the duties of director by the Committee is guided by the 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 competence, in particular after informing the Chairman and Chief Executive Officer and reporting to the Board of Directors.

The Governance, Appointments & Corporate Social Responsibility Committee met five times in 2018 with an average attendance rate of 100% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", page 108, 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 and monitored the succession plan for members of the Operational Committee and the Liaison Committee (see section 3.2.1 of this chapter, paragraph "Succession plan", page 117);
- reviewed the assessment of the operating procedures of the Board of Directors and its committees for 2017;
- reviewed the reports on individual interviews with directors;
- reviewed and recommended changes to the composition of the committees;
- reviewed progress in the search for new directors and the succession plan for directors, and proposed Gilles Michel for appointment as a director;
- reviewed the proposed reappointment of Bruno Bézard and Noëlle Lenoir;
- amended the Internal Procedures;
- 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;
- reviewed the main amendments to the AFEP-MEDEF Code in its June 2018 version;
- 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 the law on the freedom to choose one's professional future and the proposed law on corporate growth and transformation (PACTE law);
- reviewed relationships with the social partners, in particular as regards Valeo's labor relations strategy;
- reviewed the Group's CSR/safety policy;
- reviewed the non-discrimination and diversity policy within the Group.

Compensation Committee

At December 31, 2018, the members of the Compensation Committee were:

- Georges Pauget (Chairman, Lead Director and independent director);
- Éric Chauvirey (director representing employees);
- Pascal Colombani (independent director);
- C. Maury Devine (independent director);
- Michel de Fabiani (independent director);
- Gilles Michel (independent director);
- Ulrike Steinhorst (independent director).

Changes in the Committee's composition during 2018 are presented in the table in section 3.2.1 of this chapter, paragraph "Composition of the Board of Directors at December 31, 2018 and changes during 2018", pages 106 to 107.

All the members are independent directors (except for the director representing employees who, in accordance with the recommendation in Article 14.1 of the AFEP-MEDEF Code, does not count) and the Company therefore complies with the provisions of the AFEP-MEDEF Code recommending that the majority of directors on the Compensation Committee be independent and that a director representing employees be a member of the Compensation Committee (Article 17.1). In accordance with the internal procedures of the Governance, Appointments and Corporate Social Responsibility Committee, the Senior Vice-President, Human Resources or any other person designated by the Chairman of the Committee acts as the secretary of meetings of the Committee. The Lead Director, where applicable, may attend and take part in any Compensation Committee meetings, even if he is not a member. Lastly, the Chairman and Chief Executive Officer is not a member of the Compensation Committee but takes part in its work on the compensation policy for the main executive managers who are not corporate officers of the Company.

According to its internal procedures, the roles and responsibilities of the Compensation Committee are, in particular, as follows:

- studying and making recommendations concerning the compensation paid to executive corporate officers, particularly as regards:
  - the variable component of their compensation: it defines the method for setting the variable component taking into account the performance of the executive corporate officers during the year and the medium-term strategy of the Company and the Group, and makes sure that these rules are applied,
  - all benefits in kind, performance shares or stock purchase or subscription options received from any Group company, pension provisions and any other benefits;
- making recommendations to the Board of Directors on the rules for allocating attendance fees and the individual amounts to be paid to each director, taking into account the actual number of Board and committee meetings attended;
- recommending to the Board of Directors an aggregate amount of attendance fees to be proposed at the Shareholders' Meeting;
- giving its opinion to the Board of Directors on the general policy for allotting stock purchase or subscription options and free shares or performance shares, as well as on the stock option, free share and performance share plans set up by the Group's General Management;
- 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 four times in 2018 with an average attendance rate of 100% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", page 108, which presents the average attendance rate of each member at Compensation Committee meetings).

During these meetings, the Compensation Committee in particular:

- reviewed the attendance fees payable to directors;
- examined the Chairman and Chief Executive Officer's variable compensation for 2017;
- examined the Chairman and Chief Executive Officer's supplementary pension entitlement for 2017;
- examined the Chairman and Chief Executive Officer's 2018 compensation policy;
- reviewed the Chairman and Chief Executive Officer's long-term compensation as of 2019;
- examined the plan to allot free shares or performance shares to the Chairman and Chief Executive Officer and the Group's employees;

- examined the proposed resolution on the allotment of free shares or performance shares submitted to the Shareholders' Meeting on May 23, 2018 and the related draft Board of Directors' report;
- examined the proposed resolutions on the Chairman and Chief Executive Officer's compensation submitted to the Shareholders' Meeting;
- examined the press releases on the Chairman and Chief Executive Officer's compensation;
- reviewed the compensation of the Group's main executive managers;
- examined the Shares4U 2018 and Shares4U 2019 employee share ownership plans;
- reviewed the compensation section of the Corporate Governance Report;
- reviewed the impact of the main amendments to the June 2018 version of AFEP-MEDEF Code regarding compensation.

Audit & Risks Committee

At December 31, 2018, the members of the Audit & Risks Committee were:

- Thierry Moulonguet (Chairman and independent director);
- Michel de Fabiani (independent director);
- Mari-Noëlle Jégo-Laveissière (independent director);
- Noëlle Lenoir (independent director);
- Véronique Weill (independent director).

Changes in the Committee's composition during 2018 are presented in the table in section 3.2.1 of this chapter, "Composition of the Board of Directors at December 31, 2018 and changes during 2018", pages 106 to 107.

All the members are independent directors and the Company therefore complies with the provisions of the AFEP-MEDEF Code (Article 15.1) recommending that at least two-thirds of directors on the Audit & Risks Committee be independent. In accordance with the internal procedures of the Audit & Risks Committee, the Group Internal Audit Director or any other person designated by the Chairman of the Committee acts as the secretary of meetings of the Committee. The Chairman and Chief Executive Officer is not a member of the Audit & Risks Committee but may be invited to attend its meetings. The Lead Director, where applicable, may attend and take part in any Audit & Risks Committee meetings, even if he is not a member.

When they are appointed, if necessary, members of the Audit & Risks Committee may receive training on specific accounting, financial and operating issues related to the Company and the Group.

Through their training or business experience, all current members of the Audit & Risks Committee have financial and accounting skills. Therefore, the Company goes beyond the requirements of Article L.823-19 of the French Commercial Code according to which at least one member of the Audit & Risks Committee must have specialized financial, 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 2018", pages 118 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, including compliance:

- monitoring the Group's risk management and internal control systems and, where appropriate, internal audit related to the procedures for preparing and processing financial and accounting information within the Group. The Committee ensures that there are risk management and internal control systems in place to identify, analyze, manage, and continuously improve the prevention and management of all types of risks that the Group may face in the course of its business, particularly those likely to have an impact on financial and accounting information, and that the Group adheres to compliance rules,
- receiving information on a regular basis from General Management on the organization and operation of risk management and internal control systems,
- regularly reviewing the risk mapping of the main risks identified by General Management, the results of the operation of the risk management and internal control systems and the relevance of the risk monitoring procedure and ensuring that appropriate action plans have been implemented to mitigate the problems and weaknesses identified,
- remaining informed about the main problem areas and weaknesses observed and the action plans approved by General Management,
- receiving Internal Audit reports or regular summaries of these reports,
- monitoring any issues linked to control and the process for preparing financial and accounting information,
- checking that internal procedures for compiling and verifying information are defined to ensure the information is reliable and reported in a timely manner; reviewing the Statutory Auditors' work plan,
- regularly meeting with managers of the Group's Internal Audit unit, giving its opinion on how their Department is organized, and keeping informed of their work program,
- remaining regularly informed of the Group's external auditors' working plans and methods and on General Management's responses,
- reviewing and making observations about the section of the Management Report on the internal control and risk management procedures implemented by the Company,
- reviewing any issue related to internal control, risk management, and internal audit submitted to the Committee by the Board of Directors; asking General Management for any information,
- organizing an annual Audit & Risks Committee meeting dedicated to internal audit, internal control and risk management issues;

c) as regards the Statutory Auditors:

- assessing compliance with rules, principles and recommendations guaranteeing the independence of the Statutory Auditors and monitoring their independence, particularly by examining the risks to independence and the measures taken to mitigate such risks, in conjunction with the Statutory Auditors,
- supervising the procedure for selecting or renewing 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,
- 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 Auditor of its independence, in accordance with the provisions of the French Commercial Code.

The approval of the Audit & Risks Committee is required for the provision of non-audit services by the Statutory Auditors or members of their network, in France or abroad, to the Company and entities controlling or controlled by the Company within the meaning of Article L.233-3 I and II of the French Commercial Code. For this purpose, the Audit & Risks Committee reviews the nature and scope of the services subject to its approval in accordance with the rules and regulations governing the independence of Statutory Auditors. In the absence of procedures required by the provisions, the Audit & Risks Committee implemented a procedure allowing it to fulfill its obligations, by drawing up a list of the non-audit services that can be provided by the Statutory Auditors or their network, with the related approval procedures. Each year, the Audit & Risks Committee will examine and pre-approve the list of the services that can be provided by the Statutory Auditors and will examine the list of prohibited services. These lists may be reviewed and amended by the Audit & Risks Committee at any time, where appropriate. The validity period of any pre-approval is 12 months, unless otherwise decided by the Audit & Risks Committee.

In order to implement this procedure, it is important to distinguish between:

- audit services that do not require the prior approval of the Audit & Risks Committee other than that required for the audit fee budget;
- non-audit services whose performance is required by law or regulations, that are authorized under a general procedure (general approval according to which the Audit & Risks Committee approves once a year all the services to be performed during the year as required by law or regulations);
- non-audit services that are 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 six times in 2018 with an average attendance rate of 93% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", page 108, 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 2017;
- reviewed the Group's draft consolidated results for the first quarter of 2018 and the forecasts for the first half of 2018;
- reviewed the 2018 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 2017 fiscal year;
- reviewed and approved the figures and methods used to calculate the Chairman and Chief Executive Officer's variable compensation for 2017;
- 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's Information Systems Director on IT governance and the findings of PricewaterhouseCoopers on their IT governance audit;

- analyzed information presented by the Audit and Internal Control Officer on the summary of audit work performed in 2018, the outcome of the 2018 internal control self-assessment survey, the summary of the Statutory Auditors' work on their internal control review, the 2018 risk mapping and the 2019 audit plan;
- analyzed information presented by the Group's Ethics and Compliance Officer on the Group's Ethics and Compliance program (in particular, developments in the anti-corruption program in accordance with the Sapin II[1] law and the duty of care);
- 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 and on the list of non-audit services provided by each of Valeo's Statutory Auditors in the second and third quarters of 2018;
- 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, 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, 2018, the members of the Strategy Committee were:

- Ulrike Steinhorst (Chair and independent director);
- Pascal Colombani (independent director);
- Thierry Moulonguet (independent director);
- Georges Pauget (Lead Director and independent director);
- Véronique Weill (independent director).

The Committee's composition remained unchanged in 2018 (see section 3.2.1 of this chapter, "Composition of the Board of Directors at December 31, 2018 and changes during 2018", pages 106 to 107.

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 2018 with an average attendance rate of 95% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", page 108, 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 Committee in particular:

- reviewed the Group's intellectual property strategy;
- reviewed the innovations presented by Valeo at the Consumer Electronics Show in Las Vegas, and the key trends in innovation;
- analyzed M&A transactions in the automotive sector;
- reviewed the results of Valeo's M&A transactions and their integration;
- reviewed the Group's aftermarket strategy;
- studied the Group's strategy in various parts of the world (Russia, South America and India);
- analyzed and discussed potential acquisitions, investments and partnerships;

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

Assessment of the Board's operating procedures and the individual contribution of the directors

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 internally last year, the Board of Directors decided to appoint an outside firm to conduct the 2018 assessment. The assessment was conducted by the specialized consulting firm between the end of 2018 and beginning of 2019 through individual interviews with all the directors based on an interview guide that was reviewed and approved by the Lead Director and the Secretary of the Board of Directors. The topics covered in the assessment included the Board of Directors' operating procedures, structure, governance, composition and duties, directors' access to information, the choice of issues discussed, the quality of debate and directors' participation, and the general running of the Board committees.

The outcome of the assessment, the findings of which were shared with the Lead Director, were reviewed by the Governance, Appointments & Corporate Social Responsibility Committee, and presented and discussed at the Board of Directors' meeting of March 21, 2019.

In its report, the specialized consulting firm noted that "*Valeo's governance has continued to improve and gain in strength since the previous assessment, thanks to:*

- *a balanced governance structure, as a result of the role played and fully assumed by the Lead Director;*
- *the renewal of directorships, which was prepared and anticipated sufficiently in advance, enabling the Board to maintain its style and effectiveness after having appointed "highly experienced" new members;*
- *transparency of management in its relations with the Board during Board meetings, committee meetings and strategy seminars.*"

The main areas of satisfaction are as follows:

- suggestions for improvement made during the previous assessment taken on board;
- unified governance adapted to the Company's situation, characterized in particular by:
  - an effective dynamic between the Chairman and Chief Executive Officer, who is transparent and attentive to the Board of Directors' work, and the Board of Directors, which is particularly involved and committed to contributing effectively to the Group's performance by providing quality information and engaging in active debate;
  - the Board of Directors' full confidence in the Chairman and Chief Executive Officer. Under his chairmanship, the Board of Directors works in a spirit of cooperation and collegiality, and its members feel genuinely invested;
  - a Lead Director who contributes effectively to the sound balance and operation of the Group's governance and exercises his duties with great care and attention. The Lead Director plays a key, stabilizing role in the Group's governance by liaising with the directors. He acts as an effective sparring partner to the Chairman and Chief Executive Officer, coordinates the independent directors and ensures balanced governance for the markets;
- the usefulness of the "executive sessions", which are described as being conducted very effectively by the Lead Director, and during which a variety of important issues were covered. This year, for example, the independent directors discussed the market downturn, compensation, corporate governance and succession planning;
- succession planning for members of the Board of Directors, which is well organized, with a rigorous process for replacing Board "heavyweights" with other high quality profiles, and seamless integration of new directors;
- the role of the specialized committees, which operate and liaise effectively with the Board of Directors;
- the smooth succession of the Chairman of the Audit & Risks Committee. The directors consider that the new Chairman of the Audit & Risks Committee ensured a smooth transition with his predecessor and has maintained the quality of the Committee's work;
- the three-day annual strategy seminar held in Prague, Czech Republic, was considered a key moment for the Board of Directors, in view of the quality of its organization and the issues covered. The seminar was an opportunity for the Board of Directors to further its understanding of the Group's challenges and get to know the Group better from an internal perspective.

Based on the results of the assessment, the directors drew up a list of certain particular items that should be addressed by the Board of Directors. The list primarily concerns the following areas:

- in-depth discussions on Valeo, its position in the value chain, and how that will evolve over a period of ten years;
- as part of the Board of Directors' ongoing contemplation of the appropriate balance of its composition, continuing the recruitment and seamless integration of experienced directors to provide relevant expertise;
- continued work on the succession plan for the Lead Director;
- retaining the Group's key executives;
- in-depth discussions on certain strategic issues, by an ad hoc committee of the Board of Directors.

The specialized consulting firm also assessed each director's individual contribution to the Board of Directors' work. The Lead Director then met with each director to discuss the outcome of the assessment.

3.2.3 Declarations concerning the Group's corporate officers

Conflicts of interest

In order to avoid any potential conflicts of interest, the Internal Procedures impose strict obligations on the members of the Board of Directors, unless overridden for any reason by the Board of Directors. According to the Internal Procedures:

- *"directors are required to inform the Lead Director and the Board of any conflicts of interest (whether actual or only potential) and must abstain from the discussions and vote on any matters discussed by the Board in which there could be a conflict of interest (whether actual or only potential)" (Article 1.1(d));*
- *"a director cannot accept any responsibilities that may present a conflict of interest (whether actual or only potential) with those he/she has accepted within the Company" (Article 1.1(n));*
- *"without prejudice to the authorization and control formalities provided for by law and the articles of association, the Company's directors are required to communicate to the Chairman, as soon as possible, any agreement entered into by the Company in which they have a direct or indirect interest. In particular, the directors must inform the Chairman of any agreement entered into by them or by a company they manage or in which they hold, directly or indirectly, a significant interest, and the Company or one of its subsidiaries, or which was entered into through an intermediary" (Article 1.4(a));*
- *"regarding conflicts of interest, the Lead Director:*
  - *prevents them from occurring by raising awareness of the circumstances that may generate such conflicts of interest;*
  - *notifies the Board of any conflicts of interest concerning the executive corporate officers and other members of the Board as may have been identified by the Lead Director directly or brought to his/her attention in accordance with Article 1.1(d) of the Board's Internal Procedures" (Article 1.7(b)).*

Furthermore, in response to a request made each year by the Company, the directors are required to provide a list of all directorships and other offices held in all companies in the past five years, and to respond to a questionnaire regarding the existence of any conflicts of interest.

At December 31, 2018, 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 upon preparation of the Corporate Governance Report", pages 109 to 111). 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;
- the Group and the Solvay group and the Group and the Imerys group, in which Gilles Michel is, respectively, a director and Chairman of the Board of Directors. 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 upon preparation of the Corporate Governance Report", pages 109 to 111). Should the Board of Directors make any decision about a commitment to the Solvay group or the Imerys group, Gilles Michel will abstain from the discussions and vote on any such decision;
- 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, paragraph "Overview of the 2018 compensation policy for the Chairman and Chief Executive Officer", pages 152 to 157, 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.

3.2.4 Corporate Governance Code

Valeo refers to the AFEP-MEDEF Code as amended in June 2018, 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 2018, this involves the recommendations set out in the following table:

Recommendations	Explanation
Directors' compensation (Article 20.1 of the AFEP-MEDEF Code) *"It should be recalled that the method of allocation of this compensation, the total amount of which is determined by the shareholders', 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' attendance fees are based on the directors' attendance at Board of Directors' and committee meetings, such that the variable portion is preponderant. However, a director's absence from one or more Board of Directors' meetings combined with lack of membership of a Board committee may prevent this objective from being achieved. During 2018, this was the case for one director, who did not attend one Board of Directors' meeting and is not a member of a Board committee. The variable portion of his fees therefore represented 96% of the fixed portion. Furthermore, this rule is not followed for the committee Chairs and the Lead Director, given the special duties for which they are responsible.
Conclusion of a non-competition agreement with a Company officer (Article 23.4 of the AFEP-MEDEF Code) *"The Board must also make provision for no non-competition compensation to be paid once the officer claims his or her pension rights. In any event, no benefit can be paid over the age of 65."*	Jacques Aschenbroich has benefited from a non-competition agreement since February 24, 2010. This agreement complied with the November 2016 version of the AFEP-MEDEF Code but not the June 2018 version, which provides that non-competition compensation cannot be paid once the officer has claimed his or her pension rights or, in any event, when he or she reaches the age of 65. Given the new recommendations of the AFEP-MEDEF Code on non-competition agreements, Jacques Aschenbroich announced his decision to waive his right to non-competition compensation as of now. 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.
Supplementary pension schemes with defined benefits governed by Article L.137-11 of the French Social Security Code (*Code de la sécurité sociale*) (Article 24.6.2 of the AFEP-MEDEF Code) *"(...) the beneficiaries must meet reasonable requirements of seniority within the company, 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 22, 2018, the Board of Directors authorized the Chief Executive Officer – and any person so designated by the Chief Executive Officer – to issue sureties, endorsements and guarantees in the Company's name up to a maximum amount of 40 million euros for a period of 12 months, and to maintain in effect the sureties, endorsements and guarantees previously issued.

The Board of Directors' meeting on February 21, 2019 renewed this commitment based on the same terms and conditions.

During 2018, no further commitments of this type were made by the Company's Chairman and Chief Executive Officer.

3.2.6 General Management of the Company and limitations on the powers of the Chief Executive Officer

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, 2018(3)), the Audit & Risks Committee (five out of five members at December 31, 2018), the Governance, Appointments & Corporate Social Responsibility Committee (six out of six members at December 31, 2018), the Compensation Committee (six out of six members at December 31, 2018(4)) and the Strategy Committee (five out of five members at December 31, 2018);
- the presence of a Lead Director (Georges Pauget) 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 "Appointment of a Lead Director", pages 113 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.

(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 8.3 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 14.1 of the AFEP-MEDEF Code.

In addition, at its meeting on January 21, 2016, the Board of Directors, on the recommendation of the Appointments, Compensation & Governance Committee based on the results of the Board of Directors' self-assessment for 2015, approved the holding of Board of Directors' and specialized committee meetings without the executive corporate officer being present, to enable directors to address issues concerning the executive corporate officer, corporate governance or any other issue concerning the Company.

The Lead Director also has the power to hold and chair meetings, at least once a year, without corporate executive officers being present, for purposes of, including but not limited to, 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 2018, 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 to be held immediately following the Shareholders' Meeting on May 23, 2019;
- to separate 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;
- to reappoint Georges Pauget as Lead Director until the end of his term of office, which expires at the close of the 2020 Shareholders' Meeting to be called to approve the 2019 financial statements, in order to maintain continuity within Valeo's current governance structure and to pursue the search for a new Lead Director during this transitional year. For information, Georges Pauget has informed the Board of Directors that he will not stand for reappointment as a director at that stage.

3.2.7 Agreements governed by Articles L.225-38 *et seq.* of the French Commercial Code already approved by the Shareholders' Meeting which continued to be implemented during the year

The following agreements relating to commitments to Jacques Aschenbroich as Chairman and Chief Executive Officer and already approved by a Shareholders' Meeting remained in force in 2018:

- 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 156.
- an agreement giving rise to non-competition compensation equal to 12 months of compensation (Board of Directors' decisions of February 24, 2010 and February 24, 2015), provided Jacques Aschenbroich does not work in any way for an automotive supplier or, more generally, for any of Valeo's competitors for 12 months after the end of his term of office as Chief Executive Officer, regardless of the reason for termination. This compensation is described in section 3.3.1 of this chapter, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation", page 156.
- a commitment in the form of a defined benefit pension plan to the Chairman and Chief Executive Officer, Jacques Aschenbroich (Board of Directors' decision of April 9, 2009 implemented on October 20, 2009). This pension plan, open to senior executives of the Group since January 1, 2010, has been closed to new members since July 1, 2017 (Board of Directors' decision of July 20, 2017). A new "Article 83" defined contribution supplementary pension plan 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 plan.

A special report on related party agreements and commitments has been drawn up by the Statutory Auditors in respect of the agreements described above see Chapter 5, section 5.7 "Statutory Auditors' special report on related party agreements and commitments", pages 402 to 404).

3.2.8 Commitments governed by Article L.225-42-1 of the French Commercial Code authorized during the year

No new commitments governed by Article L.225-42-1 of the French Commercial Code were authorized during 2018.

However, since the beginning of 2019, the Board of Directors has authorized the following commitments:

- renewal of the commitment to Jacques Aschenbroich in the form of a defined benefit pension plan. This decision was taken at the Board of Directors' meeting of March 21, 2019 in the context of his reappointment as Chairman and Chief Executive Officer. This renewal, which will be submitted for approval at the Shareholders' Meeting of May 23, 2019, is subject to Jacques Aschenbroich's reappointment as Chairman and Chief Executive Officer at the first Board of Directors' meeting held after the Shareholders' Meeting;
- amendment to Jacques Aschenbroich's non-competition agreement. Given the new 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 on March 21, 2019.

A special report on related party agreements and commitments, including the commitments described in this section, has been drawn up by the Statutory Auditors (see Chapter 5, section 5.7 "Statutory Auditors' special report on related party agreements and commitments", pages 402 to 404).

3.2.9 Agreements governed by Article L.225-37-4, paragraph 2 of the French Commercial Code

None.

3.2.10 Arrangements for attendance at Shareholders' Meetings

Shareholders' Meetings are convened and conduct business in accordance with the law and the Company's articles of association.

Articles 21 to 26 of Valeo's articles of association cover the provisions relating to Shareholders' Meetings and the exercise of voting rights. The articles of association are available on the "Corporate Governance" page of Valeo's website (http://www.valeo.com/en/financial-and-legal-documents). Article 23 of the Company's articles of association provides that double voting rights are attached to all fully paid-up shares that have been registered in the name of the same holder for at least four years.

3.2.11 Information likely to have an impact in the event of a public tender offer

Share ownership and direct or indirect shareholdings in the Company brought to the Company's attention

The ownership of the Company's share capital is described in Chapter 6, section 6.4.1 "Ownership structure", page 411.

Direct or indirect shareholdings in the Company brought to the Company's attention are described in Chapter 6, section 6.4.2, pages 412 to 417.

Restrictions on the exercise of voting rights

The Company's articles of association provide for a disclosure obligation imposed on any shareholder who acquires or sells a fraction equal to 2% of the share capital or voting rights of the Company or a multiple of this fraction, from the date when one of the thresholds is crossed. If a shareholder fails to comply with the disclosure obligation and one or more shareholders holding 2% of the voting rights submits a request, the voting rights exceeding the relevant threshold that should have been disclosed cannot be exercised at Shareholders' Meetings held within the two-year period from the date when the omission is remedied.

Powers of the Board of Directors

In accordance with the resolution passed by the shareholders at the Shareholders' Meeting on May 23, 2018, the Board of Directors may not use the Company's share buyback program while a public tender offer for the Company's shares is in progress.

Furthermore, in accordance with the resolution passed at the Shareholders' Meeting on May 23, 2017, the Board of Directors may not decide to issue shares or other securities with or without pre-emptive subscription rights while a public tender offer for the Company's shares is in progress. However, in accordance with the resolution passed at the Shareholders' Meeting on May 23, 2018, free shares may be allotted during such periods.

Agreements entered into by the Company that would change or terminate if there were a change in control of the Company, with the exception of those agreements whose disclosure would seriously harm its interests (except in the event of a legal obligation to disclose)

As specified in Chapter 2, section 2.1.3, paragraph "Liquidity risk", page 94, and Chapter 5, section 5.4.6, Note 8.1.2 "Gross debt" to the consolidated financial statements, pages 337 to 341, 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).

Agreements providing for indemnities payable to employees or members of the Board of Directors if they resign or are dismissed without real or serious cause or if their employment contract is terminated as a result of a public tender offer

For information, on February 24, 2010, the Board of Directors reserved the right to subject Jacques Aschenbroich to a non-competition obligation that would prohibit him from working in any way for an automotive supplier or, more generally, for any of Valeo's competitors for 12 months after the end of his term of office as Chief Executive Officer, regardless of the reason for termination. In this case, Jacques Aschenbroich would be paid non-competition compensation equal to 12 months of compensation (calculated based on the average compensation (fixed and variable) paid for the three fiscal years preceding the year of departure). The Company reserves the right to waive the non-competition clause, in which case no compensation will be owed. Given the new 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 on March 21, 2019. For more details, see section 3.3.1 of this chapter, paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation", page 156.

3.2.12 Summary table of powers currently delegated by the Shareholders' Meeting to the Board of Directors with respect to raising new equity and the use made of such delegations during the year

Authorizations granted Date of Shareholders' Meeting (duration of authorization/delegation and expiration date)	Maximum amount of issue	Maximum amount of debt securities	Comments on/Utilization of authorizations during the year
1. AUTHORIZATION TO INCREASE CAPITAL WITH PRE-EMPTIVE RIGHTS			
Delegation of authority to issue shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities (A) Shareholders' Meeting of May 23, 2017 – 12th resolution Expiring on July 23, 2019 (26 months)	70 million euros (A) + (B) + (C) + (D) + (E) + (F) + (G) combined share capital ceiling (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 26, 2015 (13th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of authority to increase the share capital by capitalization of reserves, profits, additional paid-in capital or other amounts that may be capitalized (B) Shareholders' Meeting of May 23, 2017 – 16th resolution Expiring on July 23, 2019 (26 months)	30 million euros Included in Combined Share Capital Ceiling	N/A	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (16th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
2. AUTHORIZATION TO INCREASE CAPITAL WITHOUT PRE-EMPTIVE RIGHTS			
Delegation of authority to issue shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities under a public tender offer (delegation that can also be used as consideration for securities tendered to a public exchange offer initiated by the Company) (C) Shareholders' Meeting of May 23, 2017 – 13th resolution Expiring on July 23, 2019 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in Combined Share Capital Ceiling	1.5 billion euros Included in Combined Debt Ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (14th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of authority to issue shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities by way of private placement (D) Shareholders' Meeting of May 23, 2017 – 14th resolution Expiring on July 23, 2019 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in Combined Share Capital Ceiling	1.5 billion euros Included in Combined Debt Ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (15th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of power to issue shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities to be used as consideration for contributions in kind granted to the Company (E) Shareholders' Meeting of May 23, 2017 – 17th resolution Expiring on July 23, 2019 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in Combined Share Capital Ceiling	1.5 billion euros Included in Combined Debt Ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (18th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of authority to issue shares and/or securities giving access to the Company's share capital and/or granting entitlement to the allotment of debt securities reserved for members of the employee share ownership plan (F) Shareholders' Meeting of May 23, 2017 – 18th resolution Expiring on July 23, 2019 (26 months)	5 million euros Included in Combined Share Capital Ceiling	1.5 billion euros Included in Combined Debt Ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 26, 2015 (20th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Used in connection with the June 28, 2018 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 <u>WITH OR WITHOUT</u> PRE-EMPTIVE RIGHTS			
Delegation of authority to increase the number of shares or securities to be issued with or without pre-emptive rights under an overallotment option (G) Shareholders' Meeting of May 23, 2017 – 15th resolution Expiring on July 23, 2019 (26 months)	The ceiling is specified in the applicable regulation (currently 15% of the initial issuance), not 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 26, 2015 (17th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
4. ALLOTMENT OF FREE SHARES			
Authorization to allot free existing or new shares to Group employees and corporate officers Shareholders' Meeting of May 26, 2016 – 20th resolution Expiring on July 26, 2018 (26 months)	Maximum number of shares (existing or to be issued) allotted: 3,467,000 (with a sub-ceiling of 195,000 shares for executive corporate officers); these allotments may not exceed more than 10% of the share capital at the date of the Board of Directors' decision	N/A	Used by the Board of Directors at its meeting on March 22, 2018 (1,234,623 shares allotted)
Authorization to allot free existing or new shares to Group employees and corporate officers Shareholders' Meeting of May 23, 2018 – 12th resolution Expiring on September 26, 2020 (26 months)	Maximum number of shares (existing or to be issued) allotted: 3,485,404 (with a sub-ceiling of 196,035 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 for a period of 26 months as of the end of the previous authorization granted by the Shareholders' Meeting of May 26, 2016 (20th resolution) for the same purpose Not used during the year

3.3 Compensation of the Chairman and Chief Executive Officer, Board members and other Group executive managers

3.3.1 Compensation of the Chairman and Chief Executive Officer

The compensation policy for the Chairman and Chief Executive Officer sets out the principles and criteria for determining, structuring and awarding the fixed, variable and exceptional components of his total compensation and benefits package. It is determined by the Board of Directors on the recommendation of the Compensation Committee and then submitted to the Shareholders' Meeting for approval. This section describes the compensation policy for the Chairman and Chief Executive Officer for the year ended December 31, 2018 (the "**2018 Compensation Policy**"), the components of compensation awarded or paid to him for the year ended December 31, 2018 pursuant to the policy, and the compensation policy for the Chairman and Chief Executive Officer for the year ending December 31, 2019 (the "**2019 Compensation Policy**").

Compensation policy for the Chairman and Chief Executive Officer

General principles

The Chairman and Chief Executive Officer's compensation package is determined by the Board of Directors, acting on the recommendation of the Compensation Committee, and in compliance with the AFEP-MEDEF Code as 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 2018 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, 2018, constituting the 2018 Compensation Policy.

For the purpose of determining the 2018 Compensation Policy, the Compensation Committee conducted a full review of the Chairman and Chief Executive Officer's compensation and considered a number of possible changes. To this end, the Compensation Committee met several times as of July 2017 and held in-depth discussions with the Board of Directors at various meetings. As part of this review, two reputed consulting firms were instructed to conduct a detailed study of the Chairman and Chief Executive Officer's compensation and to make recommendations. Generally speaking, the outcome of these reviews showed that the level of fixed, variable and long-term compensation was consistent with market practices. It therefore remained unchanged in 2018. At the end of the review process, the Compensation Committee nevertheless recommended certain adjustments to the criteria used for annual variable compensation compared with the 2017 compensation policy approved by the Shareholders' Meeting of May 23, 2017 in its tenth resolution (the "**2017 Compensation Policy**")[1]. At its meeting on February 22, 2018, the Board of Directors, acting on the recommendation of the Compensation Committee, approved the 2018 Compensation Policy. As part of this process, certain changes were made to the benchmarking panels used to review the components of the Chairman and Chief Executive Officer's compensation, following the recommendations of the two consulting firms. The panels are available on the "Corporate Governance" page of the Company's website (www.valeo.com).

The 2018 Compensation Policy, as determined by the Board of Directors at its meeting of February 22, 2018, acting on the recommendation of the Compensation Committee, was approved by the Shareholders' Meeting of May 23, 2018 in its tenth resolution (94.35% majority). For greater clarity, a full description of the 2018 Compensation Policy is given below, whereas the description given in the 2017 Registration Document contained a large number of references to the 2017 Compensation Policy (see section 3.3.1 of this chapter, paragraph "Overview of the 2018 Compensation Policy for the Chairman and Chief Executive Officer", pages 145 to 149).

(1) *The 2017 compensation policy is described in the 2017 Registration Document (see section 3.3.1 of this chapter, paragraph "Overview of the 2017 Compensation Policy for the Chairman and Chief Executive Officer", pages 142 to 145).*

Fixed compensation

The annual fixed compensation notably remunerates for responsibilities associated with the duties of Chairman and Chief Executive Officer. In accordance with the AFEP-MEDEF Code, fixed compensation is reviewed at relatively long intervals.

At its meeting of June 8, 2011, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, set the annual fixed compensation of the Chairman of the Board of Directors and of the Chief Executive Officer. It took effect on June 1, 2011 and remained unchanged until February 18, 2016. In light of the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer, and the continued growth of the Valeo Group's scope since 2011, and after noting that the fixed annual compensation of the Chairman and Chief Executive Officer was lower than the average fixed compensation reported in various comparative studies on the compensation of Chief Executive Officers and Chairmen and Chief Executive Officers of companies belonging to the CAC 40 index and comparable European industrial companies(1), at its meeting on February 18, 2016, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to increase the fixed annual compensation previously paid to the Chief Executive Officer, who is now the Chairman and Chief Executive Officer, from 900,000 euros to 1,000,000 euros. This amount was included in the 2017 Compensation Policy.

Annual fixed compensation in the 2018 Compensation Policy remains unchanged versus the 2017 Compensation Policy at 1,000,000 euros, as the review conducted by the two consulting firms confirmed that this was an appropriate level.

This compensation thus remains unchanged since February 18, 2016. There are currently no plans to amend it until the end of the Chairman and Chief Executive Officer's current term of office.

Variable compensation

The variable portion of the compensation must be in line with the Chairman and Chief Executive Officer's performance, as well as the Company's strategy and progress. It is therefore determined partly according to quantifiable criteria with strict and ambitious objectives based on the Group's operating and financial performance, and partly on a qualitative basis. The quantifiable and qualitative objectives to be reached are set according to specific, demanding and predetermined objectives. 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 2018 Compensation Policy review, 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 are aimed at better reflecting the Group's strategy and current financial, non-financial and operational performance objectives in the proposed criteria.

The Chairman and Chief Executive Officer's annual variable compensation for 2018 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 below). The quantifiable and qualitative criteria used for the 2018 Compensation Policy are therefore as follows(2):

- **five quantifiable criteria:** (i) operating margin rate, (ii) free cash flow, (iii) net income, (iv) return on capital employed (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 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 is 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 2017 Compensation Policy and remained unchanged in the 2018 Compensation Policy (170%

(1) A summary of the results of the comparative studies and the panels used can be found in the "Shareholders' Meeting" section of Valeo's website.

(2) The level of achievement of these criteria in 2018 is presented in paragraph "Variable compensation" of this section, pages 161 to 172.

of annual fixed compensation), as the review conducted by the two consulting firms confirmed that this was an appropriate level.

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.

The following table summarizes the applicable quantifiable and qualitative criteria, the entitlement relating to each of these criteria as a percentage of annual fixed compensation, and the maximum variable compensation for 2018:

Quantifiable criteria(1)

Nature of the quantifiable criterion	Maximum amount of the variable portion as a % of annual fixed compensation
Operating margin rate	25%
Free cash flow(2)	25%
Net income(3)	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 measured based on:* ▪ financial analysts' assessments; ▪ strategic operations carried out by Valeo and the integration of recent acquisitions; ▪ the increase in the proportion of "innovative" products(4) in the order intake for the year; ▪ an assessment of the technology roadmap presented at the strategy seminar and its impact on R&D and human resources.	20%
Risk management *This criterion is measured, in particular, based on:* ▪ continued and intensified measures to reinforce the compliance policy; ▪ the management of risks related to new product launches and customer complaints; ▪ the Company's transformation (industrial, human resources) to adapt to product and technology change.	15%
Corporate social responsibility *Progress achieved by Valeo, in particular based on the following indicators:* ▪ number of employees with disabilities; ▪ diversity (gender and age). *Overall assessment of safety performance, in particular based on the following indicators:* ▪ number of lost-time workplace accidents; ▪ decrease in the number of category 1 accidents (death, amputation, severe trauma, disability/incapacity) and category 2 accidents (major material damage and near major accident). *Change in OE sales resulting from products that reduce CO_2 emissions.*	20%
TOTAL QUALITATIVE CRITERIA	**55%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**

(1) Excluding tax and regulatory impacts.
(2) Assuming that the investment budget is respected.
(3) Assuming a 20% tax rate for the Group.
(4) Products and technologies in series production for less than three years.

Long-term compensation policy – Allotment of performance shares

The aim of allotting performance shares is not only to encourage the Chairman and Chief Executive Officer to take a long-term approach to his duties, but also to retain him and align his interests with those of Valeo and its shareholders. Under the performance share plans, performance criteria must be met over a period of three consecutive years. Valeo applies strict and ambitious financial and operating performance criteria considered as particularly representative of the Company's performance. These criteria, which have been adopted and renewed over recent years by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, were applied in the 2017 Compensation Policy and remained unchanged in the 2018 Compensation Policy, as follows: (i) pre-tax return on assets (ROA rate), (ii) operating margin rate, and (iii) ROCE rate. The performance criteria to be achieved over a period of three years will not be changed during that period. The aforementioned criteria will be met if, for each of them, the average over the three years of the reference period, of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one, it being specified that the target return set by the Board of Directors may not be modified subsequently.

In addition, a presence condition must also be met at the time of each allotment. Thus, the performance shares allotted to the Chairman and Chief Executive Officer will vest only if his term of office has not expired on the vesting date. At its meeting on February 22, 2018, acting on the recommendation of the Compensation Committee, the Board of Directors set the following rules that will apply to the performance shares in the event of the Chairman and Chief Executive Officer's departure. Entitlement to the performance shares will be lost in the event of (i) departure due to gross negligence or misconduct or (ii) forced departure for reasons attributable to the Chairman and Chief Executive Officer's performance, before the end of the vesting period. Except for these two cases, the Board of Directors will determine whether or not the Chairman and Chief Executive Officer will retain his entitlement to the performance shares before the end of the vesting period based on an in-depth analysis of the reasons for and circumstances surrounding his departure. In any event, the shares will only vest if the performance criteria are achieved. By way of exception to the foregoing, in the event of termination of his corporate office in connection with the liquidation of mandatory and supplementary pension plans and death or disability, entitlement to performance shares will be maintained and the performance criteria will apply to retirement but not to death or disability.

A percentage of the initial share allotments will vest according to the number of performance criteria achieved over the reference period (100% for three criteria, 60% for two criteria, 30% for one criteria and 0% for no criteria).

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 (maximum of 195,000 performance shares under the twentieth resolution of the Shareholders' Meeting of May 26, 2016) 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.

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. Jacques Aschenbroich makes 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.

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 his maximum annual fixed and variable compensation). The decision to cap the amount of performance shares valued under IFRS at 270% of his annual fixed compensation was 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 2017 Compensation Policy and remained unchanged in the 2018 Compensation Policy (270% of annual fixed compensation, i.e., 100% of fixed compensation and maximum annual variable compensation), as the review conducted by the two consulting firms confirmed that this was an appropriate level.

(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 cap of 270% of annual fixed compensation is a maximum amount and the Board of Directors reserves the right to award a lower percentage depending on Valeo's performance. In 2018, the maximum amount of the 55,026 performance shares allotted to Jacques Aschenbroich, valued under IFRS, represented 260% of his annual fixed compensation, which is below the maximum amount of this component of compensation provided for in this compensation policy, i.e., 270%.

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.

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 Aschebroich 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[1]). These caps were applied in the 2017 Compensation Policy and remained unchanged in the 2018 Compensation Policy.

A performance condition was introduced in order to comply with the provisions of French law No. 2015-990 of August 6, 2015 on growth, activity and equal opportunity, known as the Macron law. The accrual of additional supplementary pension rights is contingent on a performance condition, which was also applied in the 2017 Compensation Policy. The performance condition will be deemed to have been achieved if the Chairman and Chief Executive Officer's variable compensation paid in year Y+1 for year Y amounts to 100% of his fixed compensation payable for year Y. If his variable compensation is less than 100% of fixed compensation, rights will accrue on a prorata basis.

The pension plan to which Jacques Aschenbroich is entitled was approved as a related party agreement pursuant to Article L.225-38 of the French Commercial Code by the Shareholders' Meeting on June 3, 2010 in its twelfth resolution, and as a related party 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.

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.

For information, given the new recommendations of the AFEP-MEDEF Code of June 2018 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 on March 21, 2019 accordingly.

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.

(1) *The reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation received for working full time within the Group.*

Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

The Chairman and Chief Executive Officer is not entitled to multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation or termination benefits. In this respect, it should be noted that Jacques Aschenbroich was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived following the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer on February 18, 2016. The maximum amount of benefits that can be awarded and paid to the Chairman and Chief Executive Officer upon departure therefore correspond to the non-competition compensation that may be awarded or paid to him by the Company, i.e., 12 months of compensation (calculated by taking the average compensation (fixed and variable) paid for the three fiscal years preceding the year of departure). Given the new 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 on March 21, 2019 accordingly.

The Chairman and Chief Executive Officer does not receive attendance fees. He is not entitled to any compensation or other benefits as a result of agreements entered into with the Company[1] or any Group company.

No stock 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 2018.

In accordance with Articles L.225-37-2 and L.225-100 of the French Commercial Code, the Chairman and Chief Executive Officer's variable compensation for 2018 will only be paid once the fixed, variable and exceptional components comprising the total compensation and benefits package paid or awarded to him in respect of 2018 have been approved by the shareholders at an Ordinary Shareholders' Meeting (*ex post* vote).

Compensation policy for the Chairman and Chief Executive Officer for the year ending December 31, 2019

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, 2019, constituting the 2019 Compensation Policy. 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.

For the purposes of determining the 2019 Compensation Policy, the Compensation Committee analyzed the structure of the Chairman and Chief Executive Officer's compensation based on a benchmarking review of four panels used by Valeo, with particular attention paid to the panel of European automobile and automotive component manufacturers[2] (the "**Benchmarking Review**"). The panels are available on the "Corporate Governance" page of the Company's website (www.valeo.com).

Generally speaking, the outcome of the Benchmarking Review showed that the level of variable and long-term compensation is consistent with market practices and will therefore remain unchanged in the 2019 Compensation Policy compared with the 2018 Compensation Policy.

At the end of the review process, the Compensation Committee nevertheless recommended that the Board of Directors make certain adjustments both in terms of the amount of annual fixed compensation and the conditions for awarding performance shares.

At its meeting on March 21, 2019, the Board of Directors, acting on the recommendations of the Compensation Committee, approved the 2019 Compensation Policy as described below.

Fixed compensation

The annual fixed compensation notably remunerates for responsibilities associated with the duties of Chairman and Chief Executive Officer. In accordance with the AFEP-MEDEF Code, fixed compensation is reviewed at relatively long intervals.

The fixed annual 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[3] 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.

(1) *Except for the retirement and non-competition benefits referred to in paragraphs "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan", page 156, and "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation", of this section, page 156.*

(2) *1. CAC 40; 2. CAC 40 excluding the finance and luxury goods sectors; 3. European automobile and automotive components manufacturers; and 4. Global automotive component manufacturers.*

(3) *A summary of the results of the comparative studies and the panels used can be found in the "Shareholders' Meeting" section of Valeo's website.*

This amount has remained unchanged since February 18, 2016, even though the Group has 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 Korea and the acquisition of a controlling stake in Japanese company Ichikoh. Asia now accounts for 32% of the Group's sales and Asian customers for 34%. Furthermore, investment in R&D and the development of new innovative products, particularly in electrification and autonomous driving, are a source of growth but also operational complexity. This investment is 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 Benchmarking Review 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.

There are no plans to change this amount until the end of Jacques Aschenbroich's new term of office as Chairman and Chief Executive Officer.

From January 1, 2019 to May 23, 2019, the Chairman and Chief Executive Officer's fixed remuneration will remain at 1,000,000 euros.

Variable compensation

The principles and criteria relating to variable compensation under the 2018 Compensation Policy (see paragraph "Variable compensation" of this section, pages 153 to 154) remain unchanged in the 2019 Compensation Policy[1].

The Chairman and Chief Executive Officer's maximum variable compensation, which in any event remains capped at 170% of annual fixed compensation, remains unchanged compared with the 2018 Compensation Policy, as the Benchmarking Review confirmed that this was an appropriate level.

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 2018 Compensation Policy, as the Benchmarking Review confirmed that this was an appropriate level.

As indicated in the 2018 Compensation Policy, 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 adjust the criteria used in previous years for the 2019 Compensation Policy. 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.

The performance shares will be contingent on the achievement of two previously used internal performance criteria – operating margin and pre-tax ROA – as well as TSR, which has replaced the ROCE criteria already used for short-term variable compensation. Valeo's TSR will be measured relative to the CAC 40 index and a panel of companies in the European automotive sector. The internal performance criteria represent a maximum of 80% of the shares allotted (40% for each) and the external criterion represents a maximum of 20%.

(1) *However, the free cash flow and net income assumptions, referred to in notes 2 and 3 of the variable compensation summary table for the 2018 Compensation Policy, are not included in the 2019 Compensation Policy.*

The following table shows a summary of the performance share criteria and measurement methods used in the 2019 Compensation Policy[1]:

Criterion	Weighting/Measurement
Internal performance criteria: ROA rate **Internal performance criteria: operating margin rate**	Achievement of a performance rate for each criterion (ROA rate and operating margin rate) for each of the three years of the vesting period (Y, Y+1 and Y+2). The relevant criterion will be met if, for each year of the plan, the performance rate achieved is higher than or equal to the target rate set by the Board of Directors, inasmuch as (i) the target rate cannot be lower than the guidance for the reference year[1], (ii) the criterion cannot be subsequently changed by the Board of Directors, and (iii) the target rates cannot be subsequently altered by the Board except by a duly justified decision due to exceptional circumstances beyond the beneficiaries' control. ▪ If the achievement level for the relevant criterion is higher than or equal to the target rate for all three years of the plan: 100%. ▪ If the achievement level for the relevant criterion is higher than or equal to the target rate for only two years of the plan: 50%. ▪ If the achievement level for the relevant criterion is higher than or equal to the target rate for only one year of the plan: 20%. ▪ If the achievement level is not reached for any of the three years of the plan: 0%.
External performance criteria: TSR	TSR over a period of three years from January 1 of the year of allotment to December 31 of the year before delivery. ▪ If Valeo's TSR over the reference period is higher than the CAC 40 TSR over the reference period: 10% (0% if equal to or lower than the CAC 40 TSR). ▪ If Valeo's TSR over the reference period is higher than the median TSR of the companies in the European Automotive Panel over the reference period: 10% (0% if equal to or lower than the Panel median).

(1) Guidance for 2019 is 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%.

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. 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.

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.

(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). If the nineteenth resolution is not passed at the Shareholders' Meeting of May 23, 2019, the criteria and conditions for valuing the performance shares described in the Board of Directors' report to the Shareholders' Meeting of May 23, 2018 (under the twelfth resolution) will apply to the Chairman and Chief Executive Officer in respect of the 2019 Compensation Policy. The twelfth resolution at that Meeting was approved with a majority of 95.26%.

(2) Or, if the offices of Chairman of the Board of Directors and Chief Executive Officer are separated before the vesting date, until the end of his term as Chairman of the Board of Directors or as Chief Executive Officer.

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.

The principles and criteria relating to this component of compensation under the 2018 Compensation Policy (see paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan" of this section, page 156) remain unchanged in the 2019 Compensation Policy.

In accordance with the applicable legal provisions, the renewal of this commitment to the executive corporate officer was authorized by the Board of Directors on March 21, 2019 and will be submitted for approval of the shareholders at the Shareholders' Meeting of May 23, 2019.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – 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 156).

Given the new 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 on March 21, 2019 accordingly.

Other benefits

The principles and criteria relating to this component of compensation under the 2018 Compensation Policy (see paragraph "Other benefits" of this section, page 156), remain unchanged in the 2019 Compensation Policy.

Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

The principles and criteria relating to this component of compensation under the 2018 Compensation Policy (see paragraph "Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation" of this section, page 157) remain unchanged in the 2019 Compensation Policy.

Accordingly, the Chairman and Chief Executive Officer will not be entitled to multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation or termination benefits. In this respect, it should be noted that Jacques Aschenbroich was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived following the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer on February 18, 2016. At its meeting on that date, the Board of Directors duly noted his decision.

The Chairman and Chief Executive Officer will not receive attendance fees. He will not be entitled to any compensation or other benefits as a result of agreements entered into with the Company or any Group company.

No stock 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 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).

The principles and criteria described in the 2019 Compensation Policy will apply to the Chief Executive Officer if the offices of Chairman of the Board of Directors and Chief Executive Officer are separated.

The resolution on the 2019 Compensation Policy was included in the notice of meeting published in the French legal gazette (*Bulletin des annonces légales obligatoires* – BALO) on March 29, 2019 (tenth resolution).

Compensation of Jacques Aschenbroich, Chairman and Chief Executive Officer, for the year ended December 31, 2018 and prior years

The compensation paid or awarded by Valeo to Jacques Aschenbroich, Chief Executive Officer, in respect of the years ended December 31, 2017 and December 31, 2018, 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, 2018

In accordance with Article L.225-100 II of the French Commercial Code, the Shareholders' Meeting must approve the fixed, variable and exceptional components comprising the total compensation and benefits package paid or awarded to the Chairman and Chief Executive Officer in respect of 2018 under the 2018 Compensation Policy. Payment of his variable compensation for 2018 is subject to approval by the Shareholders' Meeting of May 23, 2019 of the components described in the 2018 Compensation Policy, which are described in detail below.

Fixed compensation

In accordance with the 2018 Compensation Policy (see paragraph "Fixed compensation" of this section, page 153), Jacques Aschenbroich received gross fixed compensation of 1,000,000 euros from Valeo in 2018.

Variable compensation

At its meeting on February 21, 2019, 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 2018 Compensation Policy (see paragraph "Variable Compensation" of this section, pages 153 to 154). The review showed that none of the quantifiable criteria were met (0% of a maximum 115%) and that the achievement rate for the qualitative criteria was 53% of the annual fixed compensation due to Jacques Aschenbroich for 2018 compared with the maximum potential rate of 55%. 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 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 in Europe, a slowdown in the Chinese market and a rise in 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, 2018. The specific, predetermined targets underlying the quantifiable criteria have not been publicly disclosed for reasons of confidentiality, as provided for in Article 25.2 of the AFEP-MEDEF Code.

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 measured based on:* ■ financial analysts' assessments; ■ strategic operations carried out by Valeo and the integration of recent acquisitions; ■ the increase in the proportion of "innovative" products(5) in the order intake for the year; ■ an assessment of the technology roadmap presented at the strategy seminar and its impact on R&D and human resources.	20%	20%(11)
Risk management *This criterion is measured, in particular, based on:* ■ continued and intensified measures to reinforce the compliance policy; ■ the management of risks related to new product launches and customer complaints; ■ the Company's transformation (industrial, human resources) to adapt to product and technology change.	15%	15%(12)
Corporate social responsibility *Progress achieved by Valeo, in particular based on the following indicators:* ■ number of employees with disabilities; ■ diversity (gender and age). *Overall assessment of safety performance, in particular based on the following indicators:* ■ number of lost-time workplace accidents; ■ decrease in the number of category 1 accidents (death, amputation, severe trauma, disability/incapacity) and category 2 accidents (major material damage and near major accident). *Change in OE sales resulting from products that reduce CO_2 emissions.*	20%	18%(13)
TOTAL QUALITATIVE CRITERIA	**55%**	**53%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**	**53%**

(1) Excluding tax and regulatory impacts.
(2) 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.
(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 equal to 5.70% of sales.
(7) Free cash flow generation of 161 million euros in 2018.
(8) 2018 net income of 546 million euros.
(9) 2018 ROCE rate of 19%.
(10) 2018 order intake of 24.2 billion euros.
(11) Some of the factors considered were the following. Valeo's positioning in rapidly evolving segments of the automotive industry, and its strategy, innovations and order intake are factors acknowledged by financial analysts that will drive the Group's continued profitable growth in the medium and long term. The three major acquisitions made in 2017 (control of Ichikoh, acquisition of FTE and creation of the Valeo-Kapec joint venture) were successfully integrated in 2018. Proportion of innovative products in the 2018 order intake: 60% (including Valeo Siemens eAutomotive).
(12) Some of the factors considered were the following. The Group continued and stepped up its compliance actions in 2018. Key documents (Ethics Code, country Ethics and Compliance policies) were updated to reflect regulatory developments. The risk management indicators improved compared to 2017. Lastly, in 2018, the Group began to roll out the "Valeo Production Plant of the Near Future", which will improve its manufacturing performance. It also began to open "Talent Acquisition Centers" in its countries of operation, which will enable it to hire almost 7,000 managers while reducing recruitment costs and lead times. Training efforts were made in 2018, with each employee receiving an average of 24.9 hours of training during the year, a record for the Group.
(13) Some of the factors considered were the following. The new disability coordination policy, which led to improved monitoring of the recruitment of employees with a disability and utilization of their skills, had an immediate positive effect, as the number of employees with a disability increased by 19% in 2018 compared to the previous year. In terms of diversity, Valeo conducted an engagement and satisfaction survey among its employees. The proportion of women among new hires increased by 33% compared to the previous year and has already reached the Group's target for 2020. The proportion of over-50s has also improved. The proportion of OE sales resulting from products that reduce CO_2 emissions amounted to 52.6% in 2018, up 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 December 31, 2015 represented 1.43% of the Company's share capital.

In accordance with the 2018 Compensation Policy, 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 2,599,978.50 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 (see paragraph "Long-term compensation – Allotment of performance shares" of this section, pages 155 to 156).

For 2018, the guidance, as published, is 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).

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 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, or any vested performance shares.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan

In accordance with the 2018 Compensation Policy, Jacques Aschenbroich continued to benefit from a defined benefit pension plan in 2018. The plan was approved as a related party agreement pursuant to Article L.225-38 of the French Commercial Code by the Shareholders' Meeting on June 3, 2010 in its twelfth resolution, and as a related party commitment pursuant to Article L.225-42-1 of the French Commercial Code by the shareholders at the Shareholders' Meeting of May 26, 2016 in its fifth resolution.

The method and performance conditions applicable to the defined benefit pension plan are described in the 2018 Compensation Policy (see paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan" of this section, page 156). At its meeting on February 21, 2019, the Board of Directors, acting on the recommendation of the Compensation Committee, reviewed and determined the performance condition achievement rate for 2018. 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 2019 in respect of 2018, is at least 100% of the fixed compensation payable for 2018. If the variable portion is less than 100% of the fixed portion, rights accrue on a prorata basis. As the annual variable compensation amounted to 53% of the fixed compensation due for 2018, the rights accrued on a prorata basis, i.e., 0.53%.

At December 31, 2018, Jacques Aschenbroich's supplementary pension benefits 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% were 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.

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 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.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation

For information, given the new 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 on March 21, 2019 accordingly.

Under the 2018 Compensation Policy, Jacques Aschenbroich was entitled 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 156). 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 on May 26, 2015 in its fifth resolution. The principles and criteria relating to the non-competition commitment are described in the 2018 Compensation Policy.

As Jacques Aschenbroich's term of office did not end in 2018, no non-competition compensation was awarded or paid to him for 2018.

Other benefits

In accordance with the 2018 Compensation Policy (see paragraph "Other benefits" of this section, page 156), Jacques Aschenbroich benefited, in the year ended December 31, 2018, 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 24,637 euros.

Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

In accordance with the 2018 Compensation Policy (see paragraph "Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation" of this section, page 157), Jacques Aschenbroich did not receive any multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company. 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.

Compensation in respect of the year ended December 31, 2017

Fixed compensation

In accordance with the 2017 Compensation Policy, Jacques Aschenbroich received gross fixed compensation of 1,000,000 euros from Valeo in 2017.

Variable compensation

In accordance with the 2017 Compensation Policy, at its meeting on February 15, 2017, 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 2017 would be (i) subject to the same cap of 170% of annual fixed compensation as in 2016, and (ii) based on the same quantifiable and qualitative criteria as those set for 2016, except that compared with 2016, the quantifiable operating cash criterion was clarified (free cash flow), certain qualitative sub-criteria were adjusted and the respective weightings of the qualitative criteria were modified.

At its meeting on February 22, 2018, the Board of Directors, acting on the recommendation of the Compensation Committee, reviewed 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 set out in the 2017 Compensation Policy. The review showed that the achievement rate for the quantifiable criteria was 80.4% (of a maximum 115%) and that the achievement rate for the qualitative criteria was 47.5% (of a maximum percentage of 55%) of the annual fixed compensation due to Jacques Aschenbroich for 2017, bringing the total amount of variable compensation due to Jacques Aschenbroich for 2017 to 127.9% (of a maximum 170%) of his annual fixed compensation for 2017, i.e., 1,279,000 euros (versus 1,627,738 euros in 2016). The objectives for the quantifiable criteria are ambitious. Consequently, despite excellent results in 2017 (increase of 12% in sales, 11% in the operating margin rate and 8% in net income (excluding a non-recurring expense of 117 million euros relating to the decline in the value of deferred tax assets, proportional to the decrease in the US corporate tax rate)), order intake and the ROCE rate were the only quantifiable criteria for which the upper end of the range was achieved.

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, 2017. The specific, predetermined targets underlying the quantifiable criteria have not been publicly disclosed for reasons of confidentiality, as provided for in Article 25.2 of the AFEP-MEDEF Code.

Quantifiable criteria(1)

Nature of the criterion	Maximum amount of the variable portion as a % of annual fixed compensation	Amount of the variable portion obtained as a % of annual fixed compensation	Percentage achievement of the criterion
Operating margin rate	23%	17.9%(6)	77.8%
Free cash flow(2)	23%	16.5%(7)	71.7%
Net income(3)	23%	0%(8)	0%
ROCE rate	23%	23%(9)	100%
Group order intake(4)	23%	23%(10)	100%
TOTAL QUANTIFIABLE CRITERIA	**115%**	**80.4%**	**69.9%**

Qualitative criteria

Nature of the criterion	Maximum amount of the variable portion as a % of annual fixed compensation	Amount of the variable portion obtained as a % of annual fixed compensation
Financial communications *This criterion is measured, in particular, based on variations in Valeo's share price in comparison with the share prices of several European, North American and Japanese companies operating in the same sector as the Company.*	*5%*	*2.5%(11)*
Strategic vision *This criterion is measured based on:* ▪ analysts' assessments; ▪ strategic operations carried out by Valeo; ▪ the increase in the proportion of "innovative" products(5) in the order intake for the year; ▪ the presentation by Management at the strategy seminar of a technology roadmap and its impact on R&D and human resources.	25%	25%(12)
Risk management *This criterion is measured, in particular, based on:* ▪ continued and intensified measures to reinforce the compliance policy; ▪ the management of risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints; ▪ the Group's policy on corporate social responsibility and the management of the corresponding risks.	25%	20%(13)
TOTAL QUALITATIVE CRITERIA	**55%**	**47.5%**

Quantifiable and qualitative criteria	Maximum amount of the variable portion as a % of annual fixed compensation	Amount of the variable portion obtained as a % of annual fixed compensation
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**	**127.9%**

(1) Excluding tax and regulatory impacts.
(2) Assuming that the investment budget is respected.
(3) Assuming a 20% tax rate for the Group.
(4) Excluding Ichikoh.
(5) Products and technologies in series production for less than three years.
(6) 2017 operating margin rate equal to 8% of sales.
(7) Free cash flow generation of 278 million euros in 2017.
(8) 2017 net income of 886 million euros.
(9) 2017 ROCE rate of 30%.
(10) 2017 order intake of 27.6 billion euros.
(11) 14% increase in the Valeo share price in 2017, underperforming the companies in the automotive sector used in the comparison sample but exceeding the average performance of the companies listed on the CAC 40.
(12) Three major strategic transactions carried out by Valeo in 2017: Ichikoh, FTE and Kapec. In addition, the companies acquired in 2016, in particular peiker and Spheros, have been successfully integrated. Proportion of innovations (products and technologies in series production for less than three years) in the 2017 order intake: 50%.
(13) The qualitative criterion on the management of risks related to the ramp-up in production taking account of order intake, new product launches and customer complaints was not entirely achieved given the demanding objectives linked to this growth.

Long-term compensation policy – Allotment of performance shares

In accordance with the provisions of Article L.225-197-1 of the French Commercial Code, the number of free shares allotted may not represent more than 10% of the Company's share capital on the date of the Board of Directors' decision. The maximum amount provided for in the twentieth resolution of the Shareholders' Meeting of May 26, 2016, which is effective for a period of 26 months, was 3,467,000 shares (i.e., 1.45% of the share capital at December 31, 2015), with a specific sub-limit of 195,000 shares (i.e., 0.08% of the share capital at December 31, 2015) for the Chairman and Chief Executive Officer. The free shares outstanding at December 31, 2015 represented 1.43% of the Company's share capital.

In accordance with the 2017 Compensation Policy, at its meeting on March 22, 2017, the Board of Directors, acting on the recommendation of the Compensation Committee, decided to allot 51,030 performance shares to Jacques Aschenbroich, pursuant to the twentieth resolution of the Shareholders' Meeting of May 26, 2016. The 51,030 performance shares allotted to the Chief Executive Officer in 2017, valued at 52.91 euros each under IFRS, amounted to 2,699,997 euros, representing 270% of his annual fixed compensation for that year.

The caps, criteria and conditions of allotment are described in the 2017 Compensation Policy. This information is summarized below.

All the performance shares allotted to Jacques Aschenbroich are contingent on the achievement of performance criteria measured over the 2017, 2018 and 2019 fiscal years. These criteria are ROA 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. The target returns set by the Board of Directors for 2017 are (i) 19% for the ROA rate, (ii) 7.9% for the operating margin rate, and (iii) 29% for the ROCE rate (after consolidation of Ichikoh and excluding any other acquisitions for all criteria).

A percentage of the initial share allotments will vest according to the number of performance criteria achieved over the reference period (2017, 2018 and 2019): 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. For information, since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase options allotted to him, or any vested performance shares.

All the performance shares allotted to Jacques Aschenbroich will vest only if his term of office has not expired on the vesting date (however, this presence condition may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct) or he has claimed his retirement benefits.

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.

The performance shares allotted to Jacques Aschenbroich during 2017 had a limited dilutive impact and represented 0.02% of the Company's share capital at December 31, 2017.

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 156.

At December 31, 2017, Jacques Aschenbroich's supplementary pension benefits represented a total amount of 8,553,512 euros, i.e., a yearly pension allowance of 227,294 euros (it being specified that social security contributions at a rate of 32% are payable on annuities paid).

Since the Chairman and Chief Executive Officer did not claim his pension entitlements in 2017, no amount was owed to him for 2017.

Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Non-competition compensation

For information, given the new 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 on March 21, 2019 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 156.

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 156.

In 2017, Jacques Aschenbroich received benefits worth 24,539 euros.

Other components of compensation – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

In 2017, Jacques Aschenbroich did not receive any of the following components of compensation: multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, attendance fees, benefits of any kind under agreements with the Company or any Group company, or options or any other long-term component of compensation other than performance shares.

As regards termination benefits, Jacques Aschenbroich was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived following the combination of the positions of Chairman of the Board of Directors and Chief Executive Officer on February 18, 2016. 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

	2014		2015		2016		2017		2018	
(% of fixed compensation)	Achieved	Capped	Achieved	Capped	Achieved	Capped	Achieved	Capped	Achieved	Capped
Quantifiable criteria	85.0%	85.0%	85.0%	85.0%	115.0%	115.0%	80.4%	115%	0%	115%
Qualitative criteria	50.0%	50.0%	50.0%	50.0%	50.0%	55.0%	47.5%	55%	53%	55%
VARIABLE COMPENSATION	**135.0%**	**135.0%**	**135.0%**	**135.0%**	**165.0%**	**170.0%**	**127.9%**	**170%**	**53%**	**170%**

Long-term compensation

The history of stock purchase options and performance shares allotted, including 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, on pages 168 to 171.

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, paragraph "Directors' rights and duties" of this chapter, 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, or any vested performance shares.

Compensation paid to the Chief Executive Officer over the last two years

The following tables show the compensation paid and awarded and the 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)	2017	2018[1]
Compensation due for the year	2,303,539	1,554,637
Value of multi-annual variable compensation granted during the year	-	-
Value of stock purchase options allotted during the year	-	-
Value of performance shares allotted during the year[2]	2,699,997	2,599,978.5
TOTAL	**5,003,536**	**4,154,615.5**

(1) The total compensation and benefits package paid or awarded to the Chairman and Chief Executive Officer under the 2018 Compensation Policy will be submitted to the vote of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2018 (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 2017 and 2018 are described in paragraph "Long-term compensation – Allotment of performance shares" of this section, pages 163 and 166.

▶ Summary of compensation paid to Jacques Aschenbroich (AMF Table no. 2)

	2017		2018	
(in euros)	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	1,000,000	1,000,000	1,000,000	1,000,000
Annual variable compensation	1,279,000	1,627,738	530,000[1]	1,279,000[2]
Multi-annual variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Attendance fees	-	-	-	-
Benefits in kind[3]	24,539	24,539	24,637	24,637
TOTAL	**2,303,539**	**2,652,277**	**1,554,637**	**2,303,637**

(1) The total compensation and benefits package paid or awarded to the Chairman and Chief Executive Officer under the 2018 Compensation Policy was submitted to the vote of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2018 (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 executives and annual contribution to the health and death & 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
03/22/2018	55,026	€2,599,978.5(1)	03/22/2021	03/22/2023(2)	(3)

(1) One share valued at 47.25 euros under IFRS.
(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 2018 are described in paragraph "Long-term compensation – Allotment of performance shares" of this section, page 163.

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
03/26/2015	30,696	-

History of allotments of stock purchase options including to Jacques Aschenbroich – Information concerning stock purchase options (at December 31, 2018) (AMF Table no. 8)

The table below shows a history of stock purchase option allotments including 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	446,230	855,007	-	-
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	381,900	118,650	-	-
Stock purchase options remaining at year-end	0	50,390	127,823	-	-

(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, 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, 2018) (AMF Table no. 10)

The table below shows a history of free share allotments, including to Jacques Aschenbroich[(1)]:

	2010 plan	2011 plan	2012 plan	2013 plan	2014 plan	2015 plan	2016 plan	2017 plan	2018 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**
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
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
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
Performance criteria – rate of achievement	100%	60%	100%	100%	100%	100%	0%[(3)]		
Vesting date of shares									
▪ France	06/24/2012	06/08/2014	03/27/2015	03/27/2016	03/27/2017	03/26/2018	06/08/2019	03/22/2020	03/22/2021
▪ Other countries[(4)]	06/24/2014	06/08/2016	03/27/2017	03/27/2018	03/27/2019	03/26/2020	06/08/2021	03/22/2022	03/22/2023
End of holding period – France and other countries	06/24/2014	06/08/2016	03/27/2017	03/27/2018	03/27/2019	03/26/2020	06/08/2021	03/22/2022	03/22/2023
Total number of shares vested	992,304	628,584	560,883	1,210,098	419,112	380,553	1,235	707	174
Of which total number of shares vested for Jacques Aschenbroich	*150,000*	*28,080*	*34,200*	*76,902*	*31,515*	*30,696*			
Total number of shares canceled or forfeited (cumulative)	207,696	351,996	78,537	211,227	214,947	181,851	95,372	64,272	29,392
Free shares allotted remaining at year-end	0	0	0	117	336,381	394,623	819,794	707,593	933,327

(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 2017 and 2018 are described in paragraph "Long-term compensation – Allotment of performance shares" of this section, pages 163 and 166.

(3) Given the demanding target rate for the performance criteria, the achievement rate 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) With the exception of free shares allotted under the Shares4U plan.

▶ 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)	Yes(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 End of current term of office (director and Chairman and Chief Executive Officer): Shareholders' Meeting called to approve the 2018 financial statements		The pension plan to which Jacques Aschenbroich is entitled is described in paragraph "Commitment pursuant to Article L.225-42-1 of the French Commercial Code – Defined benefit pension plan" of this section, page 163. At December 31, 2018, Jacques Aschenbroich's supplementary pension benefits represented 18.53% of his reference income(3) and 4.53% of his reference variable compensation(4), 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).		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, pages 163 to 164).

(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 new 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 on March 21, 2019 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 995,503 euros at December 31, 2018.

(4) Jacques Aschenbroich's reference variable compensation, which is the average variable compensation received in the last 36 months, amounted to 1,373,913 euros at December 31, 2018.

3.3.2 Compensation of non-executive corporate officers

Non-executive corporate officers receive attendance fees for their presence at Board of Directors' and committee meetings.

In accordance with the French Commercial Code, the articles of association, the Internal Procedures and the internal procedures of the Compensation Committee, the Board of Directors has powers to decide how attendance fees should be allocated. The Compensation Committee makes recommendations to the Board of Directors on the rules for allocating attendance fees and the individual amounts to be paid to each director, taking into account the actual number of Board and committee meetings attended. The variable portion linked to attendance must have a heavier weighting than the fixed portion (there were three exceptions in 2018, for which explanations are provided in the table concerning the application of the AFEP-MEDEF Code in section 3.2.4 of this chapter, page 145).

Following the Shareholders' Meeting of May 26, 2016 (eleventh resolution), the budget for attendance fees was set at 1,100,000 euros for 2016 and subsequent years until a new decision of the Shareholders' Meeting, compared to 700,000 euros at the Shareholders' Meeting of May 21, 2014. In 2018, the Compensation Committee carried out a benchmarking review on the basis for allocating attendance fees 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 attendance fees.

The basis for allocating attendance fees 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 Chairman) of a Board committee also receives:
- fixed portion: 0,
- variable portion: 3,000 euros/meeting attended;

(iii) the director who is also Chairman of the Audit & Risks Committee also receives:
- fixed portion: 15,000 euros/year,
- variable portion: 3,000 euros/meeting attended;

(iv) each director who is also Chairman of a Board committee (other than the Audit & Risks Committee) also receives:
- fixed portion: 12,000 euros/year,
- variable portion: 3,000 euros/meeting attended;

These payments are not capped, but if the budget is exceeded in any one year, the following formula is applied:

$$\frac{\text{Fees paid to an individual director}}{\text{Total fees paid to all directors}} \times 1{,}100{,}000 \text{ euros}$$

Attendance fees are paid every six months, according to the following attendance rules:
- the fixed portion is paid in full;
- the variable portion is paid based on the number of meetings that the director has actually attended.

On February 12, 2009, acting on the recommendation of the Appointments, Compensation & Governance Committee, the Board of Directors decided that no attendance fees would be paid to corporate officers in respect of offices held in the Group (including in Valeo). This principle has been reaffirmed several times since then. Both the 2018 and 2019 Compensation Policies expressly state that the Chairman and Chief Executive Officer does not receive attendance fees for his offices held within the Group.

The compensation of the Lead Director is equal to the fixed portion and variable portion that he/she receives as director for a given year, in accordance with the Board of Directors' decision of October 21, 2015.

Apart from Jacques Aschenbroich, no Board member was (i) paid any other compensation or benefits during the year other than attendance fees, 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 amount of attendance fees paid to each director in 2018 is outlined in the table below.

▶ Summary of attendance fees and other compensation paid to corporate officers (AMF Table no. 3)

Attendance fees paid to Board members amounted to 919,375.68 euros in 2018, compared with 893,937.50 euros in 2017. Attendance fees were distributed as follows:

	Attendance fees		Other compensation (fixed, variable or exceptional compensation, benefits in kind)	
(in euros)	2017	2018	2017	2018
Executive corporate officers				
Jacques Aschenbroich	-	-	2,652,277	2,303,637
Non-executive corporate officers				
Bruno Bézard(1)	10,687.50	49,000	-	-
Gérard Blanc(2)	30,500.00	-	-	-
Daniel Camus(3)	79,000.00	36,801.10	-	-
Pascal Colombani	73,000.00	76,000	-	-
Éric Chauvirey(4)	30,500.00	64,000	-	-
Jérôme Contamine(5)	39,750.00	-	-	-
Caroline Maury Devine	64,000.00	64,000	-	-
Sophie Dutordoir(6)	24,500.00	-	-	-
Michel de Fabiani	85,000.00	85,000	-	-
Mari-Noëlle Jégo-Laveissière	55,000.00	67,000	-	-
Noëlle Lenoir	61,000.00	67,000	-	-
Gilles Michel(7)	-	27,500	-	-
Thierry Moulonguet	70,000.00	88,074.58	-	-
Georges Pauget	131,000.00	140,000	-	-
Ulrike Steinhorst	88,000.00	88,000	-	-
Véronique Weill	52,000.00	67,000	-	-
TOTAL	**893,937.50**	**919,375.68**	**2,652,277**	**-**

(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) Term ended on May 23, 2017.
(3) Term ended on May 23, 2018.
(4) Appointed by the Group Works Council on June 30, 2017.
(5) Resigned on September 30, 2017.
(6) Term ended on May 23, 2017.
(7) Appointed by the Shareholders' Meeting of May 23, 2018.

3.3.3 Overall compensation of other Group executive managers

The other executive managers are members of the Operations Committee, which at December 31, 2018 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 12,542,890 euros in 2018 (compared with 10,678,869 euros in 2017), of which 6,828,650 euros in fixed compensation, 5,613,806 euros in variable compensation, 87,703 euros in benefits in kind, and 12,731 euros in profit-sharing and incentive compensation bonuses.

At its meeting on March 22, 2018, 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 twentieth resolution of the Shareholders' Meeting on May 26, 2016, including:

- 148,851 performance shares to the Operations Committee members (excluding Jacques Aschenbroich);
- 72,246 performance shares to the Liaison Committee members (other than the Operations Committee members);
- 294,000 performance shares to the main direct reports of the Liaison Committee members;
- 664,500 free shares (maximum), not subject to performance criteria, including (i) 600,000 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) 64,500 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 Chief Executive Officer by the Board of Directors on the same date (see section 3.3.1 of this chapter, "Compensation of the Chairman and Chief Executive Officer", pages 152 to 171);
- 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 ROCE 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, "Compensation of the Chairman and Chief Executive Officer", pages 152 to 171), subject to the percentage of shares obtained based on the number of performance criteria are achieved (100% for two criteria, 50% for one criterion and 0% for no criteria);
- for beneficiaries of performance shares, except non-French tax residents, the performance shares will vest after the expiration of a three-year vesting period and are then subject to a two-year holding period. For beneficiaries who are non-French tax residents, the performance shares will vest after the expiration of a five-year period with no holding period requirement;
- 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's securities (including performance and/or free shares).

The free shares or performance shares allotted to employees and corporate officers (including Jacques Aschenbroich) during 2018 had a limited dilutive impact and represented 0.51% of the Company's share capital at December 31, 2018. 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 4.03% of the Company's share capital at December 31, 2018.

At its meeting on October 20, 2009, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to implement a supplementary pension plan to replace the existing plans for Group executives in office at the date of the plan, including Jacques Aschenbroich. Entitlements under the old plan were frozen at December 31, 2009. At its meetings on February 21, 2012 and January 23, 2014, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to adjust the supplementary pension plan offered to the Group's senior executives.

The main characteristics of the supplementary pension plan are as follows:

- cap due to the nature of the plan: additional pension of 1% of the reference salary per year of service, starting on the employment date with the Group for the new beneficiaries of the plan and starting on January 1, 2010 for the beneficiaries of the previous plans whose entitlements were frozen at December 31, 2009, up to a maximum of 20%;
- 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 plan.

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 "Compensation of the Chairman and Chief Executive Officer", pages 152 to 171, and section 3.3.3 "Overall compensation of other Group executive managers", pages 173 to 174.

The stock purchase options and free share allotments are also detailed in Chapter 6, section 6.6.2.

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 in 2018 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	120,951	9.97	06/23/2018 03/26/2020	06/24/2010 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)	129,008	03/22/2018

(1) Valued at 47.25 euros under IFRS.

Pensions and other post-employment benefits and related provisions

At December 31, 2018, 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 16 million euros, as opposed to 13 million euros at December 31, 2017.

At December 31, 2018, total provisions set aside and the total amount paid by Valeo or its subsidiaries for these benefits to former Board members or other executive managers of the Group came to, respectively, 2 million euros (versus 2 million euros at December 31, 2017) and 273,452 (versus 283,099 euros at December 31, 2017).

4 SUSTAINABLE DEVELOPMENT

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

Interview with Jacques Aschenbroich

"VALEO IS CAPTURING ITS SHARE OF SUSTAINABLE VALUE CREATION IN TODAY'S PARADIGM SHIFT IN MOBILITY."
JACQUES ASCHENBROICH

JACQUES ASCHENBROICH
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

What makes sustainable development central to Valeo?

J.A. A commitment to sustainable development is embedded in Valeo's DNA.

As a technology company, Valeo offers innovative products and systems that help reduce CO_2 emissions and promote the development of an intuitive, connected and more autonomous driving experience.

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

Valeo's strategic decision to contribute to the transition toward sustainable mobility has been validated by our customers. In 2018, innovative products accounted for 53% of order intake (60% including Valeo Siemens eAutomotive). And products that directly or indirectly contribute to reducing CO_2 emissions accounted for more than 50% of Valeo's original equipment sales in 2018.

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

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

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

In 2018, Valeo was also awarded the top prize covering all categories at the Grand Prix for Transparency for its financial and non-financial information by the major Paris-based financial market associations, thereby ranking first among the 120 largest listed companies on the Paris stock market (SBF 120). The prize recognizes the importance placed by Valeo on the rigor, relevance, transparency and ease of access to regulatory financial and non-financial information aimed at investors, shareholders and analysts.

How is the Group's sustainable development policy structured?

J.A. At Valeo, sustainable development is built on four key axes: innovation, environmental eco-efficiency, employees and commitment to corporate citizenship. It pervades all the areas where the Group interacts with stakeholders, both internally and outside the Group.

Since 2010, at my request, Valeo has had a function and department dedicated to sustainable development. Its role within the Group is to define the sustainable development policy and coordinate its implementation. Outside the Group, it is tasked with ensuring the consistency of the messages shared with external stakeholders, be they our customers or analysts that monitor our performance in this area, all of which are becoming increasingly discerning. Other Group departments, including Research and Development, Risk Insurance, Health, Safety and Environment, Ethics and Compliance, Human Resources and Purchasing, also contribute directly to sustainable development in their respective fields, and have developed their own tools for taking action and assessing performance.

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

What were the highlights of 2018?

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

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

In terms of our environmental commitment, Valeo pursued its strategy and objectives in terms of reducing natural resource consumption and restricting CO_2 emissions. Since 2008, Valeo has significantly reduced consumption (as a proportion of sales) of water (by 43%), energy (by 30%) and packaging (by 24%). Direct and indirect CO_2 emissions (as a proportion of sales) have been cut by 1% compared with 2009. This result should be seen in the light of the tremendous expansion of our industrial footprint, particularly in high-growth countries, from 120 production sites in 2009 to 186 today.

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

To attract and recruit talent, the Group has set up recruitment structures in our key operating countries. Today, over two-thirds of them have teams dedicated exclusively to hiring and to promoting Valeo. Our recruitment of new skills matches the focuses of our research on autonomous vehicles, powertrain electrification and digital mobility.

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

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

In 2018, Valeo continued its in-depth assessment of its suppliers' work in the field of sustainable development, extending the scope of its specific audits to its main suppliers of electronic components around the world. These suppliers are set to take on greater importance in the Group's purchasing value chain as a result of the increasing proportion of electronics in Valeo's products.

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

What are the challenges for the coming years?

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

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

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

In general terms, this dialog, which openly addresses all issues concerning automotive mobility with representatives from civil society and environmental organizations, allows our sector to engage with external stakeholders and to better adapt technological solutions to new mobility challenges. Fresh developments in our sector will push us to continue our efforts in this area in the coming years.

March 29, 2019

4.1 Valeo and sustainable development: strategy, policy and organization

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

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

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

- a business model (see Integrated Report, section "Valeo's Value creation model"), pages 34 to 35);
- the main risks, for which Valeo describes a description of how they are identified (see section 4.1.1 of this chapter, "From sustainable development challenges to non-financial risks", pages 180 to 182);
- the due diligence policies and procedures applied are presented in each of the sections dealing with the challenges of Valeo's sustainable development policy;
- the policy outcomes and performance indicators are presented in each section dealing with the challenges of Valeo's sustainable development policy.

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

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

4.1.1 From sustainable development challenges to non-financial risks

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

Sustainable development challenges

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

- enable stakeholders to better comprehend their interactions with Valeo;
- give its Research and Development (R&D), environmental, labor-related and social data sharper focus on key issues of significance for the Group and its stakeholders;
- reinforce the relevance and quality of information put forward by the Group.

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

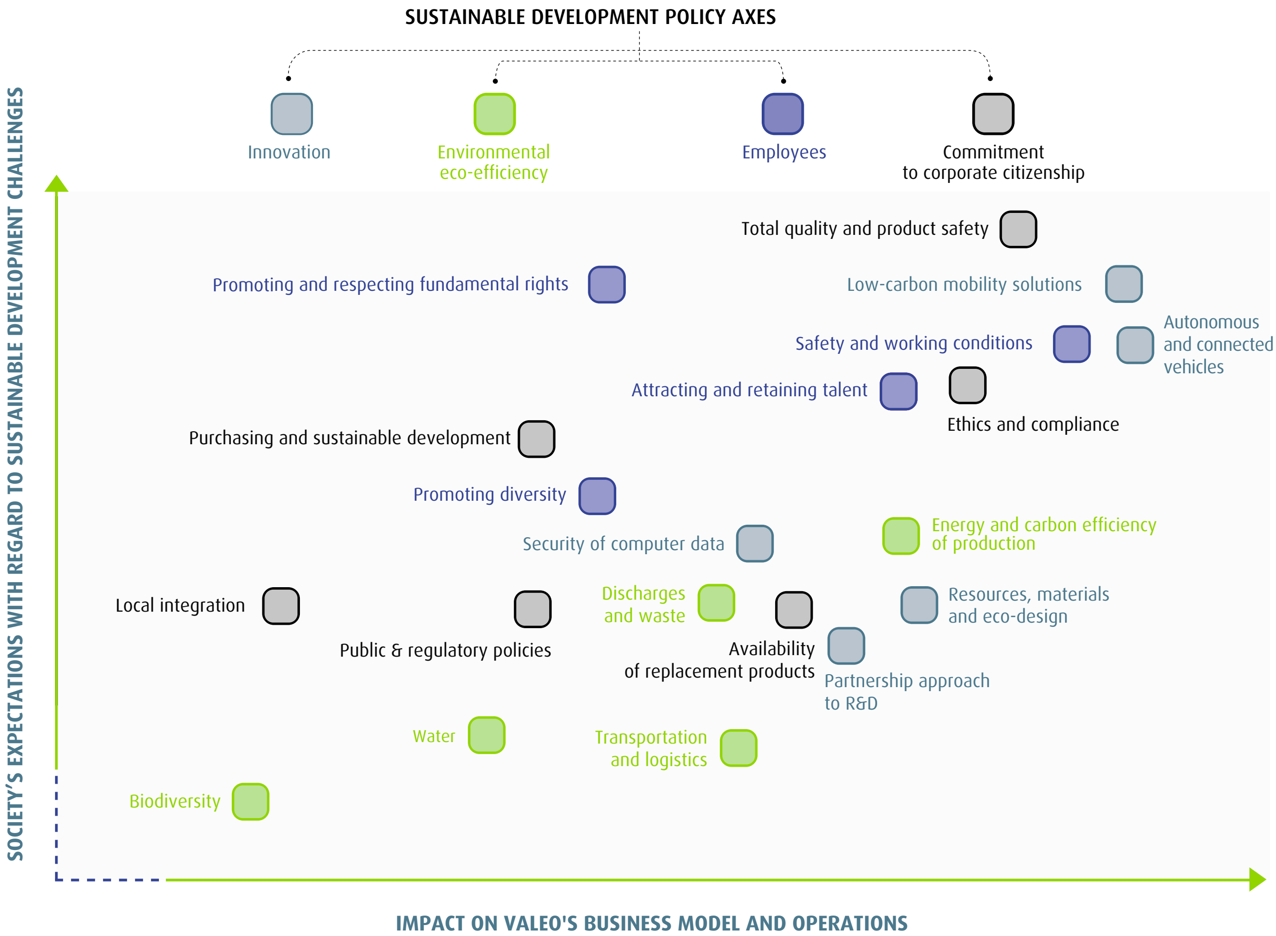
- a series of interviews with Valeo's various departments (Purchasing, Health, Safety and Environment (HSE), Research and Development, Human Resources, Sales and Business Development) and country management teams;
- a documentary review (non-financial questionnaires, survey results, etc.);
- specific requests from the Group's stakeholders in respect of sustainable development (automakers, civil society, specialist press, non-financial analysts, etc.) and interviews with them.

The identification of relevant or material challenges led to the creation of a materiality matrix (below) built around the following four axes: **innovation, environmental eco-efficiency, employees and commitment to corporate citizenship.** A total of 20 challenges have been identified. This chapter describes the relevance, approach, performance and achievements of the year and the outlook for each of these challenges. It provides a description of all key sustainable development performance indicators and the main tools used within the Group.

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

(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.

▶ **MATERIALITY MATRIX PLOTTING THE SUSTAINABLE DEVELOPMENT CHALLENGES**



Non-financial risks

Valeo has carried out an analysis of its non-financial risks, in compliance with the French legal framework, to improve the transparency of its non-financial reporting. The Group was keen to blend methodologies developed internally to evaluate its operations and those of its suppliers into new duty-of-care and measurement tools developed by actors in the non-financial sphere, such as those resulting from sector-based initiatives for the evaluation of the supply chains of suppliers (for conflict minerals for instance).

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

- **Step 1:** by comparing the Group's risk map (the details of which are presented in Chapter 2, section 2.1 "Risk factors", pages 82 to 94) with the materiality matrix, Valeo sought to identify and analyze the potential risks associated with the challenges in the matrix. The analysis took into account changes in the French legal framework and the risks associated with corruption[(1)], serious violations of human rights and fundamental freedoms, personal health and safety and the environment[(2)] (see section 4.1.3 of this chapter, "Sustainable development objectives in the Group's business", paragraph "Valeo's duty of care plan", pages 183 to 187).

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

  The challenges not covered by the risk mapping were analyzed in detail, based largely on in-depth interviews with the various contributors to their management, as well as on sector comparisons. The results gave rise to the formalization of non-financial risks, their evaluation in accordance with the Group's risk assessment scale (i.e., that used for the risk factors presented in Chapter 2) and the establishment of specific mapping of non-financial risks.
- **Step 2:** the mapping of the non-financial risks and its associated analysis were presented to the Risk Committee in early 2019, which approved the findings;
- **Step 3:** the risk factors resulting from this non-financial risk mapping are published in this 2018 Registration Document.

(1) Law no. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization.
(2) Law no. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.

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

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

- for **"innovation"**:
  - risk of environmental non-compliance and loss of opportunities in technologies contributing to CO_2 emissions reduction (see section 4.2.2 of this chapter, "Non-financial technological risks", pages 196 to 201);
- for **"environmental eco-efficiency":**
  - risk of accidental pollution of water and soil (see section 4.3.2 of this chapter, "Non-financial environmental risks", pages 206 to 209);
- for "employees":
  - health and safety risk (see section 4.4.2 of this chapter, "Non-financial employee-related risks", pages 221 and 223),
  - risk related to attracting talent (see section 4.4.2 of this chapter, "Non-financial employee-related risks", pages 224 and 225),
  - risk related to developing and retaining talent (see section 4.4.2 of this chapter, "Non-financial employee-related risks", pages 225 and 229);
- for "commitment to corporate citizenship":
  - risk of individual corruption (see section 4.5.2 of this chapter, "Non-financial social risks", pages 240 and 242),
  - risk related to suppliers' sustainable development practices (see section 4.5.2 of this chapter, "Non-financial social risks", pages 242 and 245).

Out of the non-financial risks identified, Valeo considers that the "risk of environmental non-compliance and loss of opportunities in technologies contributing to the reduction of CO_2 emissions" best reflects the Group's exposure to the effects of climate change in its product portfolio. The characterization of the risks weighing on its industrial activity as regards the effects of climate change bear chiefly on the unavailability of production facilities following weather events or major natural disasters (see Chapter 2, section 2.1.1 "Operational risks", page 88).

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

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

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

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[(2)].

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

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

4.1.2 Sustainable development governance and structure

Valeo's sustainable development organization

The sustainable development policy spans all of the Group's functions and networks and is designed to dovetail with Valeo's business objectives and policies.

The Sustainable Development and External Relations Department plays the role of pilot and coordinator for the Group's various departments. It ensures the appropriate level of interface between the Group and external stakeholders in order to satisfy their growing requirements. The Human Resources, Health, Safety and Environment (HSE), Ethics and Compliance and Research and

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

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

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

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

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

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

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

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

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

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

These discussions were an opportunity to:

- validate the main lines of action regarding:
  - product life cycle management and consideration of eco-responsible products obtained thanks to an eco-efficient industrial footprint,
  - health and safety at work, development of human capital, labor relations and corporate social responsibility, development of a healthy work environment, ethics, diversity and respect for individual and collective rights;
- review achievements during the year relating to:
  - the Group's response to customer demands concerning sustainable development,
  - the deployment of sustainable development principles in the purchasing policy,
  - prevention initiatives in the fight against fraud and corruption, and the establishment and roll out of the whistleblowing line,
  - integration and solidarity initiatives with the communities of the cities and regions where Valeo operates,
  - Valeo's sustainable development practices and performance assessments by non-financial analysis agencies;
- assess the short- and medium-term priority actions on all of the issues reviewed.

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

4.1.3 Sustainable development objectives in the Group's business

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

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

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

These objectives are backed by tools for measuring performance in terms of labor-related, environmental and social responsibility, as well as compliance with competition law and the fight against corporate corruption.

Measuring progress involves identifying a major challenge for each theme, and evaluating the achievement of the associated targets through one or more key performance indicators. The following performance chart sets out the Group's main objectives and key performance indicators.

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

Valeo and sustainable development: strategy, policy and organization

Performance chart showing the key objectives and performance indicators of the Group's sustainable development policy

AXES	CHALLENGES	KEY INDICATORS	2015 RESULTS	2016 RESULTS	2017 RESULTS	2018 RESULTS	TARGETS (2020)	REGISTRATION DOCUMENT SECTION
INNOVATION	Low-carbon mobility solutions/ Autonomous and connected vehicle	▪ Share of innovative products in order intake[1] (*% of order intake*)	37%	50%	50%	53%	>40%	5.1.1 Page 268
		▪ Share of products contributing to the reduction of CO_2 emissions (*as a % of sales*)	N/A	50%	50%	50%	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	137 (-4%[2])	134 (-6%[2])	140 (-2%[2])	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	56.6 (+0.5%[2])	55.6 (-1%[2])	59.2 (+5%[2])	51.8 (-8%[2])	4.3.3 Page 214
		▪ ISO 50001 energy management certification (*% of sites*)	8%	12%	13%	17%	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	17.0 (+4%[2])	16.6 (+1%[2])	16.2 (-1%[2])	15.6 (-5%[2])	4.3.2 Page 208
	Water	▪ Water consumption as a proportion of sales (*cu.m/€m*)	198	184 (-7%[2])	175 (-12%[2])	210 (+6%[2])	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	2.3	2.0	2.1	< 2	4.4.2 Page 222
	Attracting and retaining talent	▪ Voluntary turnover of Managers and Professionals (*% of M&P workforce*)	6.7%	7.0%	7.3%	8.5%	≤7%	4.4.2 Page 229
	Promoting and respecting fundamental rights	▪ Share of employees who acknowledged receipt of the Code of Ethics and who were trained on its content (*% of the total workforce*)	N/A	95.0%	95.0%	99.0%	100%	4.4.3 Page 242
	Promoting diversity	▪ Share of women in new hires during the year (*% of hires during the year*)	32.4%	31.2%	32.0%	33.0%	>35%[3]	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%	63%	67%	77%	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	N/A	48%	61%	80%	4.5.2 Page 247

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

Valeo 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.

Valeo's commitment to the circular economy[1]

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

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

Valeo's duty of care plan

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

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

In compliance with the French legal framework, Valeo's 2018 reporting sets out the measures in its duty of care plan[3]:

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

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

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

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

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

Identification and definition of risks

Particular attention was paid to the duty of care during interviews and various information reviews conducted as part of Valeo's extensive work to map non-financial risks following the transposition of the 2014 European Directive(1) on the disclosure of non-financial information. Gathering information served to improve the identification and definition of risks, classified based on their criticality and their possible existence prior to the introduction of the duty of care law, in the risk map.

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

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

Regular assessment of the situation of subsidiaries, subcontractors and suppliers

For Valeo sites, the practice of identifying risks specific to the duty of care confirmed the existence of risk factors that the Group had already identified and brought under control. This work confirmed earlier findings obtained from existing tools or assessment criteria used by the Group's subsidiaries:

- regarding fundamental freedoms, the fight against harassment and discrimination, child labor and forced labor: these issues are part of the protocols for the various sites' internal audit campaigns (see section 4.4.3 of this chapter, "Valeo's employee-related commitments", paragraph "Promoting and respecting fundamental rights", pages 234 and 235);
- in the field of workplace health and safety, particularly as regards compliance with minimum conditions governing the safety of individuals and facilities, the exposure of Valeo's sites to these risks is measured through annual 5 Axes audits (see section 4.4.2 of this chapter, "Non-financial employee-related risks", paragraph "Health and safety", pages 221 to 223);
- regarding serious environmental breaches, particularly the risk of air, soil and water pollution, and the management of hazardous waste, the sites' environmental risk management tools ensure the regular reporting of information to the Group (see section 4.3.2 of this chapter, "Non-financial environmental risks", pages 206 to 209, and section 4.3.3 of this chapter, "Valeo's environmental commitments", paragraph "Atmospheric emissions and discharges", pages 211 to 212).

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

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

Initiatives to mitigate risks and prevent serious breaches

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

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

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

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

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

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

A whistleblowing and reporting mechanism

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

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

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

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

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

Mechanisms used to monitor implemented measures and assessing their effectiveness

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

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

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

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

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

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

A multi-stakeholder approach

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

Valeo offers a comprehensive picture of its sustainable development policy based on an analysis of its relationships with stakeholders. The analysis states the type of stakeholder, the objectives and the form of dialog. The table below underscores the Group's responsible approach, taking into account changes in the automotive industry, demand from stakeholders and the Group's determination to meet the highest expectations laid down in the major international standards in this area.

▶ TYPES OF DIALOG WITH STAKEHOLDERS

	Stakeholders	Objective of dialog	Sample responses and types of dialog undertaken
Customers	▪ Automakers ▪ Distributors	▪ Design, develop, manufacture and market innovative products and systems for sustainable mobility	▪ Technology steering committees ▪ Customer meetings ▪ Market trend studies
Employees	▪ Valeo employees ▪ Professional organizations ▪ Administrative and governmental authorities ▪ Employer representative bodies ▪ Employee representative bodies and labor unions ▪ Social security organizations	▪ Ensure ongoing dialog with employees ▪ Ensure ongoing dialog with the leaders of various labor unions and professional organizations	▪ Annual survey of employee commitment ▪ Diversity program ▪ Well-Being at Work program ▪ Collective bargaining ▪ Dialog with labor unions and employers' associations
Research and Development partners	▪ Research partners and subcontractors ▪ Start-ups and accelerators ▪ Venture capital firms ▪ Laboratories ▪ Universities ▪ Independent public bodies ▪ Certification and control bodies	▪ Establish cooperative and industry-oriented Research and Development ▪ Organize transfers and exchanges of competences, techniques and know-how	▪ Scientific events (conferences and congresses) ▪ Collaborative research ▪ Partnerships with universities and competitiveness clusters ▪ Organization of technology days ▪ Participation in technology platforms
Partners and suppliers	▪ Lessors/tenants ▪ Suppliers ▪ Innovative SMEs	▪ Cooperate and co-construct in compliance with competition law	▪ Supplier integration ▪ Selection committees ▪ Calls for tender ▪ Working groups
Institutions	▪ Public authorities (governments) ▪ European Commission ▪ International organizations (UN, ITF, IFC, OECD, etc.)	▪ Conduct economic, industrial and labor dialog in compliance with national, European and international laws and regulations	▪ Communication on Progress of the UN Global Compact (once annually) ▪ Dialog with national authorities ▪ Dialog with the European Commission
Regions	▪ Local authorities ▪ Local government ▪ Associations ▪ Civil society	▪ Ensure positive development interaction between the Group and its local ecosystem	▪ Dialog with employment agencies ▪ Dialog with local authorities ▪ Dialog with local stakeholders (associations, NGOs, etc.)
Financial community and individual shareholders	▪ Shareholders/institutional investors ▪ Individual shareholders ▪ Credit and non-financial rating agencies ▪ Banks ▪ Insurers ▪ Statutory Auditors	▪ Adopt a dialog-based approach building on the relevance, rigor and transparency of information relating to the Group's results	▪ Meetings with investors and analysts (including SRI[1]) ▪ Financial results presentations ▪ Shareholders' Meeting ▪ Dialog with financial and non-financial rating agencies ▪ Website and digital resources (webzine, flash e-newsletter, shareholders' letters, etc.)

(1) SRI: socially responsible investment.

Dialog with industry stakeholders

Within the Automotive Industry Platform (*Plateforme de la filière automobile* - PFA), Valeo supported entering into dialog with stakeholders, drawing on a panel of various French and European public bodies and international organizations, representatives of local authorities, private automotive companies, infrastructure managers and urban planning agencies, as well as representatives from civil society and environmental NGOs.

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

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

Valeo, a global player in the French and European automotive industry

As a responsible player within the French automotive industry, Valeo contributes to the Automotive Future Fund (*Fonds Avenir Automobile* – FAA), formerly the Tier 2 Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Équipementiers Automobiles Rang 2)*.

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

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

- in France, Valeo took part in creating the Automotive Industry Platform (*Plateforme de la Filière Automobile* – PFA), which works to improve customer-supplier relationships and in turn to better align research and production. It continues to play an active part;
- in Germany, Valeo participates in working groups of the *Verband der Automobilindustrie* (VDA), the German automotive industry body;
- in Europe, Valeo is involved in collaborative, precompetitive research through the European Road Transport Research Advisory Council (ERTRAC), the European Commission's technology platform for research on road transportation (see section 4.2.1 of this chapter, "Group Research and Development policy", pages 192 to 195);
- Valeo is also a member of the French-Chinese automotive industry working group coordinated by the two countries' respective ministries of industry;
- in the United States, Valeo works with research teams from the National Highway Traffic Safety Administration (NHTSA);
- Valeo seeks to maintain relationships with major cities as a provider of solutions for smarter, low-carbon mobility facilitating the emergence of smart cities.

Valeo, a responsible partner for its suppliers

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

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

Valeo and the United Nations Sustainable Development Goals

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

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

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

- **gender equality** (SDG 5), building on an extensive program to promote gender diversity dating back to 2011. In 2018, women represented 32% of the total workforce, and each year Valeo's sites implement awareness and support initiatives for women at work, in particular promoting the organization of work schedules and the adaptation of workstations (see section 4.4.3 of this chapter, "Valeo's employee-related commitments", paragraph "Respecting and promoting diversity", pages 231 to 233). This aim of achieving gender diversity and the related programs go to support the UN's goal of ensuring "women's full and effective participation and equal opportunities for leadership at all levels of decision-making in [...] economic life" (SDG 5.5);
- **decent work and economic growth** (SDG no. 8), by respecting international conventions in favor of decent work (see section 4.4.3 of this chapter, "Valeo's employee-related commitments", paragraph "Promoting and respecting fundamental rights", pages 234 to 235). Valeo's actions and achievements support the United Nations goal of taking "immediate and effective measures to eradicate forced labor" (SDG 8.7);
- **industry, innovation and infrastructure** (SDG 9), through the production of parts and systems for the automotive industry, and through Research and Development. In 2018, Valeo filed more than 2,100 patents and invested more than 13% of its original equipment sales in Research and Development (see section 4.2.1 of this chapter, "Research and Development at Valeo", pages 192 to 195). This is in line with the United Nations' goal of enhancing "scientific research and upgrading technological capabilities of industrial sectors in all countries" (SDG 9.5);
- **cities and sustainable communities** (SDG 11), through Valeo's attention to Research and Development and product development to "provide access to safe, affordable, accessible and sustainable transport systems for all" (SDG 11.2) and "more inclusive and sustainable" urban mobility (SDG 11.3) (see Integrated Report, section "Rising to society's major mobility challenges", pages 10 to 15);
- **climate action** (SDG 13), where initiatives have been closely monitored for many years, particularly in terms of reducing plants' carbon footprints and water consumption. Since 2009, Valeo has reduced its direct and indirect CO_2 emissions (section 4.3.3 of this chapter, "Valeo's environmental commitments" of this chapter, paragraph "Reducing our carbon impact", pages 214 to 216), as part of its contribution to strengthening "resilience and adaptive capacity to climate-related hazards and natural disasters in all countries" (SDG 13.1);
- **life on land** (SDG 15), through Valeo's commitment to respect biodiversity in the areas surrounding its sites. Specific measures are put in place depending on the location and needs of the various sites. They are an integral part of the site's environmental certification (ISO 14001). In 2018, 92% of sites were ISO 14001-certified (see section 4.3.1 of this chapter, "Valeo's environmental policy", paragraph "ISO 14001, ISO 50001 and OHSAS 18001 certification audits", page 205). This is in line with the United Nations' goal of "achieving sustainable management and efficient use of natural resources" (SDG 12.2) and "substantially reducing waste generation through prevention, reduction, recycling, and reuse" (SDG 12.5).

Recognition of Valeo's commitment to sustainable development

Valeo saw its non-financial performance acknowledged by various rating agencies in 2018, reflecting the successful cross-functional deployment of sustainable development and communication that respects the principles of transparency, rigor and relevance.

Organization	Rating
Carbon Disclosure Project (CDP)	A Leader(1)
MSCI ESG Rating	AA Ranked no. 2 among automotive suppliers
OEKOM	B-, prime Industry leader(1) (ranked no. 1 among automotive suppliers)
RobecoSAM (DJSI)	76/100 Ranked no. 3 among automotive suppliers
Sustainalytics	86/100 Leader(2) (ranked no. 2 among automotive suppliers)

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

In 2018, CDP[1] assessed the transparency of Valeo's communication and performance in terms of carbon impact, giving it the top score of A Leadership for the first time. Valeo joined a group of 127 companies with the highest score, out of over 6,900 companies assessed. This result reflects the Group's aim of having a comprehensive approach to controlling the carbon impact of its products and its industrial operations.

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

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

Sustainalytics[1] awarded Valeo a score of 86 out of 100 for sustainability in 2018, making it the leader among automotive suppliers and tire manufacturers. This further backs up Valeo's action in terms of sustainable development, and in particular its focus on the governance of the various challenges in this area (environmental, employee and social issues, including the impact of Valeo's products).

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

- Dow Jones Sustainability Index (DJSI) Europe;
- Dow Jones Sustainability Index (DJSI) World;
- Ethibel Sustainability Index (ESI) Excellence Europe;
- Euronext Vigeo Europe 120;
- Euronext Vigeo Eurozone 120;
- FTSE4Good Global Index;
- Low Carbon 100 Europe;
- MSCI ACWI Sustainable Impact Index;
- STOXX® Global ESG Leaders.

Valeo's tax policy

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

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

- **Giving priority to operations**

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

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

- **Applying tax regulations fairly**

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

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

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

- **Ensuring tax costs are correctly calculated**

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

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

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

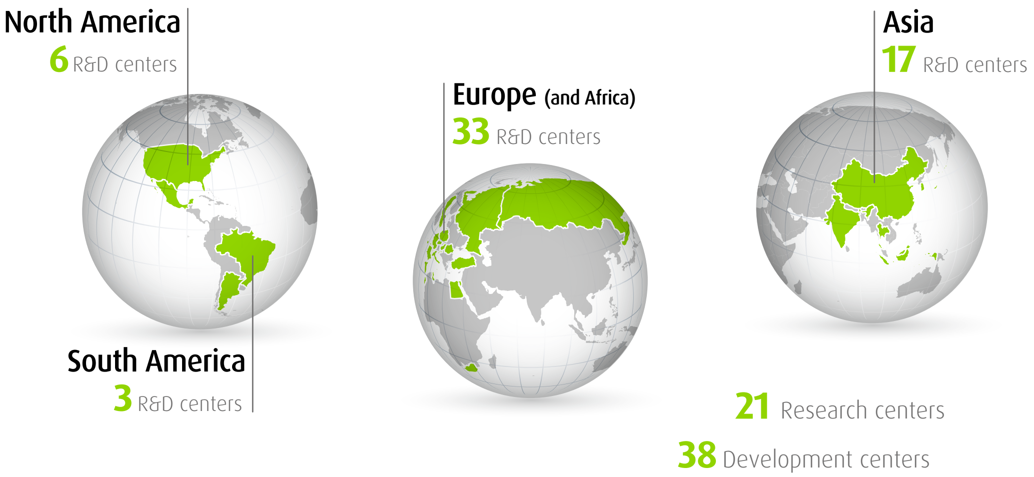
4.2 Research and Development at Valeo: from megatrends to innovation

Effectively meeting market demand today, designing the car of tomorrow, anticipating users' future needs and inventing new needs through innovation and technology are the fundamental principles of Valeo's Research and Development strategy.

4.2.1 Group Research and Development policy

A global footprint

▶ Research and Development worldwide in 2018



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

- the 21 research centers are dedicated to fundamental research, advanced engineering and the development of new product standards;
- the 38 development centers adapt standards in line with customer requirements and coordinate the work of launch and support teams, together with front office personnel;
- project launch teams are tasked with managing the shift of new products to the manufacturing phase, while Research and Development teams can provide support in response to specific needs throughout the production phase;
- front office personnel work alongside customers, assisting with product definition and providing back-up for project teams;
- technical service centers possess specific cross-disciplinary competences, particularly in the development of software and electronics.

In 2014, Valeo opened a research center in California. Located in the heart of the San Francisco Bay Area, it operates as a base for prospective monitoring by automakers and many other industries including consumer electronics, as well as universities and local start-ups. Its activities are focused on aspects related to intuitive driving, particularly research and innovation through advanced studies, collaborative projects and partnerships. Since 2016, the Group has also had a Mobility Tech Center in San Mateo, California.

In 2018, Valeo's Research and Development teams managed 3,000 projects – a direct result of the steep rise in Valeo's order intake and the Group's strong presence in all automotive markets worldwide.

Valeo maintains a high level of effort in Research and Development in order to offer its customers, year after year, the best technological innovations to meet identified needs. In 2018, the Group's gross Research and Development expenditure totaled 2,073 million euros, representing nearly 13% of its original equipment sales.

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

Its global reach also builds on its own network of experts, which has three levels: Expert, Senior Expert and Master Expert. It has a total of 1,151 Experts (products and production processes). This corresponds to an increase of 38% since 2014 (835 Experts), when the network was first created. It issues them with "research warrants" for periods of three years. They are tasked with defining best practices that will be incorporated into design standards and explaining them to newcomers. They are a driving force within the team, and are expected to spread their expertise throughout the network (see section 4.4.2 of this chapter, "Non-financial employee-related risks", paragraph "Training", page 226).

Commitment to developing products serving the threefold revolution

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

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

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

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

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

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

Strategic industrial partnerships

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

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

In the field of vehicle electrification, the Valeo-Siemens joint venture in high-voltage powertrain systems recorded order intake of 10.5 billion euros between its creation in December 2016 and the end of 2018. Valeo is developing e-motors, range extenders, onboard chargers, inverters and DC/DC converters for all types of hybrid, plug-in hybrid and full electric vehicles.

The open innovation strategy[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, etc.);
- ambitions for artificial intelligence, marked in 2017 by the creation of Valeo.ai, the first global center dedicated to artificial intelligence and deep learning in automotive applications. Its close ties with a large scientific and academic community, i.e., through its strategic partnerships with recognized players such as Inria (French National Institute for Research in Computer Science and Control), Télécom ParisTech, Mines ParisTech and CEA (the French Alternative Energies and Atomic Energy Commission), will allow Paris-based Valeo.ai to become a key industry player and contribute to the ongoing transformation of transportation and mobility models;
- a proactive strategy with regard to start-ups, through various channels (simple cooperation, investments and acquisitions). This strategy is backed by Valeo's presence in the leading global innovation ecosystems (mainly France, Germany, Silicon Valley, Israel and China), interests in venture capital funds, including Cathay Innovation, which is particularly active in the San Francisco Bay Area, China and France, and internal tools for identifying and analyzing new high-potential start-ups. Valeo reviews more than a thousand start-ups each year. In 2018, for instance, Valeo partnered with Ellcie Healthy to capitalize on its expertise in eyewear with integrated sensors.

(1) *See Sustainable Development Glossary, page 262.*

Valeo, an actor in the governance of institutional collaborative research organizations

European Road Transport Research Advisory Council (ERTRAC)

ERTRAC, the European Commission's official technology platform dedicated to collaborative research in the automotive industry, is responsible for directing and coordinating land transportation research policy (excluding railroads) with EU bodies. Valeo is its Co-Chair alongside German automaker BMW.

With its industry-led governance, ERTRAC's main goal is to guide actors in land transportation to sustainable, environmentally friendly and connected solutions building on research roadmaps endorsed by all stakeholders. This requires interaction between industrial players, providers of technological solutions and representatives of society or institutions.

ERTRAC is built around public and private bodies (national governments and city associations working for mobility, the environment and consumers), the relevant European Commission directorates, industry (automakers, suppliers), and public and private research bodies. The diversity and quality of the partners involved are what drive the value of the expertise provided by ERTRAC, particularly through the regular publication of medium-term technology roadmaps on various topics relating to automotive mobility. In 2018, the ERTRAC platform continued to provide advice and guidance on calls for projects under the 2020 Horizon Framework Programme (FP8), and began providing guidance on the next program (FP9).

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

Artemis-IA

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

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

Competitiveness clusters

Valeo is involved in the governance of competitiveness clusters and other cooperative structures of which the Group is an active member, such as the French competitiveness cluster Mov'eo, which covers all the Group's strategic areas.

In France, Valeo is also a member of SystemX, an Institute for Technological Research (IRT), and a founding member of the Institute for Energy Transition. Since 2014, the two institutions have launched several projects involving Valeo, in the fields of vehicle electrification (reducing CO_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.

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

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

Multifaceted academic partnerships

Valeo takes part in multi-sector initiatives, making its expertise available to various partnerships and bodies. These partnerships help create and promote standards of quality and environmental performance that are both demanding and stimulating for the industry.

Diversified academic partnerships

Valeo attaches growing importance to collaborative research. The different systems that make up a vehicle today are expanding into new scientific and technological domains, and new fields must be taken into consideration.

Collaborative research involves academic and scientific cooperation, primarily in the form of:

- supervision and funding of doctoral theses;
- bilateral projects;
- government-funded multi-partner collaborative projects;
- university chairs.

Many of these scientific alliances (with universities, engineering schools or research bodies) are in Europe (primarily in France and Germany) and the United States. They are also emerging in other regions where Valeo has set up new local Research and Development centers (most recently in India, China and Egypt).

Funding of doctoral theses

The Group is funding more than 50 doctoral theses in areas such as new materials and technologies, new calculation and simulation tools and methods, new system architectures and component optimization.

Support for and creation of academic chairs

Partnerships formed through academic chairs aim to promote research and innovation activities with high value-creation potential. For Valeo, they offer the opportunity to deepen research and innovation activity close to academic centers, offering them subjects and areas of thinking focused on strategic areas for the industry.

Valeo has partnered with universities and public research bodies to create the following research and teaching units:

- an international research chair on automated driving, called "Automated Driving – Drive for You", bringing together teams from the Center for Robotics at Mines ParisTech (France), Shanghai Jiao Tong University (China), the University of Berkeley (California) and Ecole Polytechnique Fédérale de Lausanne (Switzerland), in partnership with PSA Peugeot Citroën and Safran. With a budget of 3.7 million euros funded by manufacturers, the chair aims to advance knowledge on automated vehicles, to develop embedded intelligence devices and to put automated vehicles on the road on three continents (Asia, North America and Europe);
- an industrial teaching and research chair on embedded lighting systems (ELS), known as the ELS Chair, which brings together the following schools and partners including ESTACA (Graduate School of Aeronautical and Automotive Technology), Institut d'Optique Graduate School, Strate School of Design, Renault, PSA Peugeot Citroën and Automotive Lighting Rear Lamps. This chair aims to develop expertise and skills in the field of indoor and outdoor lighting applied to transportation;
- an academic chair under the name "IoT" (Internet of Things), launched in 2016 by the ESCP Europe business school in partnership with Valeo and Schneider Electric. Its aim is to (i) develop a better understanding of the business and managerial challenges associated with changes in digital technology and the development of connected objects, and (ii) develop high-level teaching and research in line with business expectations. Through a partnership between ESCP Europe and a Chinese university, the chair's activities (teaching, projects, forums, etc.) will span both Europe and China. Having presence in two regions provides the opportunity for multicultural comparisons of expectations, usages and conceptions of connected objects;
- two chairs, one on big data and the other on connected vehicles and cybersecurity, have been established by Valeo and other technology partners with the Télécom ParisTech engineering school. The second of these chairs focuses on cybersecurity challenges in terms of the operational safety of vehicles, data protection and flows, and user identification technologies in vehicles. It also aims to address the legal and social aspects of the management of personal data and to ensure their security.

An activity that creates intellectual property

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

4.2.2 Non-financial technological risks

Risk of non-compliance with environmental product regulations

Description of the risk

To meet changing and increasingly stringent laws globally on the reduction of polluting emissions from vehicles and the introduction of electromobility in Europe and other parts of the world (in Europe, emissions capped at 95 g of CO_2/km in 2021, see note below), and market trends in favor of the penetration of hybrid and electric vehicles, Valeo has identified a non-financial risk of non-compliance by these products with environmental regulations.

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

- caps on CO_2 emissions and gaseous pollutants from vehicles[1];
- compliance with the regulatory framework for eco- design[2][3] and the use of hazardous and regulated substances in the product composition and manufacturing process[4].

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 (48 V) hybridization,
  - high-power (over 60 V) 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,
  - exterior and interior lighting solutions (vehicle projectors, etc.) with reduced energy consumption and mass to help limit the vehicle's carbon impact. In wiper systems, Valeo also develops systems that consume less energy;
- roll out of a product eco-design strategy geared towards reducing their carbon impact well beyond the simple use phase, with the following priorities:
  - limiting the consumption of raw materials and chemicals,
  - using recyclable and recycled materials.

Measures taken to reduce the risk

Reducing CO_2 emissions

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

To reinforce tools for measuring the impact of Valeo products in their use phase, Valeo has undertaken a pilot project to measure the carbon impact of its product families during this phase and during their life cycle (an average life of 20 years was assumed for the analysis). The study is intended to provide an internal tool for modeling the consolidated impact of the Group's products (see box below, "CO_2 emissions related to the use of Valeo products (scope 3)", page 197).

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

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

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

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

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

CO_2 emissions related to the use of Valeo products (scope 3)[(1)]

In accordance with the new recommendations on identifying and reporting the volumes of indirect CO_2 emissions related to Valeo's 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 in Europe[(3)].

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

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

This work was continued and intensified in 2018. The study covered a representative sample of the Group's main product families (powertrain systems, thermal, lighting and wiper systems and autonomous and connected vehicles), which accounted for more than half the Group's revenue in 2018.

Valeo estimates the CO_2 impact of the selected products sold in 2018, in their phase of use over their entire life cycle, at 99,574 kt CO_2eq. The year-on-year change in this estimate (-7%) is attributable to the change in market share for some of the Group's businesses and the impacts of acquisitions and disposals over the past year.

Product eco-design

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

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

Valeo's eco-design approach is based on internal standards, which guide the project teams in their life cycle analyses in the upstream research phase. They are consigned essentially in internal documents, in particular the EcoDesign Standard[(4)] and eco-design guidelines by Product Line. These documents enable engineers to assess the major environmental impacts of products at all stages of their life cycle during project development:

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

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

(1) *The other two indirect emissions (scope 3) sources relating to products (i.e., emissions related to the installation of our products in vehicles and to processing end-of-life vehicles) are not dealt with by Valeo as they are not considered material (see section 4.3.3 of this chapter, "Valeo's environmental commitment", paragraph "Reducing our carbon impact", page 214 to 216.*
(2) *Article 173 of law no. 2015-992 of August 17, 2015 relating to the energy transition for green growth.*
(3) *EMISIA is notably in charge of managing the European TRACCS database, resulting from a European project financed by the Directorate-General for Climate Action of the European Commission, DG-CLIMA (TRACCS, for "Transport data collection supporting the quantitative analysis of measures relating to transport and climate change").*
(4) *Directive 2009/125/EC of the European Parliament and of the Council of October 21, 2009 establishing a framework for the setting of eco-design requirements for energy-related products.*

Life Cycle Assessments at Valeo

In the automotive industry, the automaker or order-giver is responsible for performing the Life Cycle Assessment (LCA). Consolidated data on components and modules are available through the LCAs performed by automakers. Based on the information listed and monitored in its EcoDesign Checklist database, the Group estimates that it has now identified and made available nearly 80% of the data required for a product LCA. This information is used to create and develop products with less impact on the environment.

Compilation and use of the information is managed in the Product Life Cycle Management (PLM) system, which lists the components of products and systems used in their design, and requires compliance with clearly defined standards. Any departure from the standards (in particular when using non-documented materials) must be justified. By systematically referring to the standards, Valeo demonstrates its determination to embed eco-design (including CO_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 sheer size of Valeo's portfolio rules out the performance of LCAs on the entire product range.

To ensure the directive's circulation and implementation, Valeo has published an EcoDesign Checklist designed to monitor the application of the criteria in new projects. This easy-to-use tool ensures that eco-design criteria are observed from the upstream phase. This means that products are consistently engineered from the outset with an eye to sustainable development criteria.

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

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

As well as working closely with automakers, Valeo has for many years been committed to identifying second life solutions for some of the Group's key products (see section 4.2.3 of this chapter, "Valeo's technological commitments", page 201).

Examples of recyclability of two Valeo products

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

Compliance of products with standards

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

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

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

- set standards that are easy to identify, understand, learn, implement and verify. This is essential for ensuring that they are properly applied in a group like Valeo, whose employees speak a variety of languages and come from different cultural backgrounds;

(1) See Sustainable Development Glossary, page 262.

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

- communicate on the standards and circulate them within the Group. Knowledge-sharing involves ensuring that standards are available in a single, global database (the PLM or Product Life Cycle Management database), and providing training provided at the Valeo Technical Institutes;
- verify that standards are implemented. To this end, the RAISE teams regularly visit sites to review project design. They do this to ensure that standards are applied correctly and to obtain any feedback that can be used to improve them.

More than 8,000 product and process standards are in place and maintained in the various Product Groups. They are applied day-to-day in designing new products and manufacturing processes.

Special training programs (core RAISE training courses on design reviews, risk analysis and reliability) are continuously provided for Research and Development and Industrialization teams to extend their reach even further.

Reduction and elimination of hazardous chemical substances

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

The European Union regulation commonly known as REACH[1] has established a single system for the Registration, Evaluation, Authorization and Restriction of Chemicals. REACH is aimed at increasing knowledge of the properties of chemical substances manufactured or marketed in the European Union so as to contain the risks related to them and, where necessary, restrict or ban their use.

It covers nearly 30,000 substances out of the 100,000 currently on the European market. Of them, 1,500 are deemed particularly hazardous. Their use is controlled by the European authorities. As such, at the end of December 2018, 191 SVHCs (Substances of Very High Concern) had been identified by the competent European authorities and their use has been progressively subject to authorization. Among other substances, they include solvents, primarily used during procedures involving materials and plasticizers, or to soften polymers and perform surface treatments. Moreover, due to the increasing integration of electronic components requiring the use of nanomaterials in its products, Valeo is closely following work by the European Commission in this area, especially via the REACH regulation, in order to anticipate possible substitutions of nanomaterials, or modifications to their supply processes and their use in manufacturing.

For REACH purposes, Valeo is generally considered to be a downstream user of chemicals. This means that it must list the substances used in manufacturing its products and those required to operate its industrial facilities to ensure the safety of its supply chain and its operations.

Valeo has introduced a special structure to comply with REACH regulations.

It works under the REACH manager and a team including a representative in each division. They set the list of hazardous substances and decide on whether to eliminate them from Valeo's products and processes. REACH representatives are in place within each entity affected by REACH regulations and at every Valeo plant. This has created a network of REACH managers covering each Group site and Technical Services Center. The Research and Development, Purchasing and Customer Quality Departments are required to have a full understanding of Valeo's products, and are responsible for communicating with external parties (suppliers, customers and competent authorities), in particular via the International Material Data System (IMDS).

The Group issues a set of standardized documents from local REACH network correspondents to enhance the spread of Research and Development standards in this field and to support prevention and response work regarding the substances used.

These documents include a reference database created by Valeo of banned or restricted substances in the automotive industry. The database was updated in 2016, 2017 and 2018. It summarizes the regulations applicable in the different countries where Valeo operates, and the requirements of its automaker customers concerning the substances used in the composition of parts, and in manufacturing and repair processes.

Valeo has long conducted in-depth research into the potential presence of SVHCs in its products, and has begun to replace them with substances with less environmental impact. It has set the ambitious target of eliminating from its products any substance requiring authorization in any of its markets. It will work with its suppliers to systematically find alternatives to using SVHCs, and has a substitution plan in place for products containing DEHP[2], a phthalate widely used as a plasticizer.

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

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

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

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

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[1]. The audits carried out by Valeo in 2017 showed that the Group was compliant with all mandatory requirements, well ahead of the legal deadline of May 31, 2018.

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).

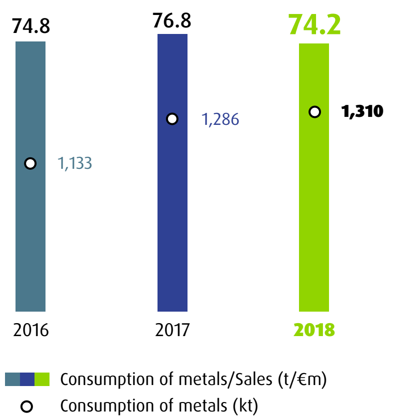
This approach is further supported by the phasing-in of recycled plastics.

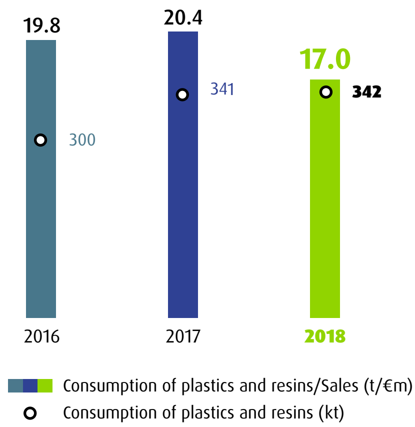
Results and performance

Sales derived from products contributing to the reduction of CO_2 emissions

In 2018, as in 2017, products that directly or indirectly contribute to reducing CO_2 emissions accounted for more than 50% of Valeo's original equipment sales.

Consumption of raw materials





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

In addition, relying particularly on the eco-design tools adopted throughout the Group, Valeo has gradually begun replacing metal with lighter materials such as plastics and resins. Consumption of such materials increased by 1 point (in absolute terms) in 2018 compared with 2017. The pace of changes in raw materials consumption reflects the reality of growth in the Group's various business lines. The use of these materials has a significant impact on the weight of components and the vehicle.

Consumption of heavy metals

Heavy metal consumption is on a downward trend. The Group's consumption of heavy metals has fallen by 17% since 2015. In 2018, it amounted to 9.8 metric tons, an increase of 2 metric tons compared with 2017. The increase is the result of the consolidation of recent acquisitions. Over the past year, work was conducted to identify sources of heavy metal consumption and to assess removal or substitution options. 2019 will be devoted to the progressive replacement of lead for the new families of products in question.

In the automotive industry, consumption of heavy metals stems solely from the presence of lead in welding materials used for certain specific activities. Determined to phase out the use of lead in the development of its products, Valeo is working to optimize its industrial welding process in order to reduce the consumption of materials used for this purpose. Its medium-term objective, depending on change in industrial processes and their acceptance within the industry, is to completely replace the lead used in welding with tin.

(1) Joint ACEA-CLEPA position paper of June 28, 2016: REACH registration – 2018 Deadline.

Consumption of chemicals

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

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

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

Use of recycled input materials

To reduce its environmental footprint, Valeo pays particular attention to the use of recycled materials. Purchases of recycled plastics totaled 12,320 metric tons in 2018.

4.2.3 Valeo's technological commitments

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

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

The specific features of these products position Valeo as a key player in mobility access in markets characterized by a high proportion of second-hand vehicles, predominantly emerging regions (parts of Southeast Asia, Africa, etc.). More generally, the aftermarket in these regions is creating economic opportunities for various automotive-related businesses.

The existence of replacement products has a substantial impact on the safety of vehicle users, since they offer an economically viable alternative to repaired, rebuilt or reworked parts, often in traditional or semi-industrial settings, which are often not subject to any form of harmonized or standardized quality control. The remanufacturing market is currently dominated by European players.

Valeo, a participant in the remanufacturing market

Through its remanufacturing activity, Valeo puts its OEM parts design and manufacturing expertise at the service of the remanufacturing market, for which the Group has developed a high-quality, environmentally friendly range of products. Valeo only offers remanufactured products, as opposed to reused, repaired, rebuilt, refurbished, reworked or reconditioned products, and uses quality processes and standards to ensure the quality of the products offered for sale[2].

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

(1) See Sustainable Development Glossary, page 262.

(2) The definition of remanufactured products is common to the entire industry (ACEA, APRA, CLEPA, FIRM, VDA): "A remanufactured part fulfils a function which is at least equivalent compared to the original part. It is restored from an existing part (core), using standardized industrial processes in line with specific technical specifications. A remanufactured part is given the same warranty as a new part, and it clearly identifies the part as a remanufactured part and the remanufacturer."

4.3 Environmental management and performance of Valeo's sites

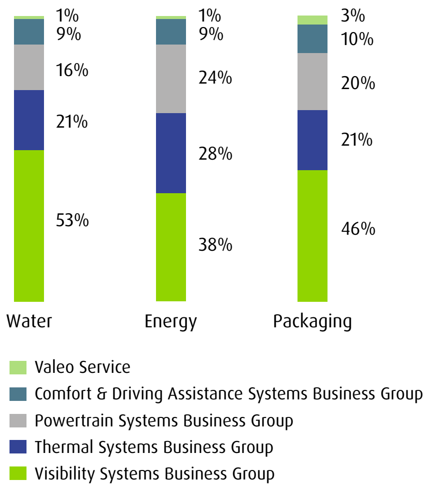
4.3.1 Valeo's environmental policy

For nearly 30 years, Valeo has demonstrated its commitment to limiting the impact of its activities on the environment. The Group sets out its commitments in its Environmental Charter, drawn up by the Health, Safety and Environment Department (HSE). These commitments also appear, as follows, in the Valeo Sustainable Development Charter:

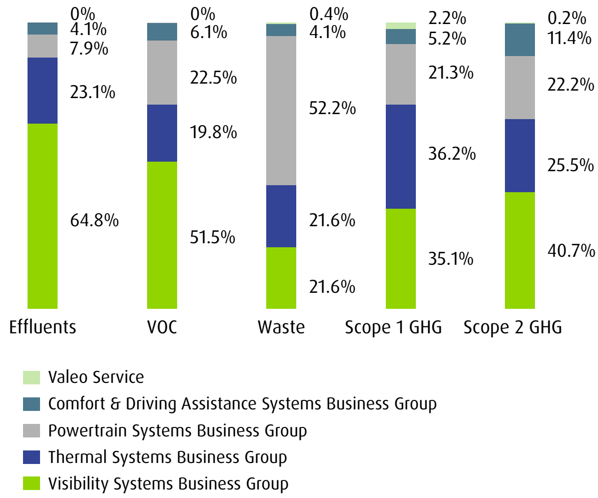
- ensure the compliance of its activities with applicable laws and international agreements;
- deploy the ISO 14001 environmental management system at all sites;
- improve the environmental performance of its processes;
- optimize the transportation of people and goods in order to reduce greenhouse gas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

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

▶ Breakdown of resource consumption



▶ Breakdown of emissions, discharges and waste



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

Industrial mapping of Valeo sites

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

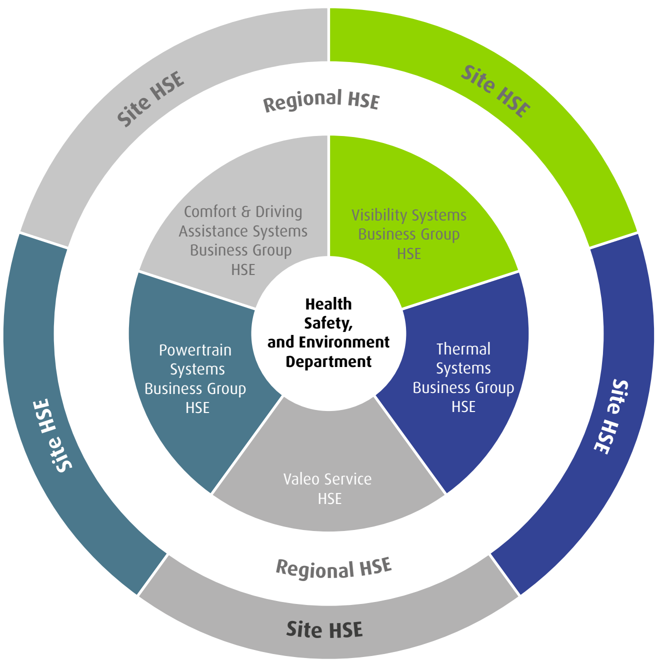
The Group has developed working and assessment tools to ensure that sites comply with both the prevailing regulations and internal standards, in order to rein in their environmental impacts and improve their performance.

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

* *See Sustainable Development Glossary, page 262.*

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

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



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

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

Lastly, a **Site HSE manager** is tasked with implementing Group standards in respect of workplace health and safety, environmental aspects, and the security and safety of buildings and facilities. HSE managers lead and coordinate existing management systems and train staff on compliance with internal and external requirements. They are also internal auditors within the meaning of the ISO 14001(1), ISO 50001(1) and OHSAS 18001(1) standards.

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

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

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

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

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

(1) *See Sustainable Development Glossary, page 262.*

Demanding risk-control standards

The **Risk Management Manual** contains all of Valeo's standards (known as operational directives) with respect to the environment, workplace health and safety, and the safety and security of facilities.

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

The Risk Management Manual includes a specific chapter on **crisis prevention and emergency response plans**. The Group requires each site to have an emergency response and business recovery plan. Several years ago, Valeo established the Valeo Emergency and Recovery Management system (VERM) to assist in the design and implementation of emergency response, crisis management and business recovery plans. The tool establishes mandatory drills for on-site events such as fire, explosions and accidental pollution, leaving each site scope to identify other relevant scenarios such as earthquakes or floods. Each site is then required to implement procedures, response sheets or lists of contacts to use in the event of a crisis, for each phase from triggering the alert to business recovery, including intervention and securing people and the site.

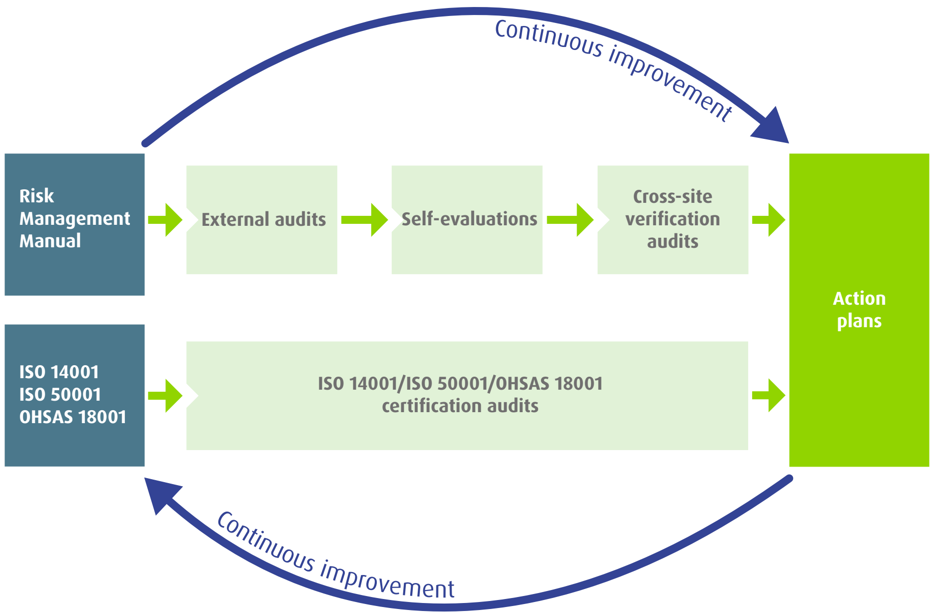
The Group uses various channels for internal communications and employee training on HSE issues, including:

- since July 2018, training courses offered in e-learning format providing a summary of the main requirements of each environmental directive. The modules include a quiz to check the participants' understanding;
- information for site employees on environmental procedures and respect for the environment, particularly as part of the onboarding of new arrivals;
- awareness-raising for all site staff on measures aimed at controlling environmental risks and impacts through ISO 14001, ISO 50001 and OHSAS 18001 management systems;
- information for employees through newsletters and dedicated displays, and at operational team briefings;
- dedicated events such as "Sustainable Development Week", featuring local initiatives.

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

Evaluation and certification processes

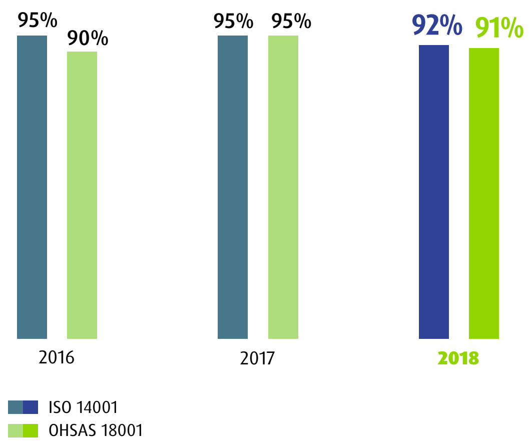
Valeo has implemented a comprehensive global audit program, including external compliance and certification audits, as well as self-evaluations and cross-site verification audits performed by site HSE managers.



ISO 14001, ISO 50001 and OHSAS 18001 certification audits

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

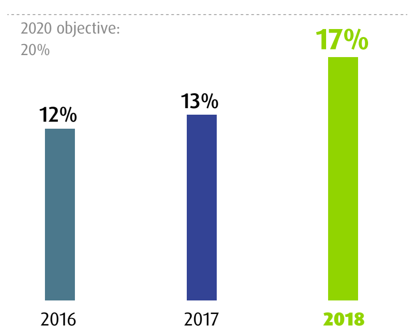
▶ **Percentage of plants certified ISO 14001 and OHSAS 18001**



The Group aims to bring newly acquired or created sites into the certification process as quickly as possible. All new sites are required to obtain certification from the third year of their inclusion in the Group's scope.

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

▶ **Percentage of plants certified ISO 50001**



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

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

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

External audits worldwide

At the initiative of the HSE Department, the Group's sites are regularly audited by external consultants to ensure compliance with and proper implementation of the Risk Management Manual. With the same frequency, the Group also determines themes to be systematically audited in each campaign in order to measure their implementation and reinforce their control.

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

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

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

The action plans of all sites are reported to the HSE Department and monitored by the Business Group HSE managers via a system known as HSE Action Plan. This database provides a fast and reliable way of consolidating audit results, and makes it possible to monitor progress on the associated action plans. A half-yearly review is also conducted with the Business Group HSE managers. The indicators are updated each month and reported to the Business Group HSE managers during monthly meetings. A more detailed half-yearly review is also conducted with the Business Group HSE managers.

Self-diagnostic tool

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

Environmental expenditure and investment

Total environmental protection expenditure and investment

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

In 2018, Valeo invested 5.8 million euros in environmental protection at its active sites. This includes the cost of installing air treatment systems, implementing retention systems for better management of hazardous materials and developing waste storage areas.

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

In 2018, one Group site received a significant administrative penalty. It was the San Luis Potosi site (Thermal Systems Business Group, Mexico), which was fined 63,220 euros for not having correctly canceled an energy production permit requested in 2006.

Amount of provisions and guarantees for environmental risks

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

4.3.2 Non-financial environmental risks

Risk associated with accidental pollution of water and/or soil

Description of the risk

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

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

The main causes to be averted are:

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

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

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

Risk management policy

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

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

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

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

- effluents whose composition exceeds the regulatory thresholds must go through treatment plants located directly on Valeo sites so as to limit their impact on the receiving environment;
- as far as possible, effluent networks should be connected to the public network;
- sites' rain-fed networks must receive only rainwater;
- the direct discharge of industrial effluents into groundwater is strictly prohibited;
- firewater must be separated and analyzed prior to proper disposal.

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

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

Measures taken to reduce the risk

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

- **prior to the purchase** or lease of land or buildings, an assessment of the risk of legacy soil and groundwater pollution is performed. On sites where groundwater is sensitive and vulnerable, groundwater quality is monitored regularly;
- the **loading/unloading** of tankers can cause numerous accidents with serious consequences for the environment. To prevent spillage during these operations, Valeo sites are required to draft a specific transfer procedure appropriate to the nature and risks of the products in question, notably including a vehicle circulation plan, a list of people approved for unloading, the method for verifying the nature of the product and its compatibility with the recipient container and instructions in case of spillage;
- the **storage of hazardous products** can be another source of accidental spillage. The Group has laid down rules for designing and building retention systems and tanks, specifying minimum volumes, what materials to use to ensure the sealing of tanks and retention systems based on the nature of products stored and how to structure warning systems in case of overflow;
- **underground tanks have been banned** within the Group since the early 1990s, with the aim of eliminating the risk of significant pollution of soil and groundwater associated with such facilities;
- **internal landfills** are prohibited on all sites regardless of their location;
- for cases of **accidental spillage,** the directive entitled "Intervention means and consequence limitation" focuses on the human and material resources to be put in place on sites to prevent, detect and limit the consequences of emergencies liable to have a direct impact on human health or the environment;
- when a **business is sold or shut down,** the Group systematically commissions an audit, generally accompanied by an examination of the soil and groundwater, to determine whether any pollution occurred during its operational phase. If pollution is discovered, the necessary measures are taken;
- if a site is **closed permanently,** all waste, raw materials, products and equipment are removed, and site maintenance continues until it is sold.

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

For waste management, each site is responsible for:

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

Whatever the channel:

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

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

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

Initiatives in 2018

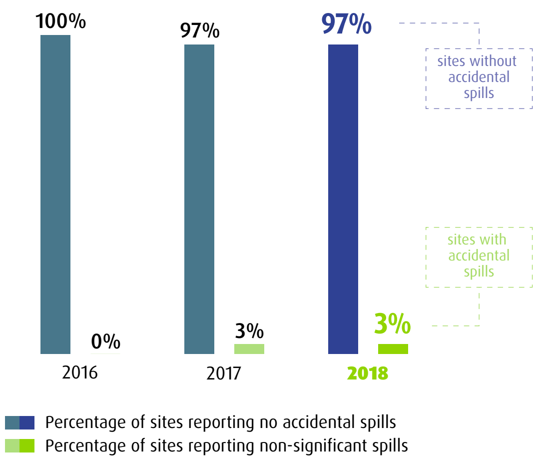
In 2018, the Martos site (Visibility Systems Business Group, Spain) commissioned a new treatment facility for water used on the plant, thereby improving the quality of the water discharged. This brought the number of sites equipped with such facilities to 28.

Other initiatives carried out in 2018 include:

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

Results and performance

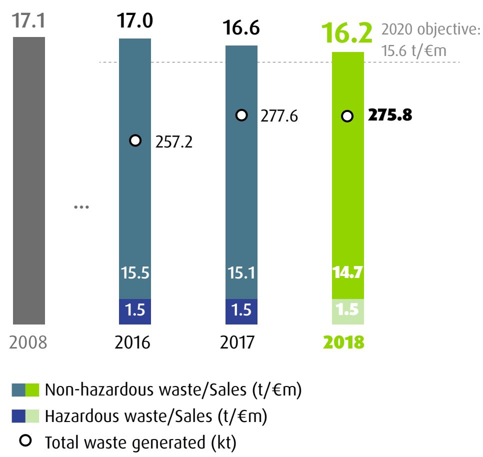
▶ Accidental spills over the year



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

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

▶ Total waste generated



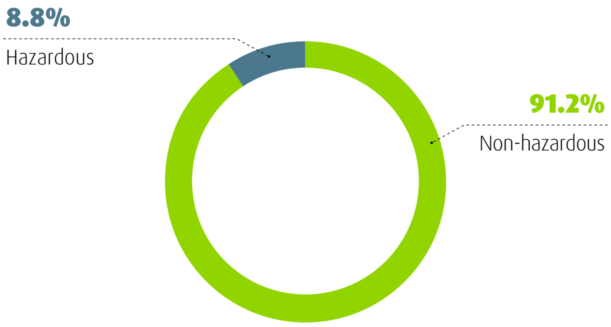
In 2018, the total amount of waste as a proportion of sales fell by 2.4% compared with 2017. The generation of waste by the Group stabilized at 275.8 kt per year.

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

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

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

▶ **Recovery of waste produced in 2018**



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

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

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

4.3.3 Valeo's environmental commitments

Water management

Challenges

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

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

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

Approach

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

To control and minimize their consumption as much as possible, the sites implement appropriate human and material resources:

- each water supply source is equipped with systems for determining the volume of water consumed and its uses (domestic, industrial and fire);
- the use of water for cooling in open circuits is prohibited, with the exception of heat pumps for heating or air conditioning;
- the site maintains a plan of its water supply and distribution networks, which must identify the network's isolation systems, backflow preventers and meters, and distinguish between:
  - domestic use (if distinct from drinking water),
  - industrial use,
  - use for firefighting,
  - drinking water.

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

The site also monitors its water consumption at least on a **quarterly basis**. This monitoring serves to:

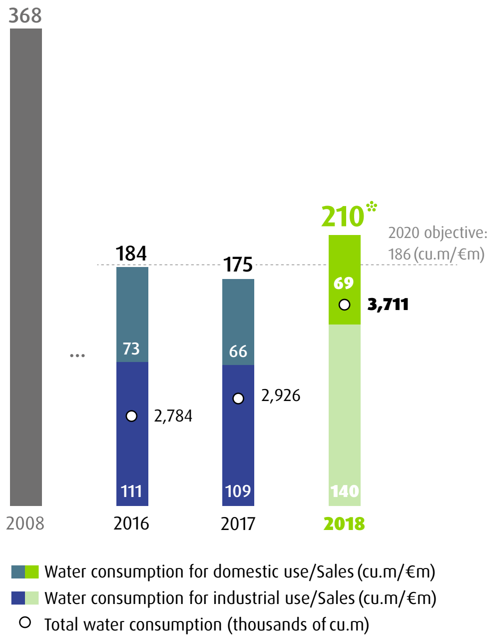
- identify the respective needs in regard to each of the main uses of water;
- identify any variation in water consumption and take swift action in the event of leaks in the network;
- draw up a water consumption reduction plan to achieve or better the objectives set for each site by the Group;
- confine the use of drinking water to domestic purposes and promote the use of non-drinking water wherever possible (e.g., toilets, watering, cleaning, extra water for closed water cooling circuits and fire extinguishing).

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

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

Performance

▶ Water consumption

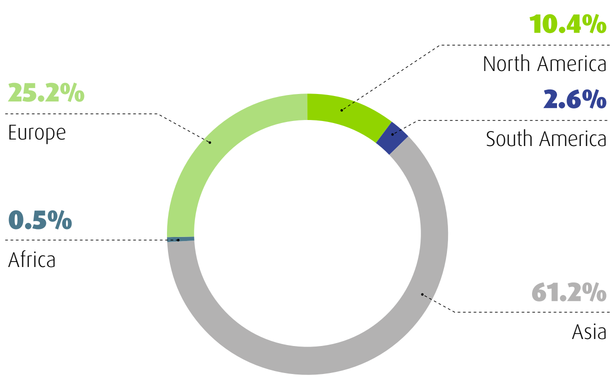


* *Without the consolidation of the Ichikoh sites, water consumption in relative terms would have been 175 cu.m/€m, as in 2017.*

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

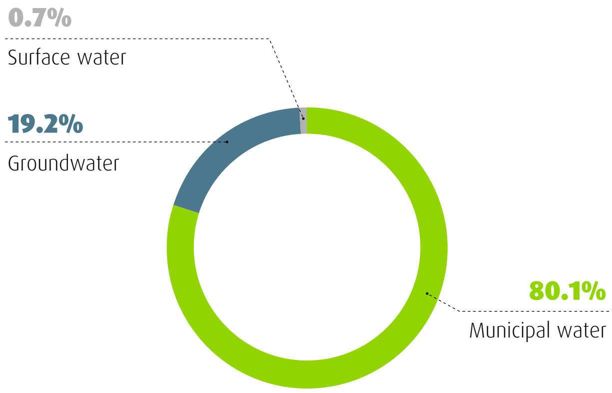
Since 2008, total water consumption has declined by 43% in relative terms.

▶ Geographic breakdown of total water consumption in 2018



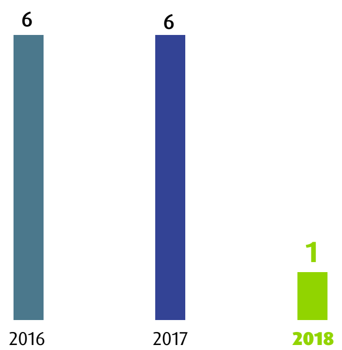
Sites in Europe and Asia account for slightly more than 86% of total water consumption. However, the geographical breakdown of consumption changed significantly compared with 2017. The consumption of Asian sites increased from 51.7% to 61.2%. By contrast, the consumption of European sites fell from 31.7%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

▶ Sources of water in 2018



To measure the overall impact of its activities on water resources, Valeo measures its consumption, distinguishing between the various sources (municipal water, groundwater, surface water) and uses (industrial water, domestic water) of water on its sites. The breakdown of the various sources of water has changed compared with 2017. The percentage of water supplied by city water networks represented 80%, compared with 90% in 2017. The new sites added to the reporting scope by the Visibility Systems Business Group tend to use more groundwater than Valeo's legacy sites.

▶ Number of water outages and restrictions



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

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

Actions undertaken to reduce water consumption in 2018

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

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

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

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

Atmospheric emissions and discharges

Challenges

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

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

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

Approach

Each site must establish a system to ensure compliance with regulatory requirements on atmospheric emissions. This system requires each site to draw up an inventory of its emissions aimed at:

- listing the sources of atmospheric emissions, taking all of the site's processes and activities into consideration;
- listing facilities for the treatment of these emissions;
- describing emissions based on their origin (emissions from combustion plants or production processes);
- quantifying emissions in order to determine whether operating permits need to be obtained in accordance with applicable regulations.

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

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

Valeo monitors atmospheric emissions of volatile organic compounds (VOCs)[(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, hydrochlorofluorocarbons, chlorofluorocarbons, hydrofluorocarbons;
- RCFs (refractory ceramic fibers);
- unencapsulated radioactive substances.

For several years, Valeo has also sought to take a proactive approach to reducing emissions of ozone-depleting substances. Its commitments on the subject are set out in a dedicated directive in the Risk Management Manual. As mentioned above, chlorofluorocarbons (CFCs) and halons are prohibited substances at Valeo. For hydrochlorofluorocarbons (HCFCs), the Group's objective is to stay ahead of the elimination deadlines set under the Montreal Protocol. To comply with this directive, the sites have taken action to service equipment containing refrigerants.

(1) See Sustainable Development Glossary, page 262.

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 2018, but Valeo is working with its stakeholders to find alternatives.

Volatile organic compounds

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

Performance

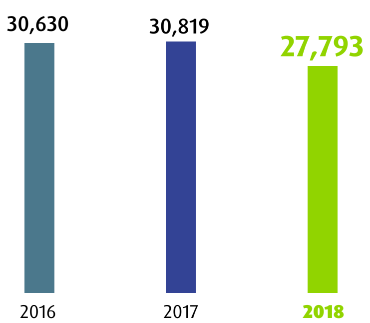
Lead and TCE emissions

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

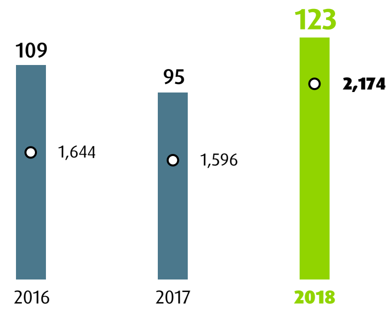
The Group again uses TCE in a non-material proportion following the consolidation of the Perai Penang site (Comfort & Driving Assistance Systems Business Group, Malaysia) in the reporting scope in 2018, even though it had been totally eliminated in 2017. The site will look for alternative products to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

▶ Quantity of ozone-depleting substances used

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



▶ Atmospheric VOC emissions



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

Achievements during the year

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

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

(1) See Sustainable Development Glossary, page 262.

Reducing energy consumption and greenhouse gas emissions

Challenges

Valeo sites use the following three types of energy for industrial and domestic purposes:

- direct energy in the form of primary energy sources (fuel oil, natural gas);
- indirect energy in the form of electricity, steam and compressed air;
- direct renewable (solar) energy generated on site, which currently provides only a very small amount of energy.

Electricity and natural gas have for several years been the two main sources of energy used by sites. Together, they account for nearly 98% of the Group's total energy consumption.

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

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

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

Approach

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

In view of the importance of reducing energy consumption and emissions related to the production of GHGs (scopes 1 and 2), Valeo has also set itself the goal of reducing its direct and indirect greenhouse gas emissions (scopes 1 and 2) as a proportion of sales by 8% between 2016 and 2020 .

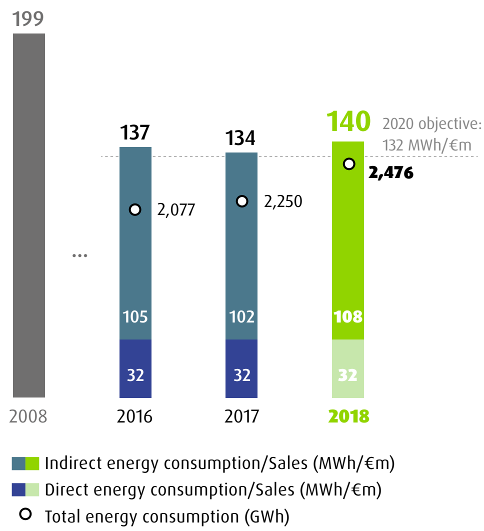
The Group monitors the sites' energy consumption on a quarterly basis through the Valeo Environmental Indicators internal tool.

In line with its objectives on improving environmental performance during the 2016-2020 period, Valeo has set itself the target of ensuring that 20% of its sites obtain ISO 50001 energy management certification by the end of 2020 (see section 4.3.1 of this chapter, "Valeo's environmental policy", paragraph "Assessment and certification procedures", pages 204 to 206). Since 2018, Valeo has partnered with an expert third party to conduct energy performance audits and highlight opportunities to reduce consumption.

Performance

Energy performance

► ENERGY CONSUMPTION



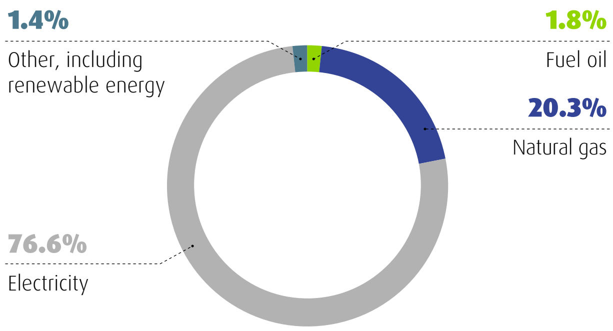
Between 2017 and 2018, energy consumption increased by 10% in absolute terms. Most of the increase was attributable to the increase in the sites' electricity consumption. Energy consumption as a proportion of sales was down 2% compared with the 2015 baseline.

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

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

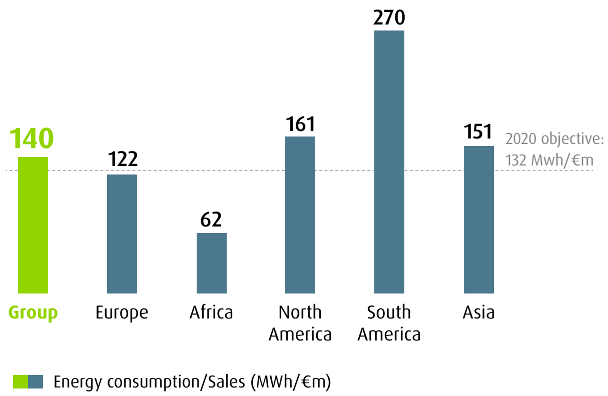
Environmental management and performance of Valeo's sites

▶ **Breakdown of energy sources in 2018**



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

▶ **Regional breakdown of energy consumption as a proportion of sales in 2018**



Energy consumption as a proportion of sales is markedly higher at the Group's South American sites than in Africa, Europe, North America and Asia. With the exception of Europe and Africa, the ratio of energy consumption to sales remains above the performance target set for 2020, mainly due to the overall increase in electricity consumption in 2018.

Reducing our carbon impact

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

Since 2009, Valeo has made progress in the analysis of its carbon footprint by evaluating the direct and indirect greenhouse gas (GHG) emissions resulting from its activities. In 2018, the following operations-related emissions sources (excluding product use) were included 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).

Scope 1

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

Direct GHG emissions *($ktCO_2eq.$)* – Emissions positions	2015	2016	2017	2018
Emissions generated by fuel oil and gas combustion at sites *($ktCO_2eq.$)*	118.0	119.3	132.8	134.9
Direct emissions from non-energy processes *($ktCO_2eq.$)*	1.9	2.8	7.4	6.7
Emissions caused by Valeo's vehicle fleet *($ktCO_2eq.$)*	7.4	8.9	10.4	19.4*
Fugitive emissions (refrigerant leakage) *($ktCO_2eq.$)*	14.5	14.9	16.3	14.3
TOTAL DIRECT EMISSIONS *($ktCO_2eq.$)*	**141.8**	**145.8**	**166.9**	**175.3**
TOTAL DIRECT EMISSIONS/SALES *($tCO_2eq./€M$)*	**10.1**	**9.6**	**9.9**	**9.9**

* *The 2018 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 8% between 2017 and 2018.

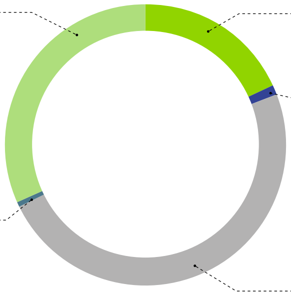
Indirect emissions related to electricity consumption(1) and other energy such as steam, compressed air, etc.	2015	2016	2017	2018
TOTAL INDIRECT EMISSIONS *($ktCO_2eq.$)*	**649.8(1)**	**710.9**	**763.9**	**870.5**
TOTAL INDIRECT EMISSIONS/SALES *($tCO_2eq./€M$)*	**46.20(2)**	**46.97**	**45.60**	**49.29**

(1) The calculation takes into account the primary energy sources used to generate electricity in each country.
(2) The 2015 data have been updated using the new 2015 emission factors issued by the International Energy Agency in mid-2016.

(1) See Sustainable Development Glossary, page 262.

In total, direct and indirect greenhouse gas emissions as a proportion of sales were up 5% compared with the 2015 baseline (56.3 tCO_2eq./€m). While Valeo has been able to stabilize its direct GHG emissions (scope 1) as a proportion of sales, the Group's growth in Asian countries is generating an increase in indirect emissions (scope 2).

▶ Geographic breakdown of direct and indirect greenhouse gas emissions (scopes 1 and 2) associated with the Group's energy consumption in 2018



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

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

Scope 3

For transparency, in 2018, Valeo estimated all other indirect emissions sources (scope 3) linked to its activity. The following other indirect GHG emissions (scope 3) related to Valeo's operations are considered significant:

- emissions linked to purchases of materials used in industrial processes (steel, aluminum, copper, zinc, plastics, electronic components, chemicals and packaging);
- emissions related to the use of the Group's products (see section 4.2.2 of this chapter, "Non-financial technological risks", paragraph "CO_2 emissions related to the use of Valeo products (scope 3)", page 197).

Other indirect GHG emissions (scope 3) regarded as not material are:

- emissions related to waste management in the relevant channels;
- emissions from Valeo's assets used by third parties (e.g., loans of molds to suppliers);
- emissions from energy production (e.g., extraction of gas or fuel oil);
- emissions from the installation of our products in vehicles by our customers;
- emissions related to the processing of end-of-life products;
- emissions from downstream product transportation. Transportation of this nature is mainly handled by our customers.

4

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 (*$ktCO_2$eq.*) – Sources of emissions	**2015**	**2016**	**2017**	**2018**
Emissions generated by the production of the main materials used in industrial processes of which:	**5,614**	**6,904***	**7,770**	**8,764**
Materials (metals)	3,416	4,274*	4,817	5,722
Materials (other)	2,198	2,630*	2,953	3,042
Emissions generated by upstream logistics:	**237**	**223**	**296**	**343**
Road/rail/maritime transportation	174	106	164	222
Air/express transportation	63	117	132	121
Emissions generated by employee travel of which:	**139**	**169**	**195**	**222**
Commuting	108	136	153	182
Business trips	31	33	42	40
TOTAL OTHER INDIRECT EMISSIONS (*$ktCO_2$eq.*)	**5,990**	**7,296**	**8,261**	**9,329**
TOTAL OTHER INDIRECT EMISSIONS/SALES (*tCO_2eq./€M*)	**426**	**482**	**493**	**528**

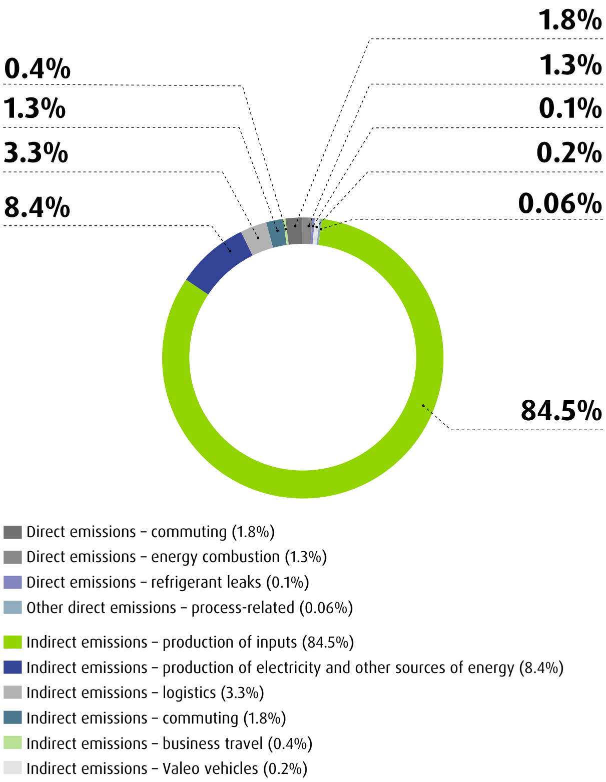
* *Emission factors for aluminum, plastics and steel were updated in 2016.*

Scope 3 emissions as a proportion of sales increased by 7% between 2017 and 2018. Emissions related to products (installation in the end vehicle, use, end of life) are described in section 4.2.2 of this chapter, "Non-financial technological risks", paragraph "CO_2 emissions related to the use of Valeo products (scope 3)", page 197.

The Group's industrial carbon footprint

In 2018, the Group's overall carbon footprint (scopes 1, 2 and 3, excluding emissions from the use of its products) was 10.37 million metric tons of CO_2.

▶ **Breakdown of the source of GHG emissions in 2018**



Achievements during the year

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

The Sanand site (Thermal Systems Business Group, India) was awarded the Friend of the Environment prize by Autocomponents India magazine at the ACI Awards ceremony for the installation of its photovoltaic park, generating green energy and contributing to the reduction of CO_2 emissions.

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

- **replacement of lighting systems** using conventional fluorescent or metal-halide lights with more energy-efficient **LEDs.** Sites generally stagger the replacement of this equipment over several years;
- **optimization of the plant's heating periods** by reducing the temperature to 18°C in offices during weekends in the Skawina site (Visibility Systems Business Group, Poland) for instance;

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

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

Biodiversity

Challenges

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

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

To more accurately understand its potential impacts, the Group conducts an annual biodiversity inventory at plants located in or near (within 10 km of) protected areas. Ten such sites were identified in 2018: three in South America and seven in Europe.

Approach

The precise identification of significant direct impacts on biodiversity is conducted across sites through environmental analysis. This step is crucial in the implementation of an ISO 14001-certified environmental management system.

The "Biodiversity" Directive lays down guidelines to regulate practices in terms of biodiversity conservation during selection, construction, operation and closure of plants.

Achievements during the year

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

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

Transportation and logistics

Challenges

Valeo's operations require inbound supplies of raw materials and parts, the transfer of parts between sites and outbound deliveries to automaker-customer premises, plants and dealer networks. The main environmental impacts of these logistics flows result from emissions of greenhouse gases attributable to the use of non-renewable fuels.

Approach

In line with its product development strategy aimed at reducing the impact of vehicles on the environment, Valeo pursued its transportation optimization strategy to reduce associated CO_2 emissions in 2018.

Performance

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

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

In 2018, emissions related to air transportation for the delivery of parts from suppliers amounted to 120,994 metric tons of CO_2. Emissions related to air transportation for the delivery of Valeo products to customers amounted to 4,114 metric tons of CO_2.

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

- load consolidation by the use of logistics platforms to collect as many parts as possible from multiple sources, which are then re-routed in fully loaded trucks to each plant;
- development of new solutions for packaging parts for customers, to guarantee the quality of deliveries, and ensure optimum truck fill rates;
- where technically feasible and as permitted by domestic law, use of dual-capacity trailers (double deck in a single trailer or double trailer) to further improve fuel consumption ratios per part delivered and, in turn, CO_2 emissions.

Emissions related to road transportation for the delivery of parts from suppliers amounted to 147,403 metric tons of CO_2. Emissions related to road transportation for the delivery of Valeo products to customers amounted to 21,625 metric tons of CO_2, compared with 18,221 metric tons of CO_2 in 2017.

The increase in CO_2 emissions from road transportation had three main causes:

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

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

In 2018, emissions related to maritime transportation for the delivery of parts from suppliers amounted to 72,985 metric tons of CO_2. Emissions related to maritime transportation for the delivery of Valeo products to customers amounted to 833 metric tons of CO_2.

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

In 2018, emissions related to rail transportation for the delivery of parts from suppliers amounted to 1,815 metric tons of CO_2. Emissions related to rail transportation for the delivery of Valeo products to customers amounted to 197 metric tons of CO_2.

Achievements during the year

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

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

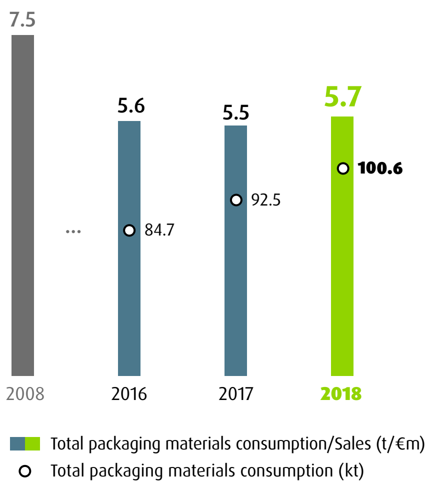
Packaging

Challenges

Packaging is essential to product handling. It is required for transporting, storing and protecting products and, in the case of aftermarket products, selling them. For these various purposes, Valeo uses many different kinds of packaging materials, mainly cardboard, wood, plastics and metal. Cardboard and wood together account for more than 85% of packaging materials used.

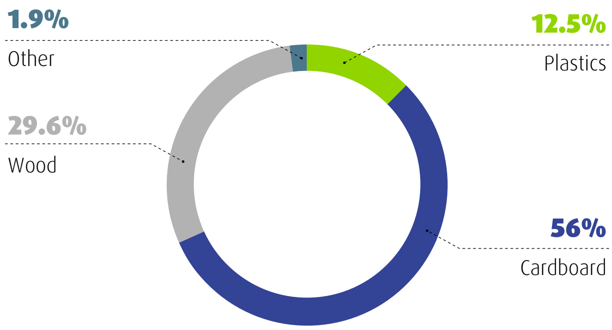
Performance

▶ **Packaging materials consumption**



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

▶ **Breakdown of packaging materials consumption in 2018**



Approach

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

- using reusable containers or pallets, made from either cardboard, wood or plastic;
- improving the fill rate of the packages containing the products.

This work is being conducted in partnership with Valeo's suppliers and customers.

Achievements during the year

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

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

4.4 Valeo and its employees

4.4.1 The Group's employee policy

Change in Valeo's headcount

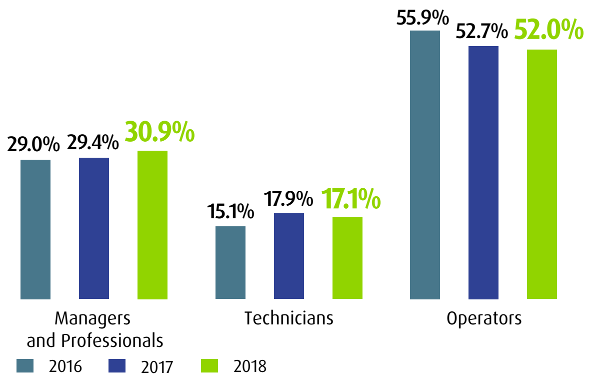
▶ Change in the total headcount over three years

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

(1) The registered headcount corresponds to permanent and fixed-term employees.
(2) Employees on internships, Volontariat International en Entreprise (VIE) programs and combined work-study arrangements (apprenticeship or professional training contracts) are counted as technicians.

At December 31, 2018, Valeo had 113,600 employees, 1.8% more than in 2017.

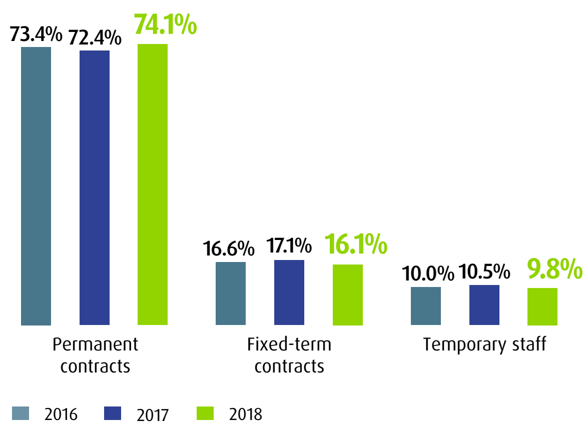
▶ Breakdown of registered headcount by socio-professional category



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

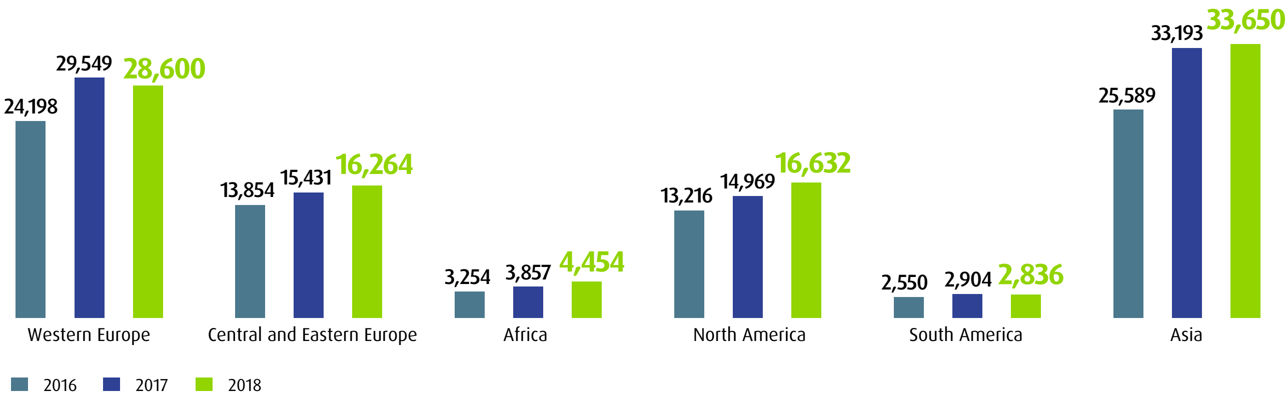
The increase in the proportion of Managers and Professionals in the Group's workforce at December 31, 2018 (a gain of 1.9 points between 2016 and 2018) reflects Valeo's innovation efforts aimed at bringing new products and innovative solutions to market. This population, which represented 23,960 employees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

▶ Breakdown of registered headcount by contract type



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

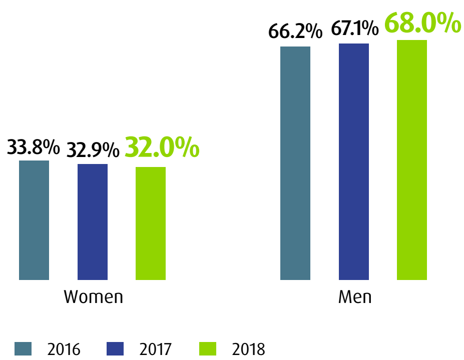
▶ BREAKDOWN OF REGISTERED HEADCOUNT BY GEOGRAPHIC AREA



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

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

▶ BREAKDOWN OF REGISTERED HEADCOUNT BY GENDER



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

Policy and procedures

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

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

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

Organization

Valeo's Human Resources strategy plays a key role in the Group's international expansion and positioning as a company developing and manufacturing high-tech products and systems. It is based on a comprehensive approach, taking into account specific cultural, economic and market conditions, thereby allowing the Group to deal with a broad range of situations in the various countries where it operates.

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

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

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

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

This organizational model is designed to reinforce the partnership between the business and Human Resources teams, develop Human Resources expertise and foster greater efficiency in the function. Valeo applies it in tackling the many challenges it encounters worldwide in developing and managing human resources, from engaging in the fight for talent to building and sharpening advanced skills and improving the quality of employee relations.

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

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

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

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

and **three firm commitments:**

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

4.4.2 Non-financial employee-related risks

Health and safety

Description of the risk

Guaranteeing a work environment free of risk of accidents is the first way to improve the quality of working life of employees and to ensure their involvement in the Group's activities. To ensure the safety of its employees, Valeo monitors all accidents that occur, including "near misses"[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 more than halving the frequency rate (FR1)[2] of lost-time accidents by 2020. To achieve this objective, Valeo, through its risk management manual, rolls out policies and directives on a range of topics (building and facility safety, employee health and safety, data security and the environment).

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

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

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

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

Guaranteeing an accident-free environment requires the governance of the General Management. The Group's progress is monitored by the Group Safety Committee chaired by the Chief Operating Officer, assisted by the Industrial Director, the Health, Safety and Environment Director and the Senior Vice-President, Human Resources.

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

Measures taken to reduce the risk

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

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

The School of Safety Dojo

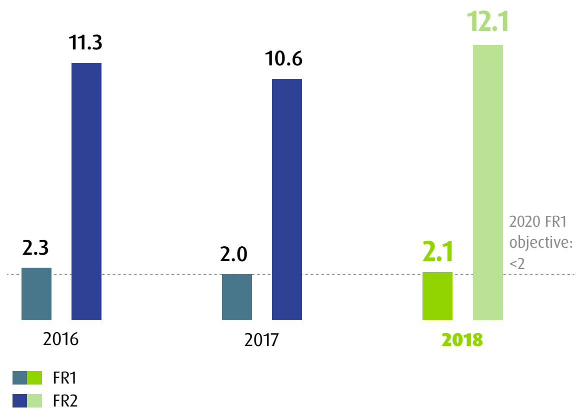
Launch of "The School of Safety Dojo", a training program on the Zaragoza site, Spain.

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

Results and performance

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

▶ FREQUENCY RATE (FR1[(1)] AND FR2[(2)]) OF OCCUPATIONAL ACCIDENTS

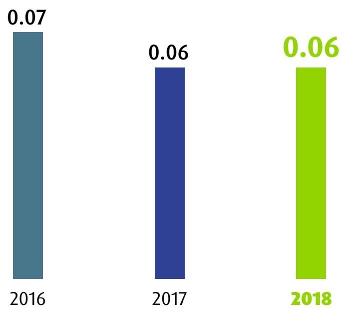


(1) Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year. This indicator takes into account category 1 and 3 accidents. Occupational diseases are included in this indicator as category 3 accidents. Occupational diseases will not be addressed outside this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

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

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

▶ Severity rate (SR1[(1)]) of occupational accidents

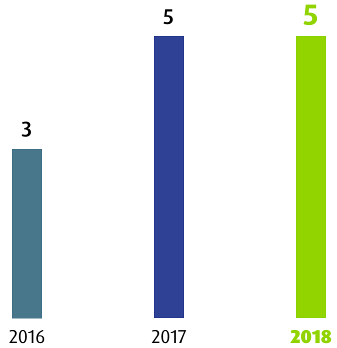


(1) Severity rate calculation: number of calendar days lost during the year x 1,000/number of hours worked during the year.

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

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

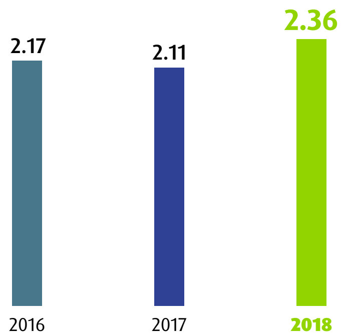
▶ Number of category 1 accidents[(1)]



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

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

▶ Absenteeism rate[(1)]



(1) Calculation of the absenteeism rate: actual hours of absence expressed as a proportion of total possible working hours. Hours of absence taken into account are absences due to a workplace accident, illness, suspension of work, strikes, absences authorized other than statutory holidays, unauthorized absences. Possible working hours are equal to the number of days worked in the month x the daily working hours (excluding overtime) x month-end registered headcount.

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

Attracting talent

Description of the risk

Attracting the best talent is a key challenge for Valeo in achieving its goals in a competitive environment that is undergoing profound transformation. The Group's success hinges on attracting skilled employees internationally in fast-growing markets and emerging countries, and in fields of advanced technology, such as CO_2 emissions reduction and intuitive driving technologies.

Valeo bolsters its appeal by conveying an image and employer promise in keeping with its corporate values and culture. To strengthen its "Top Employer" reputation, Valeo regularly communicates on employment and career opportunities through various communication channels, including social networks. Having skilled teams ensures that Valeo can meet the expectations of its customers around the world, and add value in terms of innovation, total quality and competitive solutions and services.

Risk management policy

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

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

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

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

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

Measures taken to reduce the risk

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

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

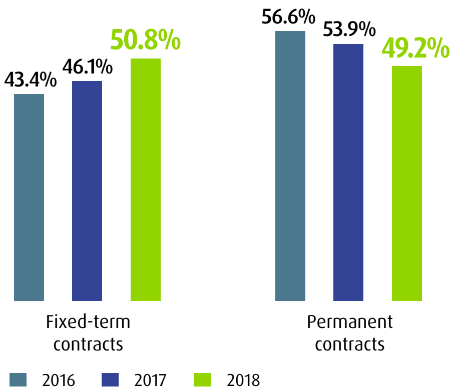
Accompanying Valeo's growth worldwide involves a vast recruitment plan. To this end, a team of recruitment experts has worked on implementing tools to anticipate needs. The TAC teams from different countries have created "Hiring4me", an e-learning module for managers, giving them the tools to create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

New onboarding program rolled out for new hires in 2018

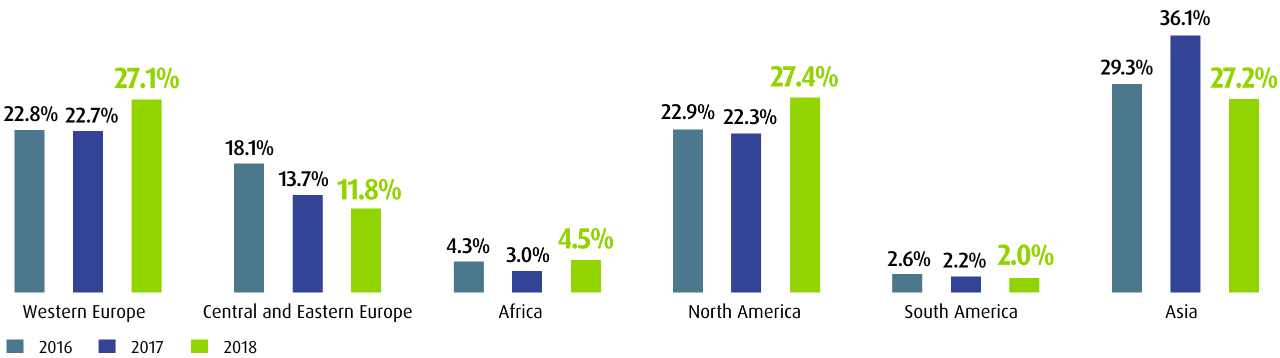
Wishing to facilitate quick and successful integration, Valeo developed an onboarding program called "Discovery" for Managers and Professionals in 2018. Harmonizing the onboarding process ensures that newcomers receive quality information, reinforces the role of the manager, ensures that more local information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

Results and performance

▶ Breakdown of new hires by contract type(1)



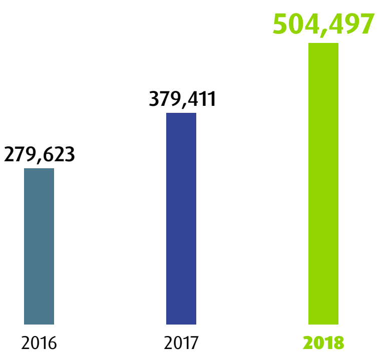
▶ Breakdown of new hires by geographic area(1)



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

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

▶ Change in the number of LinkedIn followers



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

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

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

Developing and retaining talent

Description of the risk

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

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

Risk management policy

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

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

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

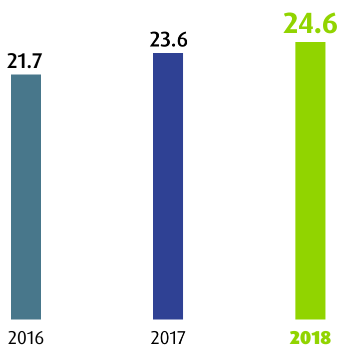
- stabilize the voluntary departure rate among Managers and Professionals at 7%;
- reach an employee shareholding rate of 45%;
- give 100% of employees training in at least one module each year.

Measures taken to reduce the risk

Training

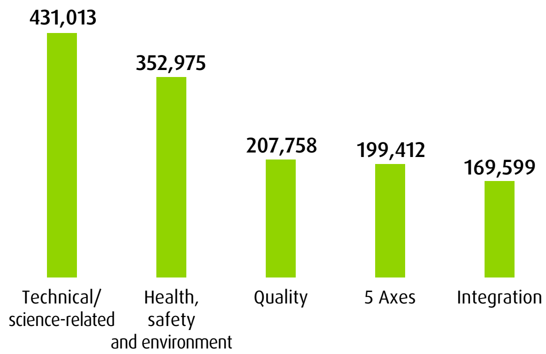
As employee training is a tool for developing and retaining talent, Valeo continued its internal training efforts in 2018. 98.5% of employees took at least one training course during the year, compared with 98.1% in 2017.

▶ **Average hours of training per employee – registered headcount**



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

▶ **Breakdown by hours of training of the five most popular training courses in 2018**



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

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

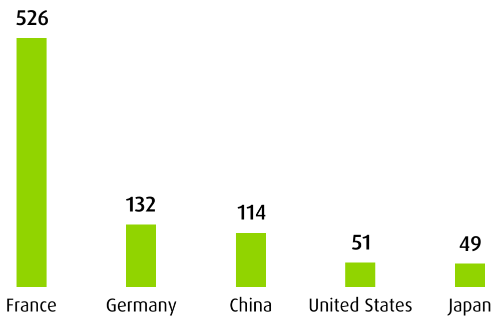
▶ **Change in the number of hours of technical training for technicians and engineers in technical positions between 2016 and 2018**

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

The extent of the increase reflects the key role of Research and Development training at Valeo, which has become one of the world's most innovative automotive suppliers by tirelessly instilling its best standards and practices among its teams, particularly through the Valeo Technical Institutes. Courses are now increasingly taught in e-learning format. Calling on internal and external experts and offering a large spectrum of training to Research and Development teams, the Technical Institutes now rank as a major part of the Group's innovation strategy.

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

▶ **Top 5 countries with the most Experts in 2018**



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

Talent development

To prepare employees for success in their future careers, Valeo has established standard Individual Development Plans and career interviews for Managers and Professionals:

- The Group has set up a competency dictionary by network and function, describing each skill and the level expected for each function. Each year, employees meet with their manager to assess their cross-functional (general), managerial and professional competences, and to draw up an action plan to reduce the skills gap;
- The Group has also defined career paths for all positions existing within its organization. These paths can be viewed by all employees using a Google application, and are also available to external applicants. The goal is to empower each employee in his or her own career development.

A succession and development plan is drawn up each year to identify the next stages in the career path of all Managers and Professionals. It is implemented by each Group entity via a committee responsible for making decisions on internal candidates for vacant positions. Moreover, during their mid-year or year-end appraisal, all Managers and Professionals are made aware of succession plans and the possible next steps in their career paths identified by management and Human Resources teams, taking into account the employee's aspirations.

To ensure a match between identified career paths and vacant positions, a meeting designed to review talent and competences, known as the "People Review", is arranged by entities and networks at each level of the organization. This meeting thus promotes geographic and functional mobility. This, along with the active internal mobility policy, allows the Group's employees to develop throughout their career by working in different functions in other networks or entities.

Furthermore, each year, Valeo offers international career opportunities in the form of assignments of less than one year or expatriation to ensure the transfer of competences to new locations, the strengthening of certain essential skills to support the growth of Valeo's activities internationally, and the individual development of the employees concerned.

This dynamic policy and these tools allow Valeo to create a pool of internal talent to fill vacant positions. As a result, a total of 4,549 Managers and Professionals benefited from career development opportunities in 2018 (up from 2,924 in 2017). The average length of service of Valeo Managers and Professionals in each position is 2.5 years.

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

(1) The process for appointing Experts and consolidating the data for the subsequent year takes place at the end of the year under review. As such, the data published in the 2017 Registration Document relate to 2018. From 2018, Valeo has decided to report the data for the year under review, consolidated on December 31 of the prior year. The 2018 data are therefore identical to those published in the 2017 Registration Document.

(2) To facilitate comparison and follow-up of change in its number of Experts, Valeo has decided to state the number of Experts in 2019. In 2019, Valeo will have 1,261 Experts, breaking down as 928 product Experts and 333 process Experts.

Overall compensation and benefits

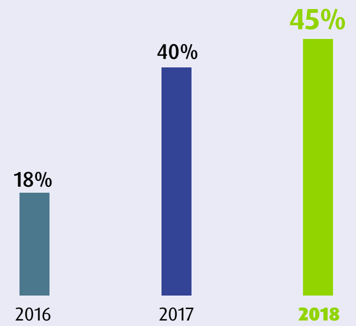
Valeo also conducts regular competitiveness analyses of salaries in major markets to ensure the appropriateness of pay scales in the countries where the Group operates. The information used to develop compensation policy is obtained from reliable and varied sources, including market practices from specialized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

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

Initiatives in 2018

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

▶ Percentage of employee shareholders at Valeo



▶ Payroll costs and personnel expenses

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

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

▶ Breakdown of payroll by geographic area in 2018

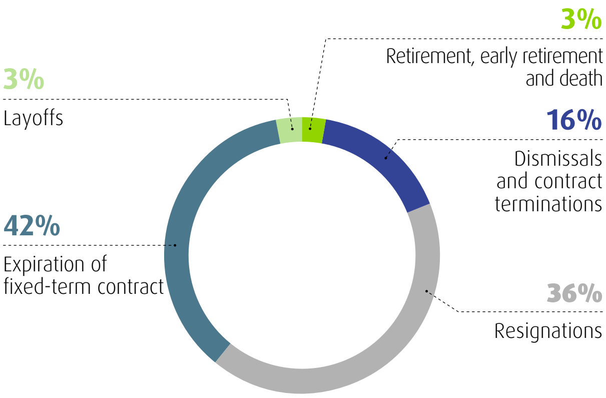
(in millions of euros)	France	Europe (excl. France)	Outside Europe
Payroll costs excluding social security contributions and interim staff (F)	671	1,086	1,178
Social security contributions (G)	255	238	182
Total payroll costs (excluding pension costs) (H)	926	1,324	1,360
Contribution rate (G/F)	38.00%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

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

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

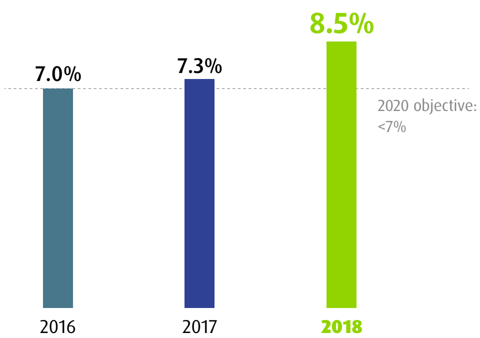
Results and performance

▶ Breakdown of turnover by cause in 2018



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

▶ Voluntary turnover of Managers and Professionals*



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

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

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

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

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

To ensure the retention of talent, Valeo informs each Manager and Professional at their mid-year or year-end appraisal of prospective career developments. In addition, to give them a role in their own professional development, Managers and Professionals have been given the opportunity to communicate their desired career development opportunities ahead of the year-end appraisal since 2017. Their wishes were then reviewed and discussed by line management and the Human Resources network, with a view to giving precise feedback on career prospects during the year-end appraisal.

4

4.4.3 Valeo's employee-related commitments

Quality of life at work

Challenges

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

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

Approach

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

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

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

Quality of life at work committees are also set up in all plants around the world. They are composed of a multidisciplinary team: site manager, employee representatives and members of the HR network, Health, Safety and Environment network and the site's medical team. They are tasked with the plant's Quality of Life at Work policy, tailored to the site's challenges, and ensuring that it is communicated to employees.

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

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

Performance

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

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

Achievements during the year

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

Launch of a global engagement survey in 2018

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

Respecting and promoting diversity

Challenges

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

Approach

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

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

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

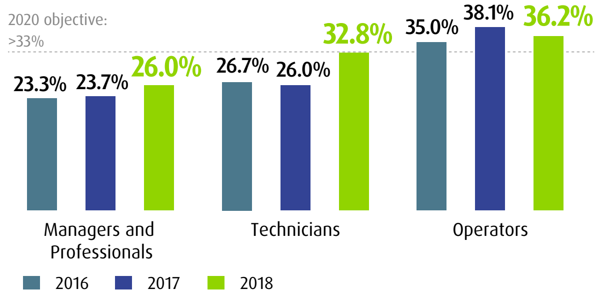
Firmly believing in the importance of diversity in non-financial and financial results, the Group decided in 2018 to incorporate the criterion of diversity into the variable compensation of Jacques Aschenbroich, its Chairman and Chief Executive Officer. The aim of this approach is to send a strong signal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

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

Performance

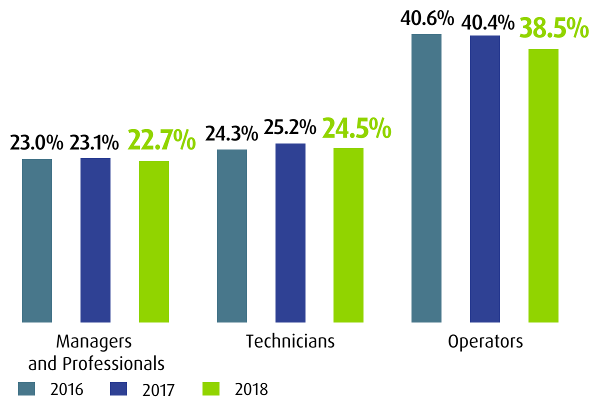
Gender

▶ **PERCENTAGE OF WOMEN AMONG NEW HIRES**



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

▶ **PROPORTION OF WOMEN PER SOCIO-PROFESSIONAL CATEGORY – REGISTERED HEADCOUNT**

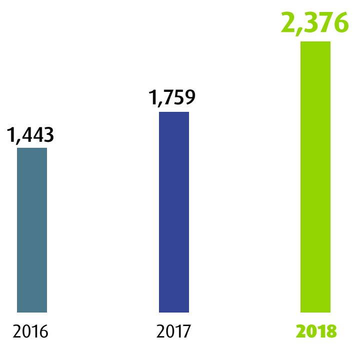


The percentage of women in the general population is 32.4%. The percentage of women Managers and Professionals is 22.7%. The share of women in R&D increased from 14.4% to 16.9% between 2017 and 2018. Valeo is committed to promoting and developing female talent. In 2018, the share of women in top management[1]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

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

Disability

▶ **Number of employees with disabilities worldwide (direct employment)**



The new disability management approach, which allowed for better follow-up of recruitment and promotion of the talents of workers with disabilities, had immediate positive repercussions: in 2018, Valeo had 2,376 workers with disabilities among its employees. This represents an increase of nearly 35% compared with 2017, and primarily reflects the wider recognition of employees with disabilities as well as hiring initiatives in the Group's different countries. In 2018, 58 plants developed partnerships with agencies specializing in hiring people with disabilities.

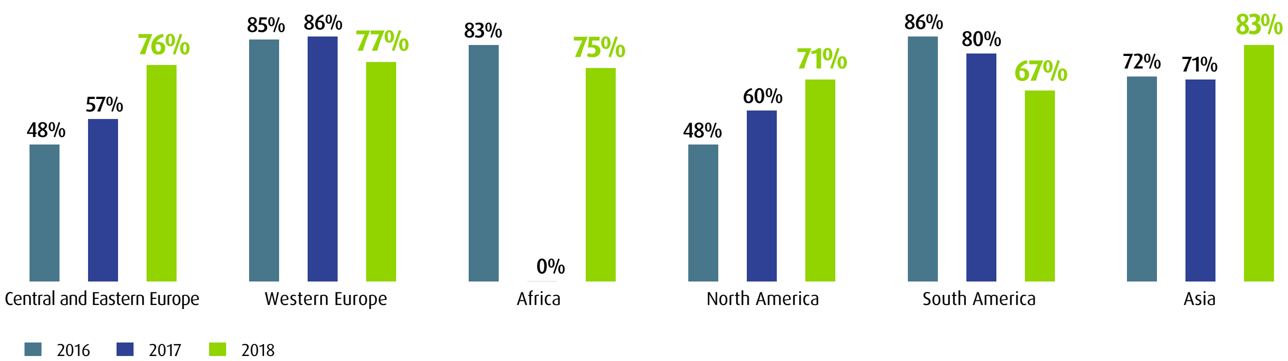
Culture

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

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

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

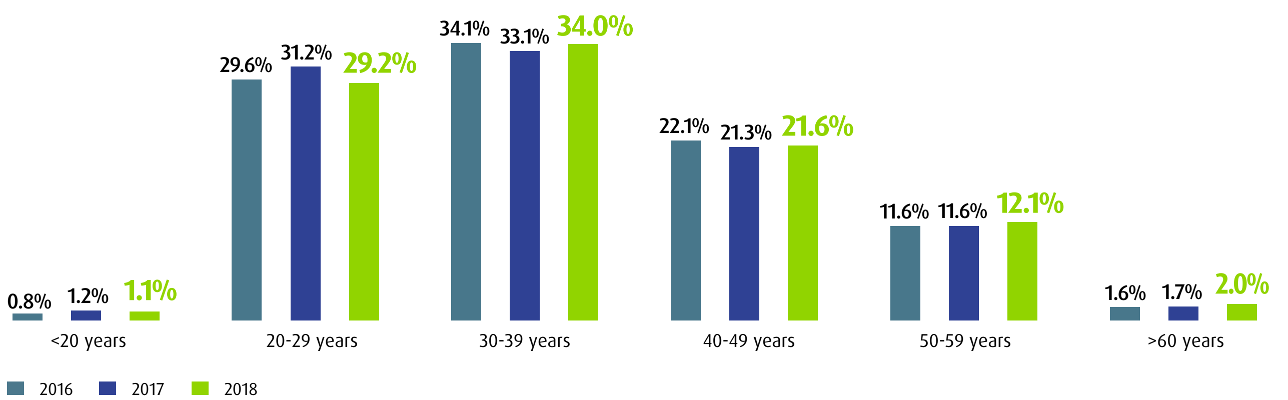
▶ **Breakdown of sites run by local directors (2018)**



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

Generational

▶ **Breakdown of registered headcount by age group**



In 2018, Valeo had a total of 15,077 employees aged over 50, and 32,563 aged under 30, representing 14.7% and 31.8% of the registered headcount respectively. In 2017, Valeo had a total of 13,356 employees aged over 50, and 32,466 aged under 30, representing 13.7% and 32.5% of the registered headcount respectively.

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

Achievements during the year

Gender

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

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

Disability

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

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

HandiTech Trophy

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

Culture

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

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

Generational

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

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

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

Promoting and respecting fundamental rights

Challenges

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

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

Approach

- The Group is committed to having the CSR report prepared in accordance with the provisions of the CSR agreement presented and discussed with local unions on all plants by 2020.
- To promote and ensure respect for fundamental rights, Valeo's goal by 2020 is to ensure that all of its employees have received the Code of Ethics and signed the relevant statements, and that they have received training on its content.

Social dialog

In 1999, Valeo concluded an agreement to set up a European Works Council. The agreement was renegotiated and signed unanimously by the unions in 2016. The Works Council provides a forum for exchanging views and establishing dialog between management and the 16 employee representatives from each European country in which Valeo has more than 150 employees. A nine-member committee meets quarterly at a European site.

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

In 2018, 61.4% of Valeo plants had formal bodies representing employees and unions. This representation at different levels of the organization has allowed Valeo to develop an active bargaining policy with the unions. Valeo must continue promoting high quality labor relations that provide a platform for exchanging points of view, fostering mutual understanding and finding well-balanced solutions that are in the interests of all stakeholders.

Fundamental rights

Valeo has participated in the UN Global Compact since 2004. The Group also aims to comply with the International Labour Organization (ILO) conventions on fundamental principles and rights at work:

- elimination of discrimination in employment and occupation (Conventions 100 and 111);
- prohibition of child labor (Conventions 138 and 182);
- elimination of forced and compulsory labor (Conventions 29 and 105);
- respect for weekly rest periods (Conventions 14 and 106);
- freedom of association and collective bargaining (Conventions 87 and 98);
- protection of workers' representatives and union members (Convention 135);
- equal rights and opportunities for workers with family responsibilities (Convention 156).

Professional, individual and collective integrity is a key value of the Group. Wishing to ensure that it is embodied by all employees in all their exchanges (internally and externally), Valeo published its Code of Ethics in 2005. It combines the Valeo Values, the 5 Axes and the Valeo Compliance Program. To ensure that all employees understand the commitments made by Valeo in its Code of Ethics, the document is given to all employees, who are required to sign a statement acknowledging receipt and pledging to uphold it. In 2018, 99% of employees had signed a declaration acknowledging having received a copy of the Code of Ethics, up from 95% in 2017[2].

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

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

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

These procedures apply to all of the Group's employees. Each of them sets out Valeo's approach and commitments, specifies the roles of the various stakeholders and determines the follow-up methods implemented by the Group, which are based on specific, quantifiable and auditable criteria.

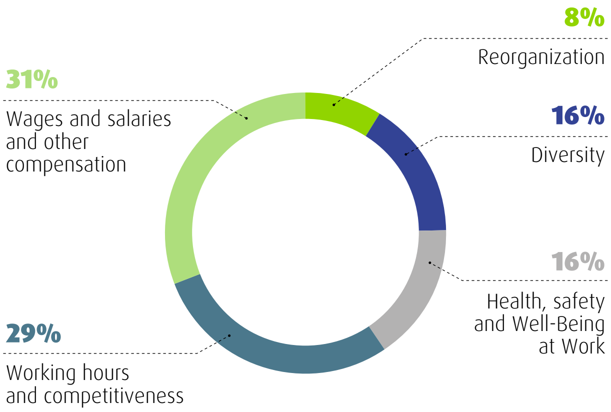
(1) This paragraph deals with the promotion and respect of the fundamental rights of Valeo employees. The risk related to sustainable development practices of tier-one suppliers is discussed in "risk related to suppliers' sustainable development practices" (see section 4.5.2 of this chapter, "Non-financial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

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

Performance

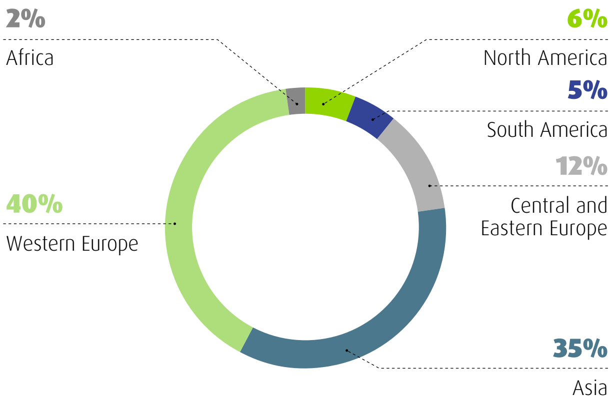
A total of 572 collective bargaining agreements were in force locally and nationally at Valeo's various sites worldwide in 2018. The topics covered by these agreements are as follows:

▶ **Breakdown of agreements in force by category in 2018**



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

▶ **Breakdown of agreements signed by geographic area in 2018**



The vast majority (87%) of agreements were signed in Europe and Asia. Europe, given its historical tradition of labor relations, was home to nearly one out of every two agreements in 2018. The high proportion of agreements signed in Asia demonstrates the Group's determination to promote this type of dialog with labor organizations worldwide.

Achievements during the year

Employee relations

A Corporate Social Responsibility (CSR) agreement was signed on July 10, 2012 and renewed on November 4, 2016 between the Group's Management and trade unions. The purpose of this global agreement is to ensure that an appropriate labor framework is in place to accompany the Group's international expansion, in line with its principles of responsibility, Code of Ethics and sustainable development policy. The agreement also seeks to promote labor and environmental practices that go beyond legal and regulatory obligations. The procedures and principles defined in the agreement are being phased in by the subsidiaries at the various national and local levels. This agreement is intended to be a determined reflection of the commitment to universal principles for all of the Group's companies, as well as being pragmatic, by respecting cultural, social and economic differences in the implementation of the principles. In 2018, the CSR report provided for in the CSR agreement was presented and discussed at the European Works Council.

Fundamental rights

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

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

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

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

The scope of the Valeo whistleblowing line, which has hitherto been used to signal management of non-compliance with internal regulations concerning anti-competitive practices, corruption or fraud, has been extended. It now allows the reporting of any behavior contrary to international laws or agreements, including violations of fundamental rights, environmental breaches or the health or safety of people. Valeo does not tolerate any form of retaliation against people who blow the whistle in good faith, or who take part in investigations, proceedings or hearings. The scope of the whistleblowing line covers all employees and former employees, as well as suppliers.

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

4

(1) Law No. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization.
(2) Law No. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.

4.5 Valeo's social footprint

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

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

4.5.1 The Group's social policy

The fight against fraud and anti-competitive practices

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

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

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

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

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

- concretely and operationally reflect Valeo's determination to comply with regulations;
- describe prohibited practices and lay down conditions and prerequisites governing certain business relationships and cooperative arrangements;
- establish procedures for implementing and monitoring the effectiveness of the Compliance Program in preventing and detecting risks, and implementing corrective action plans as appropriate.

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

A data protection program

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

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

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

Valeo has also adopted clear rules:

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

The program calls on the following tools:

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

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

Sustainability requirements for Valeo's suppliers

Key figures

Key figures in 2018

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

Directives for sustainability in the purchasing policy

Valeo's purchasing policy is built on three directives:

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

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

- facilitating an understanding of the risks of a breakdown in the supply chain by taking into account a wider range of risk factors, known as sustainability factors (integrating the governance, social, environmental and fundamental rights dimensions, etc.);
- boosting suppliers' competitiveness by guiding them towards continuous improvement practices in terms of optimizing logistics and environmental costs, reducing energy costs, etc.;
- putting down deep roots in local ecosystems, applying a purchasing location policy at a regional level.

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

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.

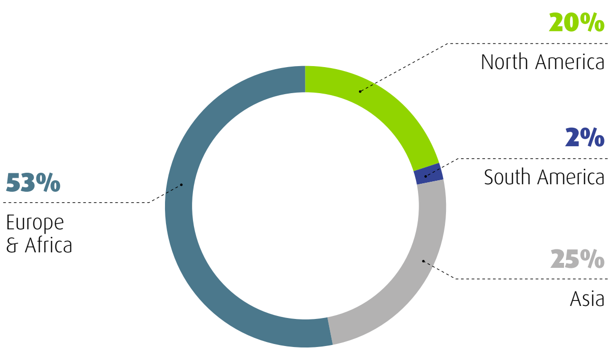
Furthermore, the policy of reducing the risks related to currency fluctuations has also led Valeo to favor local suppliers that comply with its supplier selection criteria.

The supply chain is based on the following principles:

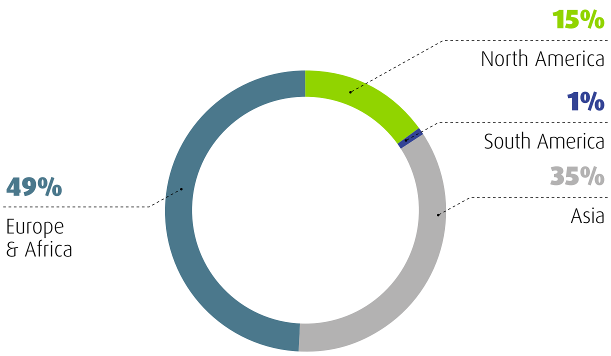
- symmetry between the areas of origin and consumption of purchases, reflecting the broad reach of Valeo's supply chain, in line with the Group's industrial footprint;
- balance between the main purchasing families, reflecting the breadth of Valeo's product portfolio.

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

▶ Breakdown of direct purchases by geographic area of origin in 2018



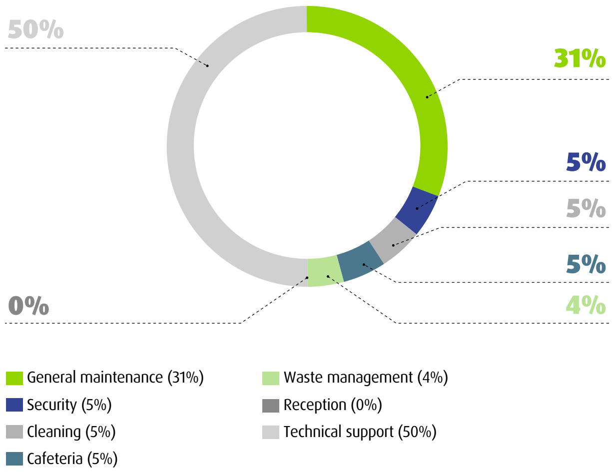
▶ Breakdown of direct purchases by geographic area of consumption in 2018



Due to its long-established presence in the region, Europe is Valeo's primary geographic area in terms of consumption (53%) and supply (49%) of purchases. As a direct result of the Group's growth strategy in emerging countries, Asia ranks second, in terms of both consumption (25%) and number of suppliers (35%).

Subcontracting

▶ Total subcontracting expenditure by category in 2018



Valeo engages subcontractors to perform specific services at its many sites. As a result, the Group ensures that its subsidiaries comply with the provisions of national labor law and ILO conventions in their dealings with subcontractors, requiring them to sign and accept the provisions of the Valeo Business Partner Code of Conduct, and in particular the articles concerning employees' fundamental rights.

Subcontracting represented over 400 million euros in purchases in 2018. Technical support services are significant, and account for more than 50% of this expenditure due to the IT services provided by outside companies (hardware, networks, services, computer applications). General maintenance costs represent more than 30% of expenditure due to the industrial nature of Valeo's activities.

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

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

Signing the Charter of Intercompany Relations

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

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

The charter requires that each signatory appoint a supplier representative to act as an internal mediator to facilitate the settlement of any disputes with suppliers and to help develop healthy long-term relationships. The internal mediator was appointed on March 13, 2012.

Ongoing sustainable development commitment through the Automotive Future Fund

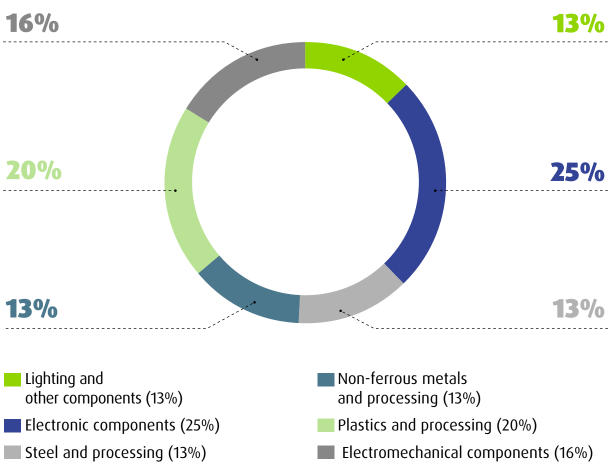
Since the FMEA Tier 2[1] was set up in 2010, Valeo has been involved, alongside Bpifrance and other automotive suppliers (Bosch France, Faurecia, Hutchinson, Plastic Omnium), in providing the fund with capital, selecting automotive suppliers and assisting the fund in acquiring minority stakes in their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

In this way, the fund gives these companies medium- and long-term visibility and consolidates the automotive value chain while strengthening a number of these SMEs, which depend heavily on orders from automakers and tier-one automotive suppliers. This initiative has helped limit fractures in the industry supply chain in France.

The Automotive Future Fund (*Fonds Avenir Automobile* – FAA) is involved in the governance of the various companies in which it has previously invested, and which need a stronger industrial foothold in a competitive international environment. It continues to work on selecting potential SMEs whose core businesses are turned toward the automotive industry of the future.

Typology of Valeo's purchases

► **Breakdown of purchases by commodity in 2018**



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

A commitment to ecosystems and populations

Valeo sites, actors in their regions

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

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

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

Promote the commitment of Valeo's sites worldwide

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

At the end of each year, Valeo takes stock of the actions undertaken at its sites. The most effective and useful initiatives are showcased via internal and external communication channels to encourage other sites to support the same sort of actions. For example, articles from the ValeOnline Newscenter emailed to Group employees discuss some of the outstanding site initiatives. Valeo also highlights local plant engagement in publications, such as the Management Report, by explaining and developing the purpose and results of their initiatives. For the third year running, all sites organized at least one corporate citizenship initiative. These various initiatives seek to improve working conditions for Valeo employees while also having a positive impact on the region's local development.

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

4.5.2 Non-financial social risks

Risk of corruption

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

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

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

Description of the risk

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

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

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

Risk management policy

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

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

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

- put Valeo's determination to comply with regulations into practice in its day-to-day operations;
- describe prohibited practices and lay down conditions and prerequisites governing certain business relationships and cooperative arrangements;
- establish procedures for implementing and monitoring the effectiveness of the Compliance Program in preventing and detecting risks, and implementing corrective action plans as appropriate.

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

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

Measures taken to reduce the risk

As part of the policy presented above, Valeo:

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

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

Initiatives in 2018

1) Extension of prevention methods

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

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

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

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

2) Stricter management of risks represented by third parties

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

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

Results and performance

Circulation of the Code of Ethics

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

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

Anti-corruption training

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

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

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

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

Description of the risk

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

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

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

Risk management policy

Structure of the purchasing function at Valeo, and supplier relations

As a tier-one automotive supplier[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.

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

- quality;
- industrial location;
- competitiveness.

Management of the supplier panel

The Group's Purchasing Department has two major priorities:

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

Purchasing departments in each of the Group's regions (Europe, Middle East, Africa, China, India, Japan, ASEAN[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).

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

(2) ASEAN: Association of Southeast Asian Nations.

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

Before any supply agreement is awarded, suppliers must undergo the following qualification process:

- each supplier is required to complete a detailed questionnaire to enable Valeo to identify potential risks and to determine the overall level of risk. Based on these evaluations, Valeo checks the main requirements, highlights potential weaknesses and decides whether it needs to examine certain issues further during a visit to the supplier's plant. If so, an audit team composed of Group buyers, quality specialists and engineers is selected and sent to the site to verify the information given by the supplier. Following the site visit, the team decides whether or not the supplier can be included on the supplier panel, possibly following the implementation of an improvement plan jointly agreed with the supplier;
- after the meeting of the selection committee and the award of the contract, the supplier is officially listed, and the specific requirements for the deliverable components are set out in Valeo's specifications. A Supplier Quality Engineer from the project team monitors the development and industrialization of components and guides the supplier through final component qualification. If necessary, Valeo's laboratories perform interim design reviews, run tests and take any special measures required. In any event, Valeo always performs an on-site audit.

To be included in the supplier panel, suppliers must meet Valeo's ethics, integrity and sustainable development requirements. In 2015, these obligations were combined in the Business Partner Code of Conduct. This document incorporates all the fundamental principles of the UN Global Compact, the Valeo Code of Ethics and the fundamental principles of fundamental rights, including the freedom of association, the elimination of forced labor, the fight against corruption and workplace health and safety. Any supplier that fails to respect these rules of conduct is liable to receive sanctions, ranging from temporary suspension from new Valeo projects to definitive exclusion from the supplier base. No sanctions of this type were imposed in 2018.

Without calling into question the principles of the Supplier Commitment for Sustainable Development (SCSD) deployed among the incumbent supplier base and supported by Valeo's adherence to the Global Compact principles, the Group is now rolling out its ethics, compliance and sustainable development commitments to all of its suppliers, using the same methods, through its Business Partner Code of Conduct (BPCC).

Valeo's supplier base breaks down into several categories based on the supplier's performance level in a given product family. In the event of critical performance or non-compliance with Valeo requirements, a supplier can be placed on "probation" for a maximum of one year and be required to implement an action plan. If the probation period is not successful, the supplier may be excluded from the supplier base.

New suppliers are also placed on probation for at least two years. During this period, the number of projects assigned remains under strict supervision to protect the supplier against the risk of becoming overly dependent on Valeo.

With this system, Valeo aims to better control its supply chain while building trusting relationships with its suppliers through cooperation on remedial action or improvement programs that are aimed at preventing or limiting operating risks.

Measures implemented

Assessment of suppliers' sustainable development practices

As part of the Group's policy of reinforcing the support offered to its suppliers along the entire supply chain, the Sustainable Development & External Affairs, Purchasing and Quality Departments have launched a survey on sustainable development choices across a representative sample of suppliers accounting for 67% of the Group's production purchases.

In 2018, Valeo reinforced this assessment of practices by scheduling a global audit campaign every January among suppliers identified through the sustainable development questionnaire. Audits have been performed in Europe, Asia (China, Japan, India, Thailand) and North America (United States, Mexico), giving suppliers a new dimension of support in their sustainable development approach. The variety of the suppliers audited (by commodity, segment, company size, etc.) enabled Valeo to grasp the diversity of sustainable development practices, and to provide assistance and corrective actions in the event of failings or inadequacy in respect of the Group's sustainable development standards.

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

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

Anticipatory measures to ensure legal compliance in France

To anticipate changes in the French legal framework[1], and on the basis of feedback from its suppliers on certain evaluation criteria, the Valeo Code of Conduct for Suppliers specifies the Group's requirements in terms of fundamental rights (minimum working age, prohibition of forced labor, respect for freedom of association, etc.), workplace health and safety and respect for the environment. In addition to the commitment made by Valeo's suppliers to comply with the Valeo Code of Conduct, the Group has included a section related to human rights in the sustainable development questionnaire it sends each year to a representative sample of its suppliers. This is also reviewed and verified during the supplier sustainable development audits that the Group put in place in 2015. Some of these risk apprehension criteria were reviewed in 2018.

Initiatives in 2018

Assessment of electronic component suppliers' sustainable development practices

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

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

The sites audited presented satisfactory results overall. Nevertheless, despite the diversity of the suppliers audited, the following improvement actions were identified:

- introduction of enhanced training in sustainable development in operations for middle management;
- greater attention to be given to safety on production sites;
- systematic requirement that codes of conduct be signed by their own lower-tier suppliers.

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

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

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

Results and performance

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

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

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

For 66% of the survey respondents, commitment to sustainable development and CSR also involves communicating their own sustainable development and CSR standards and requirements to their pool of suppliers. More than two-thirds of the suppliers surveyed assess their own suppliers' compliance with these requirements through evaluations on the same sustainable development issues and the duty of care, as part of supplier selection processes or through self-assessment or audits.

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

With this type of questionnaire, Valeo hopes to transmit its CSR experience to its suppliers by communicating quality and responsibility requirements, which are important aspects in risk management, and to set an example to encourage its suppliers to apply the same principles throughout the supply chain. Going by their responses, eight suppliers appear not to comply with the sustainable development requirements set by the Group. Specific monitoring of these suppliers will be organized in 2019, including, if necessary, a dedicated on-site audit, with the aim of implementing a corrective action plan for the coming year.

Conflict minerals

In 2013, Valeo's Purchasing Department aligned its sourcing processes with the American Dodd-Frank Wall Street Reform and Consumer Protection Act of July 21, 2010 on conflict minerals (title XV) in a joint effort to end the financing of violent conflict in the Democratic Republic of the Congo (DRC) and neighboring countries, which is financed in part by mining and the mineral trade. Valeo requires all its suppliers to comply with the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

A specific initiative introduced in conjunction with the Research and Development Department allows the Group to better identify potential sources of conflict minerals. Thus, in 2018, 75% of the suppliers identified using this initiative provided the Group with a certified report on conflict minerals using the Conflict Mineral Reporting Template (CMRT) developed by the Conflict-Free Sourcing Initiative (CFSI).

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

To help suppliers apply the Group's ethics and compliance principles, the Purchasing Department and Ethics and Compliance Office have provided manuals on Valeo's website to raise awareness about both the substantial legal risks of anti-competitive practices and corruption and about Valeo's compliance policies and requirements.

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

North American diversity programs applied to suppliers

Minority diversity programs in North America (United States and Canada) have added the Minority Business Enterprises (MBE) and Women's Business Enterprises (WBE) criteria for the integration of women and minorities in business to the evaluation criteria for US and Canadian suppliers. These criteria apply to both the supplier qualification processes and the selection and award meetings held to review entities located in North America.

4.5.3 Valeo's social commitments

Pro-active commitment to local communities

Challenges

Consistent with its size and worldwide scope, Valeo takes a firm stance on responsibility and commitment in its relationships with its many and varied stakeholders.

The quality of the initiatives implemented at Valeo's sites is a major factor in Valeo's corporate citizenship endeavor. The table below lists the main initiatives undertaken in 2018.

▶ Main corporate citizenship initiatives at Valeo sites

Commitment	Partners	Focus of the initiatives
Action with local communities	■ 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

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

The Group's special relationship with Japan is also reflected in the Franco-Japanese business club that Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo, has co-chaired since October 2013, and whose 2018 meeting was held in Paris.

Action by sites with local communities

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

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

Relationships with local educational and training bodies

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

As such, 82% of sites worldwide initiated partnerships and exchanges with higher education structures (universities/engineering schools) in 2018. The diversity of relationships and partnerships with these teaching institutions reflects the wide range of relationships sites have with their local environments, depending on the specific local teaching and training environment.

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

▶ **Share of sites partnering with local universities/engineering schools in 2018**

Similarly, at the primary school level, the Group first called on sites to build closer relationships with elementary and high schools in 2016, as a means of addressing Valeo's lack of visibility as a local economic actor and potential current or future employer. The positive outcomes two years after the introduction of this objective reflect sites' awareness of the importance of visibility for industrial players at all levels of the education system. Collaborations of this nature can take various forms, predominantly site visits and introductions to industrial professions.

▶ **Share of sites partnering with local elementary/high schools in 2018**

Valeo is committed to promoting industrial jobs among women

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

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

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

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

Relationships with local research ecosystems

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

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

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

Plants' initiatives alongside local populations

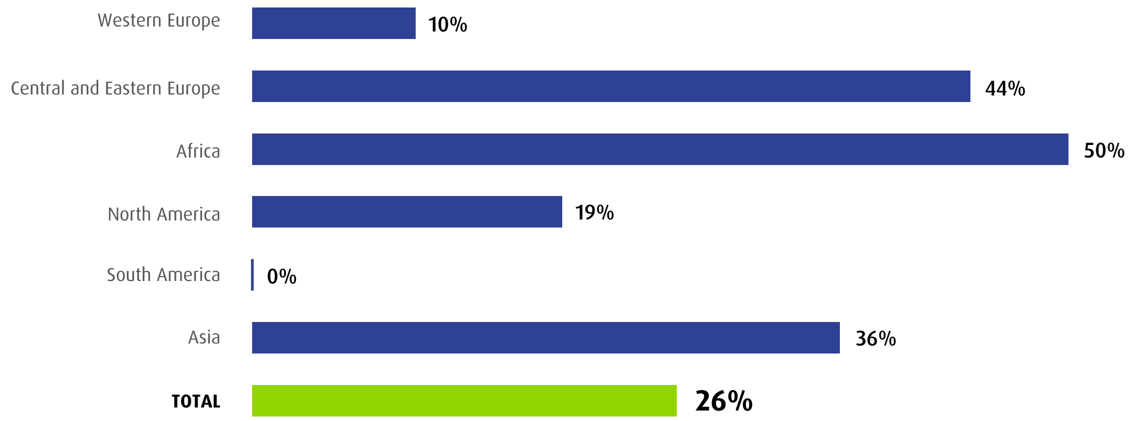
Valeo sites involved in dialog with local stakeholders

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

Open days at Valeo sites

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

► Proportion of sites that held an open day in 2018



Valeo employees, working with the local community

Valeo China, an advocate for children's access to books

In 2015, Valeo in China launched a program entitled "The Valeo Library", under which employees of Valeo sites in China are encouraged to donate books allowing libraries to be opened in schools in disadvantaged areas. After opening its 30th library in November 2017, Valeo continued this program in 2018 by involving more sites. Since its launch, the program has provided access to a library and books for more than 5,000 children, with more than 20,000 books donated.

With a view to establishing a lasting relationship with their local communities, Valeo sites and their employees are committed to solidarity actions around the following main themes:

- awareness raising on critical illnesses and disabilities, such as breast cancer and visual impairment (including on-site testing), and fundraising events including charity races and other initiatives;
- initiatives to help address public health issues. For example, blood donation campaigns were organized in many of the Group's host countries worldwide in 2018;
- charity targeting the poorest populations, primarily in the form of donations of clothing and food, such as those run by Valeo sites in Turkey, the Czech Republic, Brazil and Thailand;
- awareness raising around sustainable development, during the "sustainable development week" held every June in a large part of the Group's sites.

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

In 2018, one-third of sites made financial donations for local support and charity initiatives. Site employees also initiate their own charity campaigns, as well as in-kind donation campaigns (objects, school supplies, clothing, etc.).

Valeo's historic link with the Garches Foundation

The Group is a founding member of Institut Garches, which was created in 1988 and became a foundation in May 2005. The organization works to encourage the independence and professional and personal integration of people with motor disabilities. The foundation has put together a considerable network of expertise, including doctors, heads of motor disability associations and heads of partner companies. Valeo works alongside professionals from the foundation's wheelchair selection and test center.

The Group's Research and Development Department thus launched a technological innovation program to build an obstacle detection system for wheelchairs. The system will allow people who occasionally lose control of their movements to maneuver a wheelchair and offer them a certain degree of mobility.

Public and regulatory policies

Challenges

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

Approach and achievements during the year

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

Relationships with public bodies

Valeo develops institutional relationships with relevant administrations (at international, national and local levels), through regular dialog, such as:

- dialog with international organizations (UN Global Compact, OECD, World Bank);
- consultations on request:
  - from the European Commission (Directorates-General for Industry, Research, Transport, and the Environment),
  - from ministries of industry (France, China, Spain), the economy (France, Poland, Japan, Germany), research (France, China), energy (France, United States), transportation (France, Germany, United States) and employment (all countries where there are Valeo sites);
- co-construction/co-management of jointly financed projects, especially through participation in the governance bodies of European Union public-private partnerships (European Green Vehicle Initiative Association – 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 4.2.1 of this chapter, "Group Research and Development policy", paragraph "Valeo, an actor in the governance of institutional collaborative research organizations", page 192).

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

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

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

The Group's main items of expenditure are:

- membership of the main bodies managing the interests of original equipment manufacturers and aftermarket suppliers of the main global automotive markets, which represent Valeo's main financial contribution to interest groups and its only activities that qualify as lobbying;
- personnel expenses of the Public Affairs Department (fewer than three FTEs[(2)] per year).

As in previous years, the Group did not use public affairs consultancy services in 2018. Moreover, in accordance with its Code of Ethics, Valeo does not make any donations or give any support to political parties in any countries where the Group operates.

Membership of professional bodies

As an independent, global tier-one[(3)] automotive equipment supplier, Valeo is a member of the main organizations that represent the interests of original equipment and aftermarket equipment suppliers on the world's main automotive markets:

- in Europe: CLEPA (European Association of Automotive Suppliers);
- in the United States: OESA (Original Equipment Supplier Association);
- in France: FIEV (*Fédération des industries des équipements pour véhicules*);
- in Germany: VDA *(Verband der Automobilindustrie)*;
- in Spain: Sernauto *(Asociación Española de Proveedores de Automoción)*;
- in Italy: ANFIA *(Associazione Nazionale Fra Industrie Automobilistiche)*;
- in Japan: JAPIA (Japan Autoparts Industries Association);
- in Brazil: Sindipeças (*Sindicato Nacional da Indústria de Componentes para Veículos Automotores*).

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

(2) Full-time equivalents.

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

4.6 Methodology and international guidelines

4.6.1 Sustainable development reporting methodology

Reporting methodology for environmental indicators

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

Scope and consolidation

Scope

Published environmental data concern all plants and distribution platforms managed by Valeo worldwide, excluding research centers not located at production sites, administrative sites, sites located at or near automaker sites, such as vehicle front-end assembly sites, and subsidiaries in which the Group has a non-controlling interest. In all, a total of 130 sites report environmental indicators.

Until 2015, Valeo considered that the reporting year began on December 1 of the prior year and ended on November 30 of the reporting year. In order to publish more reliable data within the required time frame, Valeo amended its reporting period in 2016. It now considers that the reporting year begins on October 1 of the prior year and ends on September 30 of the reporting year. The 2016, 2017 and 2018 figures published in this document correspond to the new period, while figures from previous years correspond to the former period.

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

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

Changes in scope

Data for sites newly consolidated in a given year (i.e., new sites or sites in which the Group increases its interest and gains control) are only consolidated as of the following year.

Sites that have been sold or shut down during the reporting year are excluded entirely from that year's data. However, their data for previous years are retained.

Consolidation rules

The environmental impacts generated by sites in which Valeo holds an interest of 50% are included on the basis of a 50% share. The impacts of sites in which Valeo holds an interest of more than 50% are included in full. Most indicators are expressed in absolute value terms (total quantity) as well as in relation to sales. 2018 sales are calculated on the basis of a year beginning on October 1, 2017 and ending on September 30, 2018 so as to match the reporting period of the 2017 indicators. The ratio per million euros is calculated by dividing total quantity by sales for the relevant sites.

Source of data

Environmental data are collected by a centralized online application (Valeo Environmental Indicators), except for environmental indicators relating to the consumption of raw materials, ISO 14001, ISO 50001 and OHSAS 18001 certification and indirect greenhouse gas emissions relating to logistics, inputs and the use of products sold by Valeo. The other aforementioned data are collected from the relevant internal department and consolidated by the Health, Safety and Environment (HSE) Department. Financial data (sales) and those relating to raw materials for the scope 3 calculation are sent directly by the Group's Finance Department.

Specifications

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

Controls and external verification

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

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

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

Methodological limits

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

- the absence of harmonized national or international definitions, especially on hazardous substances and waste;
- use of estimates where measurements are not possible, for example for atmospheric VOC[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 186 plants, 21 research centers, 38 development centers and 15 distribution platforms located in 33 countries, except for the Fuzhou Niles Electronic Co. joint venture. As such, all countries and Business Groups are concerned, including Valeo Service. Valeo reports its labor-related indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

Changes in scope

Data for companies newly consolidated during the current year and present at December 31 are included where such data are available.

Sites that have been sold or shut down during the reporting year are excluded entirely from that year's data. However, their data for previous years are retained.

Consolidation rules

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

Source of data

Labor-related indicators are collected by the Business Groups' and Valeo Service's Human Resources Departments and the Group's Human Resources Department via a personal data management application, PeopleSoft.

Financial data are sent directly by the Group Finance Department.

Specifications

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

Controls and external verification

Consistency checks on data for each site in the scope are performed by the site and the Business Group Human Resources Department. All labor-related indicators have been audited by Ernst & Young and are also subject to external verification by the Statutory Auditors. Precise definitions of indicators included in the tool and user guides have been prepared in French and English, to improve the reliability of reporting and reduce unreliable sources. They are regularly updated and distributed to all contributors.

(1) See Sustainable Development Glossary, page 262.

Reporting methodology for social indicators

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

Scope and consolidation

The Group includes in its worldwide scope of consolidation the 186 plants, 21 research centers, 38 development centers and 15 distribution platforms located in 33 countries, except for the Fuzhou Niles Electronic Co. joint venture. As such, all countries and Business Groups are concerned, including Valeo Service. Valeo reports its social indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

Source of data

Social information is collected as follows:

- data on local plant initiatives, which allow the Group to monitor initiatives aimed at local populations and communities, are reported through a single centralized tool used by Human Resources Departments. As all the sites surveyed responded to this questionnaire, the published data covers the Group's entire scope of consolidation;
- data concerning Valeo's purchases and suppliers were collected and analyzed jointly by the Purchasing and Sustainable Development and External Relations Departments;

  The sustainable development performance of the Group's suppliers was assessed based on a survey entitled "Supplier Evaluation on Sustainable Development Practices", with an online questionnaire to be completed by the supplier. Valeo has established a representative sample of its main suppliers, covering 63% of the total value of the Group's production purchasing;
- data concerning fair practices and compliance were collected by the Ethics and Compliance Office. Quantified data on training on risks related to corruption and anti-competitive practices were collected by the Human Resources network, which regularly records training data (see reporting methodology for labor-related indicators).

Specifications

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

Controls and external verification

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

4.6.2 Cross-reference with national and international guidelines

GRI code		Description of the indicator	Chapters/Sections	Pages
STRATEGY AND ANALYSIS				
G4-1	●	Statement on sustainable development and the Group's strategy by the Chief Executive Officer	4 – Interview with Jacques Aschenbroich	178
G4-2	●	Key impacts, risks and opportunities	4.1 – Valeo and sustainable development: strategy, policy and organization	180
ORGANIZATIONAL PROFILE				
G4-3	●	Name of the organization	7.1.1 – Company name and headquarters	416
G4-4	●	Primary brands, products and services	1.4 – Operational organization	
G4-5	●	Headquarters	7.1.1 – Company name and headquarters	416
G4-6	●	Countries where the organization operates and which are specifically relevant to the sustainability topic covered in the report	7.2 – Information on subsidiaries and affiliates	436
G4-7	●	Ownership and legal form	7.1.2 – Legal structure and governing law 6.6.1 – Changes in share capital	432 422
G4-8	●	Markets served (geographic breakdown, sectors served and types of customers and beneficiaries)	Integrated Report – Business review and results 1.4 – Operational organization	4 70
G4-9	●	Scale of the organization (number of employees, locations)	Integrated Report – Business review and results 1.4 – Operational organization 4.4 – Change in headcount	4 70 219
G4-10	●	Breakdown of employees by employment type, employment contract, region and gender	4.4 – Valeo and its employees	219
G4-11	●	Percentage of total employees covered by collective bargaining agreements	4.4.3 – Promoting and respecting fundamental rights	234
G4-12	●	Description of the organization's supply chain	4.1.4 – Valeo, a responsible partner 4.5.1 – Sustainability requirements for Valeo's suppliers	189 237

GRI code	Description of the indicator	Chapters/Sections	Pages
G4-13	Significant changes during the reporting period	1.1 – History and development of the Group 5.1.4 – Investments over the past three years 6.4 – Share ownership	48 275 411
G4-14	Precautionary principle and actions in this area	4.2.2 – Non-financial technological risks 4.3.2 – Non-financial environmental risks 4.4.2 – Non-financial employee-related risks 4.5.2 – Non-financial social risks	196 206 221 240
G4-15	External charters, principles and initiatives to which the Group subscribes	4 – Interview with Jacques Aschenbroich 4.4.3 – Promoting and respecting human rights	178 234
G4-16	Membership of associations and/or advocacy organizations	4.1.4 – Valeo, a key driver of a sustainable automotive industry 4.5.3 – Public and regulatory policies	189 249
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	250
G4-18	Procedure for defining report content	4.1.1 – From sustainable development challenges to non-financial risks	180
G4-19	List of material aspects	4.1.1 – Materiality matrix plotting the sustainable development challenges	180
G4-20	Boundary of each material aspect within the organization	4.2.1 – Group Research and Development policy 4.3.1 – Environmental policy 4.4 – Valeo and its employees 4.5 – Commitment to corporate citizenship	192 202 219 236
G4-21	Boundary of each material aspect outside the organization	4.2.1 – Group Research and Development policy 4.3.1 – Environmental policy 4.4 – Valeo and its employees 4.5 – Commitment to corporate citizenship	192 202 219 236
G4-22	Restatements of information provided in previous reports	No restatements in 2018	
G4-23	Changes in the scope and aspect boundaries	No substantial changes were observed in 2018	
STAKEHOLDER ENGAGEMENT			
G4-24	List of stakeholders	4.1.4 – A sustainable development policy based on strong relationships with stakeholders	188
G4-25	Basis for the identification and selection of stakeholders	4.1.4 – A multi-stakeholder approach	188
G4-26	Stakeholder engagement	4.1.4 – Types of dialog with stakeholders	188
G4-27	Topics raised through stakeholder engagement and how the organization has responded	4.1.4 – Types of dialog with stakeholders	188
REPORT PROFILE			
G4-28	Reporting period	4.6.1 – Sustainable development reporting methodology	250
G4-29	Date of most recent previous report	3/27/2018	
G4-30	Reporting cycle	4.6.1 – Sustainable development reporting methodology	250
G4-31	Contact person	6.2 – Investor relations	
G4-32	"Compliance" option chosen and GRI G4 index	4.6.2 – Cross-reference with national and international guidelines	252
G4-33	Independent verifier's report	4.9 – Independent verifier's report on the non-financial information statement presented in the management report	409
GOVERNANCE AND COMMITMENTS			
G4-34	Governance structure	4.1.2 – Sustainable development – governance and structure 3 – Corporate governance	182 103
G4-35	Process for delegating authority for economic, environmental and social topics from the Board of Directors to senior executives and other employees	1.4 – Operational organization	70

Methodology and international guidelines

GRI code	Description of the indicator	Chapters/Sections	Pages
G4-36	Senior executives responsible for economic, environmental and social issues, and relationship with the Board of Directors	4.1.2 – Sustainable development – governance and structure	182
G4-37	Stakeholder consultation by the Board of Directors	7.1.10 – Shareholders' Meetings	431
G4-38	Composition of the Board of Directors and its committees	3.2 – Composition of the Board of Directors, and preparation and organization of its work	106
G4-39	Independence of the Chairman of the Board of Directors	3.2.1 – Composition of the Board of Directors	106
G4-40	Nomination and selection processes for the Board of Directors and its specialized committees, and the experience and expertise of its members	3.2.1 – Composition of the Board of Directors 3.2.2 – Preparation and organization of the Board of Directors' work	106 132
G4-41	Process established by the Board of Directors to avoid and manage conflicts of interest; disclosure of conflicts of interest to stakeholders	3.2.3 – Declarations concerning the Group's corporate officers	144
G4-42	Role of the Board of Directors and senior management in the development, approval and review of the tasks, values or mission statements, strategies, organizational policies and objectives relating to economic, environmental and social impacts	-	-
G4-43	Measures taken to develop and improve the collective knowledge of the Board of Directors on economic, environmental and social impacts	4.1.2 – A committee of the Board of Directors in charge of corporate social responsibility	182
G4-44	Evaluation of the Board of Directors on economic, environmental and social topics	4.1.2 – A committee of the Board of Directors in charge of corporate social responsibility	182
G4-45	Role of the Board of Directors in the identification and management of economic, environmental and social impacts, risks and opportunities	3.2.2 – Preparation and organization of the Board of Directors' work	132
G4-46	Role of the Board of Directors in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	3.2.2 – Preparation and organization of the Board of Directors' work	132
G4-47	Frequency of reviews of economic, environmental and social impacts, risks and opportunities by the Board of Directors	4.1.2 – A committee of the Board of Directors in charge of corporate social responsibility	182
G4-48	Committee or highest-level position that formally reviews and approves the sustainable development report	5.6.5 – The Sustainable Development Report is an integral part of the Management Report, reviewed and approved by the Board of Directors	398
G4-49	Process for communicating critical concerns to the Board of Directors	7.1.10 – Shareholders' Meetings	431
G4-50	Nature and total number of critical concerns communicated to the Board of Directors and the mechanism used to address and resolve them	-	-
G4-51	Compensation policy of the members of the Board of Directors and senior executives; relationship between compensation and performance (including labor-related and environmental performance)	3.3 – Compensation of corporate officers, Board members and other Group executive managers	152
G4-52	Process of determining compensation and participation in compensation committees	3.3 – Compensation of corporate officers, Board members and other Group executive managers 3.2.2 – Preparation and organization of the Board of Directors' work	152 132
G4-53	Method used to seek and take into account the views of stakeholders on compensation	7.1.10 – Shareholders' Meetings	431
G4-54	Ratio of the annual total compensation of the highest-paid individual in the organization to the median total annual compensation	-	-
G4-55	Ratio of the percentage increase of the annual total compensation of the highest-paid individual in the organization to the median percentage increase in annual total compensation	-	

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

Methodology and international guidelines

GRI code	Description of the indicator	Chapters/Sections	Pages
G4-DMA	Management approach	4.3.5 – Water	209
G4-EN8	Total water withdrawal by source	4.3.5 – Total water consumption, by use, by geographic area and by source	210
G4-EN9	Water sources significantly affected by withdrawal of water	4.3.5 – Water restrictions	210
G4-EN10	Percentage and total volume of water recycled and reused	4.3.5 – Water reuse	205
G4-DMA	Management approach	4.3.3 – Biodiversity	216
G4-EN11	Operational sites owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	4.3.3 – Sites located in or near protected areas	216
G4-EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Not disclosed	
G4-EN13	Habitats protected or restored	4.3.3 – Biodiversity	216
G4-EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organization, by level of extinction risk	Not disclosed	
EMPLOYEES			
G4-DMA	Management approach	4.4.2 – Workplace health and safety	221
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on workplace health and safety programs	4.4.3 – Organization of labor relations	234
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by geographic area and by gender	4.4.2 – Frequency rate of accidents with and without lost time for the Group and for France 4.4.2 – Absenteeism rate for the Group and by geographic area	222 223
G4-LA8	Health and safety topics covered in formal agreements with trade unions	4.4.3 – Breakdown of agreements signed by category	235
G4-DMA	Management approach	4.4.2 – Attracting talent/Developing and retaining talent	221
-	Response rate to the Employee Feedback Survey	4.4.2 – Attracting talent/Developing and retaining talent	221
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	4.4.2 – Attracting talent/Developing and retaining talent	221
G4-LA9	Average hours of training per year, per employee, by gender and by employee category	4.4.2 – Attracting talent/Developing and retaining talent	221
G4-LA10	Programs for competences management and lifelong learning that support the continued employability of employees and assist them in managing career endings	4.4.2 – Attracting talent/Developing and retaining talent	221
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	4.4.2 – Attracting talent/Developing and retaining talent	221
G4-DMA	Management approach	4.4.3 – Respecting and promoting diversity	231
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	4.4.3 – Percentage of women on the Board and the Operations Committee 4.4.3 – Breakdown of women by socio-professional category 4.4.3 – Proportion of employees with disabilities in the world and in France 4.4.1 – Breakdown of registered headcount by gender	231 231 232 231

GRI code		Description of the indicator	Chapters/Sections	Pages
COMMITMENT TO CORPORATE CITIZENSHIP				
G4-DMA	●	Management approach	1.4 – Operational organization	70
G4-PR1	●	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	1.4 – Operational organization	70
G4-DMA	●	Management approach	4.5.2 – Risk of non-compliance with sustainable development requirements by Valeo's suppliers	242
G4-EN32	●	Percentage of new suppliers that were screened using environmental criteria	4.5.2 – Risk of non-compliance with sustainable development requirements by Valeo's suppliers	242
G4-LA14	●	Percentage of new suppliers that were screened using labor practices criteria	4.5.2 – Risk of non-compliance with sustainable development requirements by Valeo's suppliers	242
G4-SO9	●	Percentage of new suppliers that were screened using criteria for impacts on society	4.5.2 – Risk of non-compliance with sustainable development requirements by Valeo's suppliers	242
G4-HR10	●	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken	4.5.2 – Risk of non-compliance with sustainable development requirements by Valeo's suppliers	242
G4-EC9	●	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	4.5.1 – Sustainability requirements for Valeo's suppliers	236
G4-DMA	●	Management approach	4.5.2 – Corruption risk	240
G4-56	●	Codes of conduct and ethics	4.5.2 – Corruption risk	240
G4-57	●	Advisory mechanisms (ethical and lawful behavior)	4.5.2 – Corruption risk	240
G4-58	●	Alert mechanisms (unethical and unlawful behavior)	4.5.2 – Corruption risk	240
G4-SO4	●	Communication and training on anti-corruption policies and procedures	4.5.2 – Corruption risk	240
G4-DMA	●	Management approach	4.2.3 – Valeo, a participant in the remanufacturing market	201
G4-DMA	●	Management approach	4.5.3 – Public and regulatory policies	249
G4-SO6	●	Total value of political contributions by country and recipient/beneficiary	4.5.3 – Public and regulatory policies	249
G4-DMA	●	Management approach	4.5.3 – Voluntary commitment to local communities	245
G4-SO1	●	Percentage of operations with implemented local community engagement, impact assessments and development programs	4.5.3 – Voluntary commitment to local communities	245
G4-EC6	●	Proportion of senior management hired from the local community at significant operation sites	4.5.3 – Voluntary commitment to local communities	245

Legend:
General elements of information that are part of the core reporting option are in bold.
● *Full indicator.*
● *Partial indicator.*
○ *Indicator not applied.*

4.7 Summary of Valeo's Research and Development and CSR performance AFR

4.7.1 Research and Development at Valeo

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

(1) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.
(2) Sales calculated for the period from October 1, 2017 to September 30, 2018, as stated in the methodological note on pages 250 to 251.
(3) See Sustainable Development Glossary, page 262.
(4) Under IFRS 15.

4.7.2 Environmental management and performance of Valeo's sites

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

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

(1) Data may vary slightly depending on the rate of site response on specific indicators (see section 4.6 "Methodology and international guidelines", pages 250 to 251).
(2) Sales calculated for the period from October 1, 2017 to September 30, 2018, as stated in the methodological note on pages 250 to 251.
(3) See Sustainable Development Glossary, page 262.
(4) Data updated in accordance with the new energy factors received from the International Energy Agency in mid-2016.

	Unit	2016	2017	2018
ACCIDENTAL POLLUTION OF WATER AND/OR SOIL				
Volume of industrial effluents treated	k cu.m	820	794	916
Heavy metal content in these effluents	kg	28	20	53
Number of significant spills	-	0	0	0
Total waste generated	kt	257.2	277.6	275.8
Of which hazardous waste	%	9	9	9
Of which non-hazardous waste	%	91	91	91
Total waste generated/Sales	t/€m	17.0	16.6	16.2
Waste recovery rate	%	89	89	91
Total waste exported	t	1,986	1,613	2,464
Ratio of total waste exported/Total waste generated	%	0.8	0.6	0.9
WATER MANAGEMENT				
Total water consumption	k cu.m	2,783	2,926	3,711
Total water consumption/Sales	cu.m/€m	184	175	210
Water outages and restrictions	-	6	6	1
ATMOSPHERIC EMISSIONS AND DISCHARGES				
Atmospheric lead emissions	kg	13	40	36
Atmospheric lead emissions/Sales	g/€m	0.86	2.38	2.04
Atmospheric TCE emissions	t	21.1	0	1.8
Atmospheric TCE emissions/Sales	kg/€m	1.4	0	0.1
Quantity of ozone-depleting substances used	kg	30,630	30,819	27,793
Emissions of ozone-depleting substances	kg CFC-11eq.	489	513	469
Atmospheric VOC emissions(3)	t	1,644	1,596	2,174
Atmospheric VOC emissions/Sales	kg/€m	109	95	123
Atmospheric NO_x emissions	t	122	136	139
Atmospheric NO_x emissions/Sales	kg/€m	8.1	8.1	7.85
REDUCE ENERGY CONSUMPTION AND GREENHOUSE GAS EMISSIONS				
Total energy consumption	GWh	2,077	2,250	2,476
Proportion of electricity	%	75.9	75.3	76.6
Proportion of natural gas	%	22.6	22.6	20.3
Proportion of fuel oil	%	1.0	1.5	1.8
Proportion of other energy sources	%	0.5	0.6	1.4
Total energy consumption/Sales	MWh/€m	137	134	140
Direct energy consumption/Sales	MWh/€m	32	32	32
Indirect energy consumption/Sales	MWh/€m	105	102	108
Energy efficiency: expected gain	MWh	76,117	53,893	27,031
Direct greenhouse gas (GHG) emissions(3)	kt CO_2eq.	145.8	166.9	175.3
Indirect GHG emissions	kt CO_2eq.	710.9 (4)	763.9	870.5
Other relevant indirect GHG emissions	kt CO_2eq.	7,296	8,261	9,329
PACKAGING				
Packaging materials consumption	kt	84.7	92.5	100.6
Proportion of plastic packaging	%	8.8	9.9	12.5
Proportion of cardboard packaging	%	61.8	59.4	56
Proportion of wood packaging	%	27.7	29.1	29.6
Proportion of other types of packaging	%	1.7	1.6	1.9
Packaging materials consumption/Sales	t/€m	5.6	5.5	5.7

(1) Data may vary slightly depending on the rate of site response on specific indicators (see section 4.6 "Methodology and international guidelines", pages 250 to 251).
(2) Sales calculated for the period from October 1, 2017 to September 30, 2018, as stated in the methodological note on pages 250 to 251.
(3) See Sustainable Development Glossary, page 262.
(4) Data updated in accordance with the new energy factors received from the International Energy Agency in mid-2016.

4.7.3 Valeo and its employees

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

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

(1) The registered headcount corresponds to permanent and fixed-term employees.
(2) Employees on internships, Volontariat International en Entreprise (VIE) programs and combined work-study arrangements (apprenticeship or professional training contracts) are counted as technicians.
(3) Hires resulting from external growth operations are not included in this calculation.

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

4.8 Sustainable Development Glossary

ADEME	French Environment and Energy Management Agency (*Agence de l'environnement et de la maîtrise de l'énergie*): public body undertaking operations with the aim of protecting the environment and managing energy. www.ademe.fr
CDP	Carbon Disclosure Project: an independent, non-profit organization working to drive greenhouse gas emissions reductions for companies and cities by collecting environmental data and analyzing their carbon emissions policy. www.cdproject.net
CMR	Substances classified as carcinogenic, mutagenic, or reprotoxic.
VOC	Volatile organic compound: VOCs are composed of carbon, oxygen and hydrogen and are readily found as atmospheric gases.
ELV Directive	European Directive No. 2000/53 of September 18, 2000 to reduce end-of-life vehicle waste through prevention, collection, treatment and recycling measures.
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").
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.
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
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.
ZNIEFF	French natural zone of interest for ecology, flora and fauna (*Zone naturelle d'intérêt écologique, faunistique et floristique*): an inventory program aiming at collecting exhaustive and up-to-date information on natural environments, whether land- or water-based, whose interest lies either in the balance or richness of the ecosystem, or in the presence of rare or endangered plant or animal species.

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

For the year ended December 31, 2018

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

To the Shareholders' Meeting,

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

Responsibility of the entity

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

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

Independence and quality control

Our independence is defined by regulatory requirements pursuant to the provisions of the Article L.822-11-3 of the French Commercial code (*Code de commerce*) and the Code of Ethics of our profession. In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent verifier

It is our role, based on our work, to express a limited assurance conclusion on:

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

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

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

Nature and scope of the work

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

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

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

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

Means and resources

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

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

Conclusion

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

Comments

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

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

Paris-La Défense, March 22, 2019

French original signed by

Independent verifier

Ernst & Young et Associés

Eric Mugnier
Partner, Sustainable Development

Jean-François Bélorgey
Partner

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 Frequency rate of accidents with and without lost time Severity rate of accidents Number of category 1 accidents Headcount Percentage of women among new hires Breakdown of women by socio-professional category in percentage Number of employees with a disability Number of collective bargaining agreements Voluntary turnover of managers and professionals Breakdown of turnover by cause Average number of hours of training per employee Absenteeism rate	Employment (attractiveness, retention, absenteeism) Health and safety (prevention actions) Social relations (social dialogue, collective agreements), training Equal treatment (equality between men and women, fight against discrimination, insertion of people with disabilities)

ENVIRONMENTAL INFORMATION

Quantitative Information (including key performance indicators)	Qualitative information (actions or results)
Production of hazardous and non-hazardous waste in tons Breakdown between recovered and not recovered waste Number of accidental spills Percentage of ISO 14001-certified sites Category 11 CO_2 emissions related to the use of Valeo products (scope 3) between 1 January 2018 to 31 December 2018 in kt eq. CO_2	The results of the environmental policy (certifications, products) Pollution prevention measures (water and soil) Circular economy (waste management and waste treatment) Climate change (significant emissions sources)

SOCIETAL INFORMATION

Quantitative Information (including key performance indicators)	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 employees who acknowledged receipt of the Code of Ethics Share of the target population which completed the online training program on anti-corruption Share of new comers who completed the online training "Anti-Bribery Induction Program"	Subcontracting and suppliers (environmental and social issues) Actions in favor of human rights, in particular, respect for fundamental ILO Conventions

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 2018 consolidated results AFR

The Group's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as approved by the European Union. The accounting principles are explained in detail in this chapter in the notes to the 2018 consolidated financial statements in section 5.4.6, Note 1 "Accounting policies", pages 287 to 293.

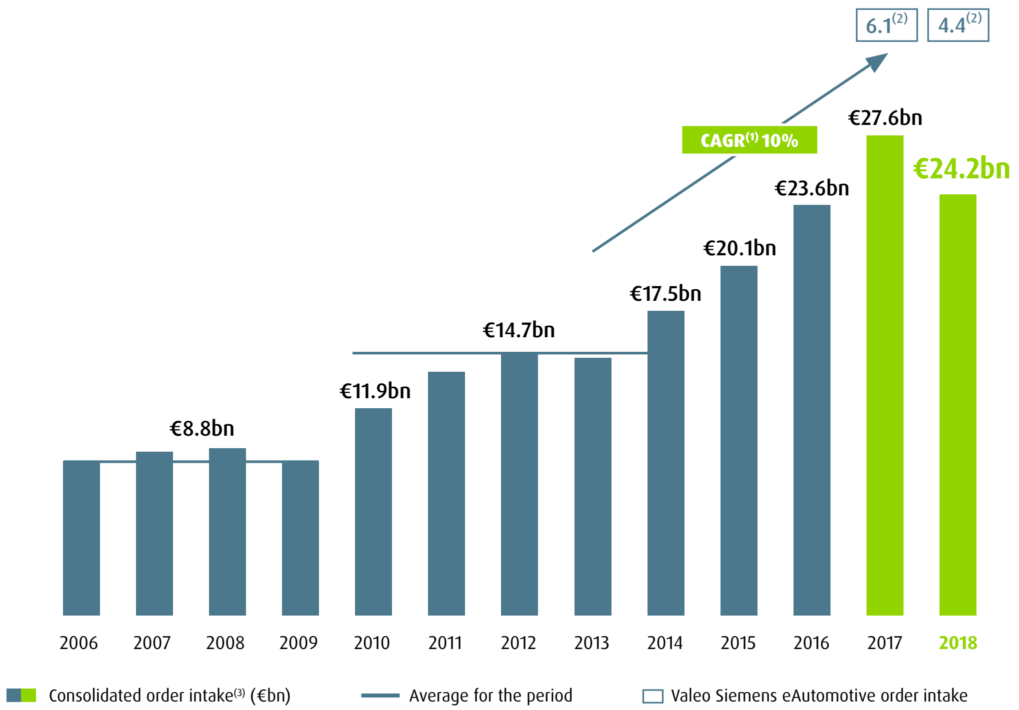
The financial statements include the information deemed material as required by the ANC in Standard no. 2016-09.

IFRS 15 – "Revenue from Contracts with Customers" and IFRS 9 – "Financial Instruments" came into effect on January 1, 2018. Both standards have been applied retrospectively (see section 5.4.6 of this chapter, Note 1.1.1, pages 288 to 289).

The 2017 consolidated financial statements, which were published in February 2018, have been restated to reflect the impacts of retrospectively applying IFRS 15 and IFRS 9, as well as the impacts of definitively allocating the FTE automotive and Valeo-Kapec purchase price to each entity's respective assets and liabilities (see section 5.4.6 of this chapter, Note 1.2, page 290).

5.1.1 Business review

Order intake[1] supported by technological innovations



(1) Average annual growth in order intake for the 2013-2018 period.
(2) Total order intake recorded by Valeo Siemens eAutomotive in 2018.
(3) See Financial Glossary, page 46, excluding the Access Mechanism business between 2005 and 2013 and excluding Valeo Siemens eAutomotive.

In view of the very strong growth in order intake over the past five years (10% CAGR[2]), which will lead to a profound transformation in its product portfolio, Valeo decided to be more selective in 2018 in order to optimize the development and industrialization of its numerous ongoing projects.

Total order intake for 2018 came out at 28.6 billion euros, or 1.7x original equipment sales, and includes:

- 24.2 billion euros for Valeo, or 1.5x original equipment sales;
- 4.4 billion euros for Valeo Siemens eAutomotive, corresponding to cumulative outstanding order intake of 10.5 billion euros at end-2018.

(1) See Financial Glossary, page 46.
(2) Average annual growth in order intake for the 2013-2018 period.

Order intake (excluding Valeo Siemens eAutomotive) remained well-balanced across the Group's different regions:

- 41% in Asia;
- 25% in China, of which 44% of orders were booked with local Chinese automakers;
- 43% in Europe (and Africa);
- 14% in North America.

In all, 53% of the order intake related to innovative products(1) (60% including Valeo Siemens eAutomotive), confirming the successful positioning of Valeo's new technologies and products in the electric, autonomous and connected vehicle segments.

Global automotive production growth

Automotive production	Fourth-quarter IHS/CPCA*	Second-half IHS/CPCA*	Full-year IHS/CPCA*
Europe & Africa	-4%	-5%	-1%
Asia, Middle East & Oceania	-8%	-7%	-2%
of which China	*-17%*	*-13%*	*-5%*
excluding China	*+2%*	*0%*	*+1%*
North America	+2%	+2%	-1%
South America	-9%	-3%	+3%
TOTAL	**-6%**	**-5%**	**-1%**

* *Based on IHS automotive production estimates released on January 16, 2019/China Passenger Car Association (CPCA) estimates for data relating to China.*

In second-half 2018, European automotive production was impacted by the introduction of the Worldwide Harmonized Light Vehicle Test Procedure (WLTP) in Europe, and by the sharp decline in new vehicle registrations in China.

Sales growth(2)

Sales (in millions of euros)	As a % of total 2018 sales	Second-half 2018*	2017	CER change**	LFL change***	Reported change	Full-year 2018*	2017	CER change**	LFL change***	Reported change
Original equipment	87%	8,039	7,885	+2%	-2%	+2%	16,667	16,120	+6%	0%	+3%
Aftermarket	10%	969	924	+7%	+2%	+5%	2,010	1,887	+10%	+4%	+7%
Miscellaneous	3%	314	277	+22%	+16%	+13%	584	543	+14%	+7%	+8%
TOTAL	**100%**	**9,322**	**9,086**	**+3%**	**-1%**	**+3%**	**19,261**	**18,550**	**+6%**	**+1%**	**+4%**

* *2018 data are presented in accordance with the same accounting principles as those used in the 2017 consolidated financial statements published in February 2018, i.e., before the application of IFRS 15 (unaudited data).*

** *At constant exchange rates.*

*** *Like for like (constant Group structure and exchange rates)(3).*

During second-half 2018,

- **Sales**:
  - advanced 3% at constant exchange rates;
  - fell 1% like for like(3).
- **Original equipment sales**:
  - advanced 2% at constant exchange rates;
  - fell 2% like for like(3);
  - outperformed global production by 3 percentage points.
- **Aftermarket sales** rose by:
  - 7% at constant exchange rates;
  - 2% like for like(3).

Valeo's sales over this period were adversely affected by:

- the introduction of WLTP in Europe;
- the sharp slowdown in the Chinese automotive market;
- exposure to European customers most affected by WLTP;
- an unfavorable customer mix in China;
- production start delays, mainly in Europe.

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

(2) For the sake of consistency in our financial communications, the sales figures presented below have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).

(3) See Financial Glossary, page 46.

Sales for full-year 2018 climbed 6% at constant exchange rates and 1% like for like[1].

Changes in exchange rates had a negative 2.2% impact over the year, primarily due to the rise in the value of the euro against the US dollar, Chinese renminbi and Brazilian real.

Changes in Group structure had a positive 5.1% impact over the year, following:

- the takeover of Ichikoh, which was fully consolidated in the Group's financial statements as from February 1, 2017. Ichikoh contributed 100 million euros to consolidated sales in January 2018;
- the acquisition of FTE automotive at end-October 2017, which contributed 429 million euros to consolidated sales from January to end-October 2018;
- the creation of Valeo-Kapec, which is controlled by Valeo and was fully consolidated in the Group's financial statements as of December 1, 2017. Valeo-Kapec contributed 483 million euros to consolidated sales from January to end-November 2018.

Original equipment sales growth by region[2]

	Second-half				Full-year			
Original equipment sales	**2018[a]**	**2017**	**LFL change[b]**	**Outperformance vs. IHS[c]**	**2018[a]**	**2017**	**LFL change[b]**	**Outperformance vs. IHS[c]**
Europe & Africa	3,550	3,630	-4%	+1 pt	7,702	7,550	0%	+1 pt
Asia, Middle East & Oceania	2,651	2,584	-6%	+1 pt	5,313	4,965	-1%	+1 pt
of which China	*1,086*	*1,259*	*-16%*	*-3 pts*	*2,224*	*2,371*	*-8%*	*-3 pts*
excluding China	*1,565*	*1,325*	*+4%*	*+4 pts*	*3,089*	*2,594*	*+6%*	*+5 pts*
North America	1,660	1,483	+6%	+4 pts	3,275	3,235	+2%	+3 pts
South America	178	188	+8%	+11 pts	377	370	+15%	+12 pts
TOTAL	**8,039**	**7,885**	**-2%**	**+3 PTS**	**16,667**	**16,120**	**0%**	**+1.5 pts**

(a) 2018 data are presented in accordance with the same accounting principles as those used in the 2017 consolidated financial statements published in February 2018, i.e., before the application of IFRS 15 (unaudited data).
(b) Like for like (constant Group structure and exchange rates)[1].
(c) Based on IHS automotive production estimates released on January 16, 2019/CPCA estimates for data relating to China.

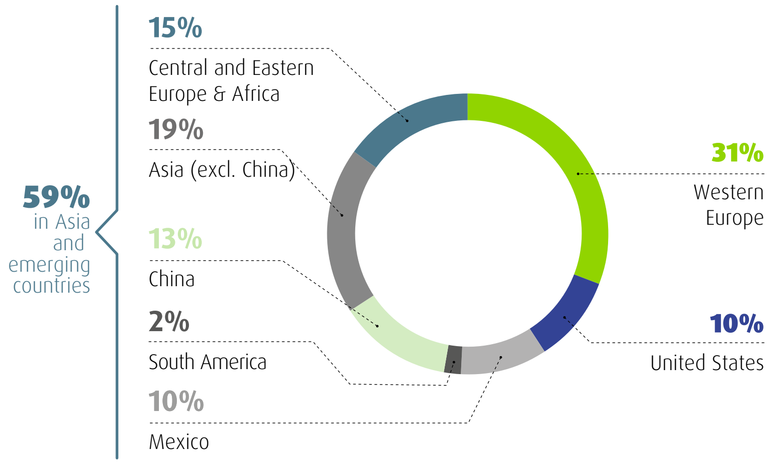
In second-half 2018, growth in original equipment sales beat automotive production by 3 percentage points (IHS/CPCA estimates):

- **in Europe (including Africa)** (44% of original equipment sales), like-for-like[1] original equipment sales were down 4%, outpacing automotive production by a slight 1 percentage point, due to the Group's exposure to a certain number of automaker customers that were particularly impacted by WLTP;
- **in North America** (21% of original equipment sales), like-for-like[1] original equipment sales rose 6%, outpacing automotive production by 4 percentage points;
- **in Asia excluding China** (19% of original equipment sales), like-for-like[1] original equipment sales increased 4%, outpacing automotive production by 4 percentage points. In South Korea, like-for-like[1] original equipment sales contracted by 3%, underperforming automotive production by 7 percentage points, mainly as a result of a decline in take rates for manual transmission vehicles;
- **in China** (14% of original equipment sales), like-for-like[1] original equipment sales fell 16%, underperforming automotive production (CPCA estimates) by 3 percentage points, primarily as a result of Valeo's exposure to Ford;
- **in South America** (2% of original equipment sales), like-for-like[1] original equipment sales rose 8%, outpacing automotive production by 11 percentage points.

(1) See Financial Glossary, page 46.
(2) For the sake of consistency in our financial communications, the sales figures presented below have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).

▶ Balanced geographic alignment of Valeo's businesses

As a % of original equipment sales(1)

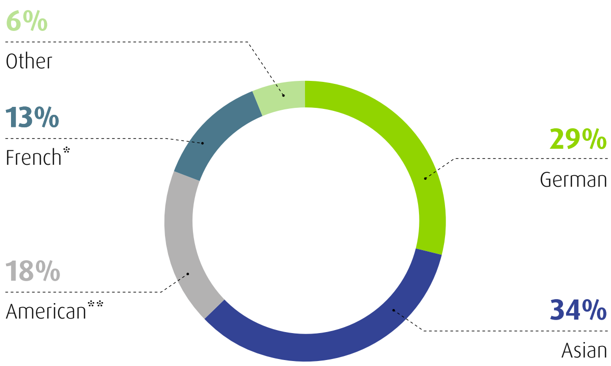


Taking account of the external growth transactions carried out in 2017, the share of original equipment sales in the four main production regions was as follows in 2018:

- a rise of 2 percentage points for Asia, accounting for 32% of original equipment sales;
- a fall of 1 percentage point for Europe, accounting for 46% of original equipment sales;
- a fall of 1 percentage point for North America, accounting for 20% of original equipment sales;
- stable for South America, accounting for 2% of original equipment sales.

▶ Balanced customer portfolio

As a % of original equipment sales(1)



* Including Opel
** Excluding Opel

Taking account of the external growth transactions carried out in 2017, the share of original equipment sales among the Group's customers was as follows in 2018:

- a rise of 1 percentage point for Asian customers, accounting for 34% of original equipment sales, further to the takeover of Ichikoh as of February 1, 2017 and the creation of Valeo-Kapec, fully consolidated as of December 1, 2017;
- a rise of 1 percentage point for German customers, accounting for 29% of original equipment sales;
- a fall of 1 percentage point for US customers, accounting for 18% of original equipment sales;
- a fall of 1 percentage point for French customers(2), accounting for 13% of original equipment sales.

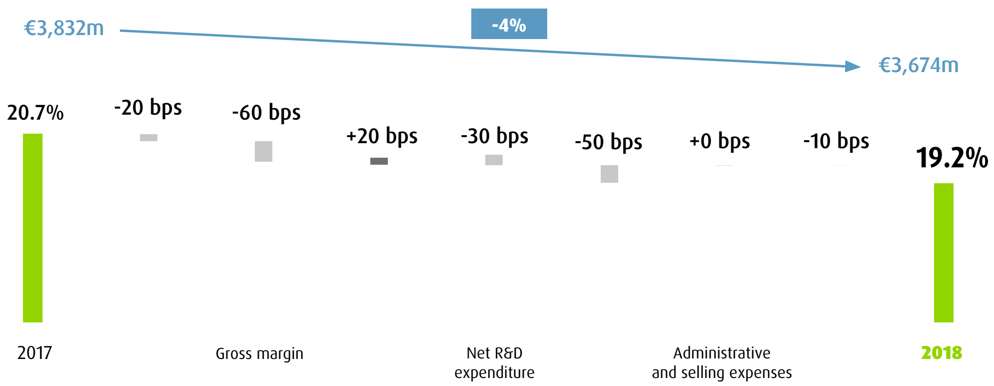
(1) *For the sake of consistency in our financial communications, the sales figures presented have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).*

(2) *Including Opel.*

5.1.2 Earnings

▶ Analysis of gross margin

As a % of sales



Gross margin came out at 3,674 million euros, or 19.2% of sales (down 4%), primarily reflecting:

- growth (negative 0.2 percentage point impact; negative 0.5 percentage point impact in the second half) including price and volume effects, affected mainly by WLTP and by the sharp slowdown in the Chinese market;
- the rise in the price of raw materials and electronic components (negative 0.6 percentage point impact; negative 0.8 percentage point impact in the second half), after taking into account increases in sales prices for customers;
- operational efficiency (positive 0.2 percentage point impact; negative 0.3 percentage point impact in the second half, in particular relating to disruptions observed in plants due to market disturbances);
- one-time charges relating to quality risk (negative 0.3 percentage point impact; negative 0.6 percentage point impact in the second half);
- a rise in depreciation relating to the capital investments carried out by the Group over the past few years (negative 0.5 percentage point impact; negative 0.6 percentage point impact in the second half).

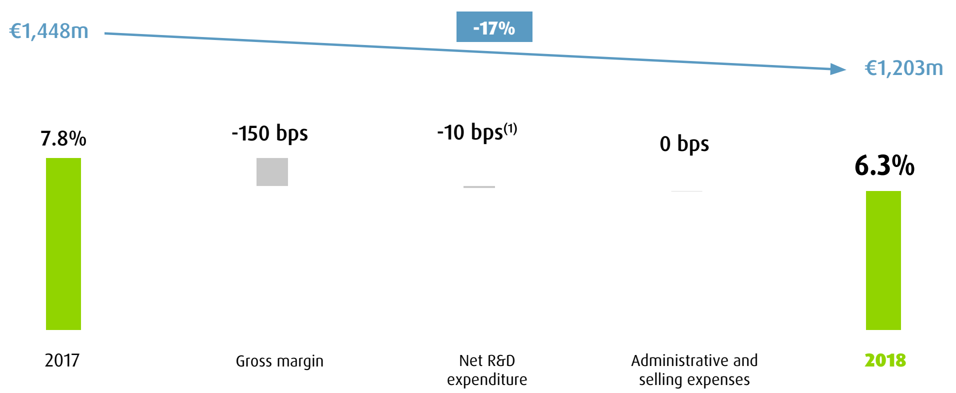
Valeo continued its Research and Development efforts to enhance its product portfolio and respond to the twin challenges of powertrain electrification, and autonomous and connected vehicles:

- gross Research and Development expenditure was up 9% to 2,073 million euros, representing almost 13% of original equipment sales;
- R&D expenditure came in at 1,560 million euros (up 4%), or 8.2% of sales (up 0.10 percentage points on 2017).

General, administrative and selling expenses came out at 4.8% of sales, stable versus 2017, thanks to the cost-cutting program implemented in the second half of the year.

▶ Analysis of operating margin (excluding share in net earnings of equity-accounted companies)

As a % of sales



(1) Rounded figures.

Operating margin excluding share in net earnings of equity-accounted companies came in at 1,203 million euros, or 6.3% of sales, in line with the guidance announced in October and despite the sharper-than-expected downturn in the European (post-WLTP) and Chinese markets as well as the ongoing rise in raw material prices.

The share in net earnings of equity-accounted companies represented a loss of 111 million euros, or a negative 0.6% of sales. This includes, in particular:

- the share of the loss recorded by Valeo Siemens eAutomotive (147 million euros), which is bearing the costs required to set up its organization to accommodate its fast-paced expansion going forward and push ahead with ongoing projects resulting from its cumulative 10.5 billion euro order intake at the end of 2018;
- the contribution of Chinese joint ventures (33 million euros versus 43 million euros in 2017), whose performance was hard hit by the sharp downturn in the Chinese market in the second half of the year.

Operating margin including share in net earnings of equity-accounted companies[(1)] amounted to 1,092 million euros, or 5.7% of sales, down 26% year on year.

Operating income totaled 1,036 million euros, or 5.4% of sales, down 26% year on year. This takes into account other income and expenses in an aggregate negative amount of 56 million euros, including a loss of 30 million euros relating to the disposal of lighting operations in Argentina.

The cost of net debt totaled 66 million euros, down 12% on 2017.

Other financial items were boosted by the good performance of Group investments in various innovation funds.

The effective tax rate came out at 28.7%.

Non-controlling interests stood at 96 million euros, up 22% on 2017 following the creation of Valeo-Kapec (controlled by Valeo and fully consolidated in the Group's financial statements with effect from December 1, 2017).

Net attributable income amounted to 546 million euros, or 2.9% of sales, down 38% on 2017.

Return on capital employed (ROCE[(1)]) and **return on assets** (ROA[(1)]) stood at 19% and 12%, respectively.

5.1.3 Segment reporting

Sustained growth in sales[(2)] by Business Group

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.

	Second-half					Full-year				
Sales by Business Group[(a)]	**2018[(b)]**	**2017**	**CER change[(c)]**	**Change in OE sales[(d)]**	**Change in sales**	**2018[(b)]**	**2017**	**CER change[(c)]**	**Change in OE sales[(d)]**	**Change in sales**
Comfort & Driving Assistance Systems	1,797	1,753	+2%	+2%	+3%	3,638	3,590	+3%	+3%	+1%
Powertrain Systems	2,426	2,137	+14%	-3%	+14%	5,059	4,300	+20%[(e)]	0%	+18%[(e)]
Thermal Systems	2,448	2,409	+1%	0%	+2%	4,996	5,003	+3%	+1%	0%
Visibility Systems	2,715	2,855	-5%	-6%	-5%	5,703	5,808	0%[(f)]	-2%	-2%[(f)]
GROUP	**9,322**	**9,086**	**+3%**	**-2%**	**+3%**	**19,261**	**18,550**	**+6%**	**0%**	**+4%**

(a) Including intersegment sales.
(b) 2018 data are presented in accordance with the same accounting principles as those used in the 2017 consolidated financial statements published in February 2018, i.e., before the application of IFRS 15 (unaudited data).
(c) At constant exchange rates.
(d) Like-for-like (constant Group structure and exchange rates)[(1)].
(e) Including FTE automotive and Valeo-Kapec.
(f) Including Ichikoh.

(1) See Financial Glossary, page 46.
(2) For the sake of consistency in our financial communications, the sales figures presented below have been determined using the same accounting principles as in 2017 (i.e., before the application of IFRS 15).

In the second half of 2018, the four Business Groups were impacted, to varying extents depending on their geographic and customer mix, by WLTP in Europe and by the sharp slowdown in the Chinese market.

- Thanks to its original equipment operations, the **Comfort & Driving Assistance Systems Business Group** reported the highest rate of like-for-like growth, outperforming global automotive production by 7 percentage points. The 2% increase was driven by higher content per vehicle (take rates) in the driving assistance business as well as a favorable customer mix in China.
- The **Powertrain Systems Business Group** posted like-for-like growth in line with that of the Group as a whole, outperforming global automotive production by 2 percentage points. With growth of 14% at constant exchange rates, the Business Group's performance was buoyed by the successful integration of FTE automotive and Valeo-Kapec.
- Thanks to a favorable customer and geographic mix and the start of new HVAC (heating, ventilation and air conditioning) contracts in North America, the **Thermal Systems Business Group** reported like-for-like growth and a 5 percentage point outperformance versus global automotive production, coming in ahead of the Group as a whole in both respects.
- The **Visibility Systems Business Group's** sales grew at a slower pace than the rest of the Group on a like-for-like basis, declining 6% as a result of its broad exposure in Europe to the customers most heavily impacted by WLTP, production start delays in Europe, and an unfavorable customer mix in China. The Business Group's performance was lifted by the strong growth of Ichikoh in Japan and the ASEAN[1], further highlighting the company's successful integration.

EBITDA[2]

EBITDA	Second-half			Full-year		
(in millions of euros and as a % of sales)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Comfort & Driving Assistance Systems	245	258	-5%	528	525	+1%
	13.1%	*14.3%*	*-1.2 pts*	*14.0%*	*14.2%*	*-0.2 pts*
Powertrain Systems	305	289	+6%	674	564	+20%
	12.3%	*13.3%*	*-1 pt*	*13.1%*	*13.0%*	*+0.1 pts*
Thermal Systems	207	270	-23%	495	536	-8%
	9.3%	*12.1%*	*-2.8 pts*	*10.8%*	*11.5%*	*-0.7 pts*
Visibility Systems	257	373	-31%	642	764	-16%
	9.3%	*12.8%*	*-3.5 pts*	*11.1%*	*12.9%*	*-1.8 pts*
GROUP	**1,069**	**1,218**	**-12%**	**2,410**	**2,431**	**-1%**
	11.5%	*13.5%*	*-2 PTS*	*12.6%*	*13.2%*	*-0.6 PTS*

In 2018, EBITDA[2] came in at 2,410 million euros, or 12.6% of sales, down 1% versus 2017.

Despite a challenging environment in the second half of the year (WLTP in Europe and a market downturn in China), all Business Groups performed in line with their 2017 showing except:

- **Thermal Systems**, following the recognition of a non-recurring expense in respect of a quality risk; and
- **Visibility Systems**, which was held back by its broad exposure in Europe to the customers most heavily impacted by WLTP, production start delays (mainly in Europe) and an unfavorable customer mix in China.

(1) ASEAN: Association of Southeast Asian Nations.

(2) See Financial Glossary, page 46.

5.1.4 Cash flow and financial position

Stockholders' equity

At December 31, 2018, consolidated stockholders' equity amounted to 5,378 million euros versus 5,106 million euros at December 31, 2017. The sharp 272 million euro increase was mainly attributable to (i) consolidated net income for the period of 642 million euros, (ii) a capital increase of 26 million euros reserved for employees as part of the 2018 Shares4U employee share ownership plan, and (iii) a translation gain of 62 million euros. These items were partially offset by the dividend paid to (i) Group shareholders in an amount of 296 million euros, and (ii) non-controlling interests in consolidated subsidiaries in an amount of 28 million euros, as well as by the impacts of the share buyback program implemented in the first half of 2018, representing an amount of 100 million euros.

Provisions

(in millions of euros)	December 31, 2018	December 31, 2017
Provisions for pensions and other employee benefits	1,155	1,136
Provisions for product warranties	309	259
Provisions for restructuring costs	42	55
Provisions for tax-related disputes	73	57
Environmental provisions	15	16
Provisions for onerous contracts	45	56
Provisions for employee-related and other disputes	146	161
PROVISIONS	**1,785**	**1,740**
Of which long-term portion (more than one year)	1,408	1,416

Provisions for pensions and other employee benefits increased by 19 million euros between December 31, 2017 and December 31, 2018, mainly due to pre-tax actuarial losses for 18 million euros and translation adjustments for 14 million euros.

Provisions for product warranties rose significantly over the period, reflecting the Group's growth in recent years and stricter requirements from customers. At December 31, 2018, the Group recognized two material accrued income items with respect to product warranties in the consolidated statement of financial position.

The total amount of provisions for restructuring costs decreased to 42 million euros at December 31, 2018 versus 55 million euros at December 31, 2017. Restructuring costs for 2018 mainly related to early retirement plans at several sites in Germany, a lay-off plan launched in South America last year and expenses arising from the shutdown of a plant in Spain.

Provisions for tax-related disputes increased during the year, amounting to 73 million euros at end-2018 versus 57 million euros one year earlier. The Group increased its tax-related provisions primarily in Germany, Mexico and Brazil.

Environmental provisions were stable in 2018, and provisions for onerous contracts, down 11 million euros, were utilized as planned. No material provisions were recognized during the year.

Provisions for employee-related and other disputes decreased by 15 million euros in 2018, mainly due to reduced risks relating to intellectual property disputes. Totaling 146 million euros at December 31, 2018, these provisions cover risks arising in connection with employees (in particular relating to asbestos), as well as disputes related to the Group's operating activities and actions for damages that can or could be brought further to antitrust investigations.

Cash flows and debt

(in millions of euros)	2018	2017[1]
Gross operating cash flows	2,366	2,265
Income taxes paid	(267)	(265)
Changes in working capital	71	39
Net cash flows from operating activities	**2,170**	**2,039**
Net payments for purchases of intangible assets and property, plant and equipment	(2,025)	(1,745)
Elimination of change in non-recurring sales of accounts and notes receivable[2]	16	(16)
FREE CASH FLOW[3]	**161**	**278**
Change in non-recurring sales of accounts and notes receivable[2]	(16)	16
Net change in certain non-current financial asset items	(212)	(91)
Acquisitions of investments with gain of control, net of cash acquired	(41)	(537)
Acquisitions of investments in associates and/or joint ventures	(2)	(7)
Disposals of investments with loss of control, net of cash transferred	(7)	(1)
Acquisitions of investments without gain of control	(2)	(16)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(324)	(317)
Capital increase in cash	26	26
Sale (purchase) of treasury stock	(118)	(73)
Net interest paid/received	(58)	(63)
Loan issue costs and premiums	(5)	(7)
NET CASH FLOW[3]	**(598)**	**(792)**

(1) The consolidated statement of cash flows for the year ended 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 of January 1, 2018 with restatement of comparative periods, and of allocating the purchase price for FTE automotive and Valeo-Kapec.

(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 2018 consolidated financial statements, pages 303 to 304).

(3) See Financial Glossary, page 46.

Gross operating cash flows rose 4% from 2,265 million euros in 2017 to 2,366 million euros in 2018. Net cash flows from operating activities were also up, at 2,170 million euros in 2018 compared to 2,039 million euros in 2017, representing an increase of 6% on the previous year.

Working capital continued on its positive trajectory, with an improvement of 71 million euros in 2018 versus 39 million euros in 2017, while income taxes paid were stable at 267 million euros in 2018 compared to 265 million euros in 2017. Net payments for purchases of property, plant and equipment and intangible assets in 2018 generated a net cash outflow of 2,025 million euros, representing a significant year-on-year increase of 280 million euros (up 16%). Given the record order intake over the past few years, the Group's investment in R&D and production capacity continues to rise.

Free cash flow came in at 161 million euros in 2018, down 42% from 278 million euros in 2017, mainly due to very significant investment during the year, as indicated above.

EBITDA can be reconciled to free cash flow as follows:

(in millions of euros)	2018	2017	Change
EBITDA[1]	2,410	2,431	-0.9%
Change in operating working capital[2]	87	23	x3.8
Income tax expense	(267)	(265)	+0.8%
Net investments in property, plant and equipment and intangible assets	(2,025)	(1,745)	+16%
Other (provisions for pensions, restructuring costs, etc.)	(44)	(166)	N/A
FREE CASH FLOW[1]	**161**	**278**	**-42%**

(1) See Financial Glossary, page 46.

(2) Change in working capital excluding the change in non-recurring sales of accounts and notes receivable in a positive amount of 16 million euros in 2018 and a negative amount of 16 million euros in 2017.

In 2018, free cash flow[1] generation chiefly reflects:

- a slight 0.9% decrease in EBITDA[1] to 2,410 million euros;
- an 87 million euro positive impact from the change in working capital;
- a significant 16% increase in investment outflows to 2,025 million euros on the back of a sharp increase in the order intake in recent years;
- outflows in an amount of 44 million euros, including in particular restructuring costs.

The net change in non-current financial assets amounted to 212 million euros in 2018, primarily relating to loans granted to equity-accounted companies and investments in venture capital funds such as Cathay Sino French Innovation fund.

In 2018, cash outflows arising on acquisitions of investments with gain of control, net of cash acquired, represented 41 million euros, corresponding to additional impacts of the acquisition of FTE automotive, Valeo-Kapec and peiker. In 2017, outflows of resources amounted to 537 million euros, mainly corresponding to the acquisition of FTE automotive and Kapec, which represented 386 million euros and 111 million euros, respectively.

Disposals of investments with loss of control, net of cash transferred, in 2018 included a cash outflow of 7 million euros relating to the sale of the lighting business in Argentina.

In 2018, net cash flows from financing activities mainly included dividends paid to Valeo shareholders in an amount of 296 million euros and to non-controlling interests in an amount of 28 million euros, net interest paid in an amount of 58 million euros, a capital increase carried out under the Shares4U employee share ownership plan in an amount of 26 million euros, and net treasury share purchases in an amount of 118 million euros, of which 100 million euros in respect of a share buyback program.

Net cash flow in 2018 represented an outflow of 598 million euros compared to an outflow of 792 million euros in 2017.

Net cash flows from financing activities in 2018 also included subscriptions of long-term loans and borrowings in an amount of 603 million euros (mainly corresponding to a 600 million euro bond issue on June 18, 2018), as well as repayments of long-term debt in an amount of 360 million euros (including repayment in May 2018 of a 274 million euro bond issue carried out in 2011 under the Euro Medium Term Note financing program and repayment in November 2018 of the final installment on the EIB loan in an amount of 25.75 million dollars). In all, net cash flows from financing activities were negative and represented a net outflow of 238 million euros. This compares with a net inflow of 406 million euros in 2017, which included the significant 1,486 million euros taken out in loans and borrowings.

Net consolidated cash and cash equivalents were down 315 million euros (down 45 million euros in 2017).

Net debt[1] stood at 2,248 million euros at December 31, 2018, up from 1,842 million euros at end-2017. The leverage ratio (net debt/EBITDA) came out at 0.93, compared with 0.76 at end-2017, and the gearing ratio (net debt/stockholders' equity excluding non-controlling interests) stood at 49% compared to 42% at end-2017. Net debt at end-December 2018 includes 89 million euros of debt reflecting the value of the put options on its non-controlling interests granted to STEC, the Group's partner in the Chinese joint venture Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd, and Marco Polo, which owns a 40% interest in Spheros Climatizaçao Brazil SA alongside Valeo's 60%.

(1) See Financial Glossary, page 46.

Investments over the past three years

Investments *(in millions of euros)*	**2018**	**2017**	**2016**
Property, plant and equipment	1,273	1,271	878
Intangible assets	780	631	483
Including capitalized development expenditure	*716*	*577*	*437*
TOTAL	**2,053**	**1,902**	**1,361**
% of sales	10.7%	10.3%	8.2%

Investments *(as a % of sales by geographic area)*	**2018**	**2017**	**2016**
Western Europe	35%	32%	37%
Central & Eastern Europe and Africa	16%	16%	17%
Asia	27%	29%	30%
North America	19%	22%	15%
South America	3%	1%	1%

The record levels of order intake achieved over the past few years have been driven by growth in our investments.

2018

Investments in 2018 were 8% higher than in 2017 and focused on Western Europe, mainly 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 Transmission Systems Product Groups following significant investment in innovation, production capacity and vertical integration in 2018. The Electronics and Thermal Powertrain 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, Note 2.2.1 "Transactions that were completed" to the 2017 consolidated financial statements, pages 296 to 297. 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 337 to 341 and Note 8.1.3 "Net debt" to the consolidated financial statements, pages 342 to 343.

2016

Investments recorded in 2016 were up 21% on 2015, and were used to create new capacity and extend existing facilities at plants in China, France, Korea, Mexico, the United States, Hungary, Poland, Japan, Romania and the Czech Republic. Capital expenditure was mainly earmarked for Transmission Systems, Lighting Systems, Electrical Systems, Thermal Powertrain and Air Conditioning Systems.

In line with the Group's strategy, Valeo announced the following transactions in 2016 (see section 5.4.6, Note 2.2.1 "Transactions carried out in 2016" to the 2016 consolidated financial statements, pages 295 to 299):

- on April 18, 2016, Valeo and Siemens announced that they had signed an agreement to create the joint venture Valeo Siemens eAutomotive GmbH, joining forces to offer a comprehensive range of high-voltage (above 60 V) components and systems for all types of electric vehicles (hybrids, plug-in hybrids and full electric vehicles). The joint venture began operating on December 1, 2016;
- on June 2, 2016, Valeo announced that it had signed an agreement with Bain Capital Private Equity, owner of FTE automotive, to acquire the entire share capital of the company. The transaction was completed on October 31, 2017;
- on November 22, 2016, Valeo announced the launch of a takeover bid for the shares of Ichikoh at a price of 408 Japanese yen per share. The takeover bid ran from November 24, 2016 to January 12, 2017.

These last two transactions had no impact on the 2016 consolidated financial statements.

Commitments

The table below shows the main commitments given:

(in millions of euros)	December 31, 2018	December 31, 2017	December 31, 2016
Lease commitments	474	347	328
Guarantees given	3	13	13
Non-cancelable asset purchase commitments	718	496	401
Other commitments given	52	31	28
TOTAL	**1,247**	**887**	**770**

IFRS 16 – "Leases" becomes mandatory on January 1, 2019. It requires lessees to recognize most leases using a single accounting model, i.e., the same model as under IAS 17. The lessee will recognize (i) a non-current asset representing its right to use the leased asset, and (ii) a liability representing its obligation to pay for the right to use this asset. The potential impacts on the Group's 2019 consolidated financial statements are described in Note 1.1.2, page 290.

Non-cancelable asset purchase commitments remain significant, reflecting a sustained investment program.

Other commitments given essentially relate to guarantees granted by Valeo in connection with divestments. They represented 33 million euros at December 31, 2018 (31 million euros at December 31, 2017), and mainly include commitments given on the creation of the joint venture with Siemens on December 1, 2016 and on the sale of the Engine Control business in 2016. Other commitments given as part of the Group's operating activities came to 19 million euros.

Commitments received totaled 492 million euros at December 31, 2018 (490 million euros at December 31, 2017) and correspond principally to guarantees granted to Valeo in connection with its acquisitions, namely FTE automotive, gestigon and Valeo Malaysia CDA Sdn (formerly Precico), and in connection with the creation of the Valeo Siemens eAutomotive joint venture.

5.2 Subsequent events

On February 26, 2019, Standard & Poor's maintained its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo and revised its outlook from stable to negative.

On March 22, 2019, Moody's downgraded its long-term and short-term corporate credit ratings for Valeo from Baa2/P-2 to Baa3/P-3, with a stable outlook.

On March 22, 2019, Valeo terminated the liquidity agreement entered into with Kepler Cheuvreux on April 22, 2004, replacing it with a new agreement with Rothschild Martin Maurel.

5.3 Trends and outlook

2019 outlook

In a context of:

- volatile global automotive production (estimated growth of between 0% and -1% over the year compared with 2018) with a decline in the first half due to the economic environment in China, and an improvement in the second half;
- uncertainty regarding the price of raw materials and electronic components.

The Valeo Group has set the following objectives:

- a stronger market outperformance than in second-half 2018, increasing gradually during the year thanks to the start of production on new contracts, particularly in the camera, electrical and transmission systems, and lighting segments;
- rollout of a new program to reduce costs by more than 100 million euros and capital expenditure by more than 100 million euros;
- EBITDA growth (in value terms);
- higher free cash flow generation than in 2018;
- operating margin excluding share in net earnings of equity-accounted companies (as a % of sales) of between 5.8% and 6.5%, depending on the trends in automotive production and in the price of raw materials and electronic components;
- a "share in net earnings of equity-accounted companies" line which, as announced, is expected to have a similar impact on Valeo's 2019 statement of income as it did in 2018.

Medium-term outlook

The trends in the automotive market and in raw material prices in 2018 and the projections for 2019 lead us to revise the assumptions used to determine our medium-term outlook, as presented at our Investor Day in February 2017. The Group will publish its new medium-term objectives during the Investor Day to be held before the end of the year.

5.4 2018 Consolidated Financial Statements AFR

In accordance with Article 28 of European Regulation no. 809/2004 dated April 29, 2004, the following information is incorporated by reference in this Registration Document:

- the consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2017, set out on pages 272 to 376 and 377 to 380 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2018 under number D.18-0208;
- the consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2016, set out on pages 284 to 367 and 368 to 369 of the Registration Document registered with the AMF on March 24, 2017 under number D.17-0226.

5.4.1 Consolidated statement of income

(in millions of euros)	*Notes*	2018	2017 restated[(1)]
SALES	*4.1*	**19,124**	**18,484**
Cost of sales	*4.3*	(15,450)	(14,652)
Research and Development expenditure	*4.5.1*	(1,560)	(1,494)
Selling expenses		(316)	(303)
Administrative expenses		(595)	(587)
OPERATING MARGIN		**1,203**	**1,448**
as a % of sales		6.3%	7.8%
Share in net earnings (losses) of equity-accounted companies	*4.5.3.1*	(111)	20
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.5*	**1,092**	**1,468**
as a % of sales		5.7%	7.9%
Other income and expenses	*4.6.2*	(56)	(66)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.6.1*	**1,036**	**1,402**
Cost of net debt	*8.2.1*	(66)	(75)
Other financial income and expenses	*8.2.2*	(25)	(47)
INCOME BEFORE INCOME TAXES		**945**	**1,280**
Income taxes	*9.1*	(303)	(324)
NET INCOME FOR THE YEAR		**642**	**956**
Attributable to:			
▪ Owners of the Company		546	877
▪ Non-controlling interests	*10.1.4*	96	79
Earnings per share:			
▪ Basic earnings per share *(in euros)*	*10.2*	2.30	3.69
▪ Diluted earnings per share *(in euros)*	*10.2*	2.28	3.64

(1) The consolidated statement of income for the year ended 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 of January 1, 2018 with restatement of comparative periods (see Notes 1.1.1 and 1.2, pages 288 to 289), and of allocating the purchase price for FTE automotive and Valeo-Kapec (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).

The Notes are an integral part of the consolidated financial statements.

5.4.2 Consolidated statement of comprehensive income

(in millions of euros)	2018	2017 restated[(1)]
NET INCOME FOR THE YEAR	**642**	**956**
Share of changes in comprehensive income from equity-accounted companies that may subsequently be recycled to income	1	(7)
o/w income taxes	*-*	*-*
Translation adjustment	62	(330)
Cash flow hedges:		
▪ Gains (losses) taken to equity	(7)	44
▪ (Gains) losses transferred to income for the year	(4)	(26)
o/w income taxes	*(4)*	*(1)*
Remeasurement of available-for-sale financial assets	(18)	4
o/w income taxes	*3*	*(1)*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY SUBSEQUENTLY BE RECYCLED TO INCOME	**34**	**(315)**
Share of changes in comprehensive income from equity-accounted companies that may not subsequently be recycled to income	-	-
o/w income taxes	*-*	*-*
Actuarial gains (losses) on defined benefit plans	16	51
o/w income taxes	*34*	*(18)*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY NOT SUBSEQUENTLY BE RECYCLED TO INCOME	**16**	**51**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**50**	**(264)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**692**	**692**
Attributable to:		
▪ Owners of the Company	589	634
▪ Non-controlling interests	103	58

(1) The consolidated statement of comprehensive income for the year ended 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 of January 1, 2018 with restatement of comparative periods (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292), and of allocating the purchase price for FTE automotive and Valeo-Kapec (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).

The Notes are an integral part of the consolidated financial statements.

5.4.3 Consolidated statement of financial position

(in millions of euros)	*Notes*	December 31, 2018	December 31, 2017 restated[(1)]
ASSETS			
Goodwill	*6.1*	2,550	2,512
Other intangible assets	*6.2*	2,419	2,042
Property, plant and equipment	*6.3*	4,621	4,110
Investments in equity-accounted companies	*4.5.3.2*	187	360
Other non-current financial assets	*8.1.1*	590	419
Assets relating to pensions and other employee benefits	*5.3*	4	5
Deferred tax assets	*9.2*	486	458
NON-CURRENT ASSETS		**10,857**	**9,906**
Inventories, net	*4.4*	1,906	1,706
Accounts and notes receivable, net	*4.2*	2,781	2,906
Other current assets		522	484
Taxes receivable		34	42
Other current financial assets	*8.1.1*	15	40
Cash and cash equivalents	*8.1.3.2*	2,357	2,436
Assets held for sale	*2.2.2.1*	-	41
CURRENT ASSETS		**7,615**	**7,655**
TOTAL ASSETS		**18,472**	**17,561**
EQUITY AND LIABILITIES			
Share capital	*10.1.1*	240	240
Additional paid-in capital	*10.1.1*	1,513	1,487
Translation adjustment	*10.1.3*	17	(36)
Retained earnings		2,801	2,696
STOCKHOLDERS' EQUITY		**4,571**	**4,387**
Non-controlling interests	*10.1.4*	807	719
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**5,378**	**5,106**
Provisions for pensions and other employee benefits – long-term portion	*5.3*	1,051	1,019
Other provisions – long-term portion	*7.1*	357	397
Long-term portion of long-term debt	*8.1.2*	3,466	3,227
Other financial liabilities – long-term portion	*8.1.1*	16	162
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.1.2.2*	17	17
Subsidies and grants – long-term portion		56	43
Deferred tax liabilities	*9.2*	89	119
NON-CURRENT LIABILITIES		**5,052**	**4,984**
Accounts and notes payable		4,475	4,395
Provisions for pensions and other employee benefits – current portion	*5.3*	104	117
Other provisions – current portion	*7.1*	273	207
Subsidies and grants – current portion		39	19
Taxes payable		125	116
Other current liabilities		1,569	1,453
Current portion of long-term debt	*8.1.2*	434	383
Other financial liabilities – current portion	*8.1.1*	42	15
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.1.2.2*	72	65
Short-term debt	*8.1.2.3*	900	664
Liabilities held for sale	*2.2.2.1*	9	37
CURRENT LIABILITIES		**8,042**	**7,471**
TOTAL EQUITY AND LIABILITIES		**18,472**	**17,561**

(1) The consolidated statement of financial position 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 of January 1, 2018 with restatement of comparative periods (see Notes 1.1.1 and 1.2), and of allocating the purchase price for FTE automotive and Valeo-Kapec (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).

The Notes are an integral part of the consolidated financial statements.

5.4.4 Consolidated statement of cash flows

(in millions of euros)	*Notes*	2018	2017 restated[(1)]
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year[(1)]		642	956
Share in net (earnings) losses of equity-accounted companies		111	(20)
Net dividends received from equity-accounted companies		64	46
Expenses (income) with no cash effect[(1)]	*11.1*	1,180	884
Cost of net debt[(1)]		66	75
Income taxes (current and deferred)[(1)]		303	324
GROSS OPERATING CASH FLOWS		**2,366**	**2,265**
Income taxes paid		(267)	(265)
Changes in working capital[(1)]	*11.2*	71	39
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**2,170**	**2,039**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(777)	(627)
Acquisitions of property, plant and equipment		(1,291)	(1,158)
Investment subsidies and grants received		35	9
Disposals of property, plant and equipment and intangible assets		8	31
Net change in non-current financial assets		(212)	(91)
Acquisitions of investments with gain of control, net of cash acquired	*11.3*	(41)	(537)
Acquisitions of investments in associates and/or joint ventures		(2)	(7)
Disposals of investments with loss of control, net of cash transferred	*11.4*	(7)	(1)
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(2,287)**	**(2,381)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(296)	(297)
Dividends paid to non-controlling interests in consolidated subsidiaries		(28)	(20)
Capital increase		26	26
Sale (purchase) of treasury stock	*11.5*	(118)	(73)
Issuance of long-term debt	*11.6*	603	1,486
Loan issue costs and premiums	*11.6*	(5)	(7)
Interest paid		(64)	(72)
Interest received		6	9
Repayments of long-term debt	*11.6*	(360)	(630)
Acquisitions of investments without gain of control		(2)	(16)
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**(238)**	**406**
CASH AND CASH EQUIVALENTS RELATING TO ASSETS HELD FOR SALE		**6**	**(6)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**34**	**(103)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(315)**	**(45)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,772**	**1,817**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,457**	**1,772**
Of which:			
▪ Cash and cash equivalents		2,357	2,436
▪ Short-term debt		(900)	(664)

(1) The consolidated statement of cash flows for the year ended 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 of January 1, 2018 with restatement of comparative periods (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292), and of allocating the purchase price for FTE automotive and Valeo-Kapec (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).

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 restated[1]		
Number of shares outstanding	*(in millions of euros)*	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings[1]	Stockholders' equity	Non-controlling interests	Total
237,902,266	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2016**	**239**	**1,462**	**282**	**2,134**	**4,117**	**236**	**4,353**
	Adoption of IFRS 15	-	-	-	(30)	(30)	-	**(30)**
	Adoption of IFRS 9	-	-	-	11	11	-	**11**
237,902,266	**STOCKHOLDERS' EQUITY AT JANUARY 1, 2017[1]**	**239**	**1,462**	**282**	**2,115**	**4,098**	**236**	**4,334**
	Dividends paid[2]	-	-	-	(297)	(297)	(20)	**(317)**
(488,256)	Treasury shares[3]	-	-	-	(73)	(73)	-	**(73)**
509,990	Capital increase[4]	1	25	-	-	26	-	**26**
	Share-based payment	-	-	-	27	27	-	**27**
	Put options granted[5]	-	-	-	1	1	(4)	**(3)**
	Other movements[6]	-	-	-	(29)	(29)	449	**420**
	TRANSACTIONS WITH OWNERS	**1**	**25**	**-**	**(371)**	**(345)**	**425**	**80**
	Net income for the year[1]	-	-	-	877	877	79	**956**
	Other comprehensive income (loss), net of tax[1]	-	-	(318)	75	(243)	(21)	**(264)**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(318)**	**952**	**634**	**58**	**692**
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[4]	-	26	-	-	26	-	**26**
	Share-based payment	-	-	-	3	3	-	**3**
	Put options granted[5]	-	-	-	(5)	(5)	(2)	**(7)**
	Other movements[6]	-	-	-	(15)	(15)	15	**-**
	TRANSACTIONS WITH OWNERS	**-**	**26**	**-**	**(431)**	**(405)**	**(15)**	**(420)**
	Net income for the year	-	-	-	546	546	96	**642**
	Other comprehensive income (loss), net of tax	-	-	53	(10)	43	7	**50**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**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**

(1) The consolidated statement of changes in stockholders' equity for the years ended December 31, 2016 and December 31, 2017 differs from that presented in the 2016 and 2017 consolidated financial statements, respectively published in February 2017 and 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 of January 1, 2018 with restatement of comparative periods (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292), and of allocating the purchase price for FTE automotive and Valeo-Kapec (see Notes 2.2.1.3, 2.2.1.2 and 1.2.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).

(2) A cash dividend of 1.25 euros per share was paid in 2018, representing a total payout of 296 million euros. The per-share amount was unchanged from June 2017.

(3) Changes in stockholders' equity attributable to treasury shares for 2017 and 2018 include the impact of share buyback programs entered into with an investment services provider on March 6, 2017 in an amount of 75 million euros and on March 7, 2018 in an amount of 100 million euros (see Note 10.1.1.3, pages 356 to 357).

(4) The terms and conditions of the June 28, 2018 capital increase reserved for employees are detailed in Note 10.1.1.1, page 336.

(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, pages 340 to 341).

(6) Other movements mainly include transactions with owners (see Note 10.1.3, page 357).

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, 2018 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, 2018 were authorized for issue by the Board of Directors on February 21, 2019.

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, 2018

The following standards, amendments and interpretations have been published by the IASB and adopted by the European Union:

Standards, amendments and interpretations	**IFRS 15 – Revenue from Contracts with Customers** Effective as of January 1, 2018
Presentation and general principles	On May 28, 2014, the IASB published a standard on revenue recognition, under which revenue must be recognized upon transfer of control of the goods or services sold in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. IFRS 15, and the related clarifications published by the IASB on April 12, 2016, replace IAS 11 and IAS 18, as well as the associated IFRIC and SIC interpretations. The European Union adopted IFRS 15 on September 22, 2016.

Impacts for the Group	Together with the Business Groups and Valeo Service, Valeo selected the principal transactions and contracts representing the Group's current and future activity. These were analyzed in light of the five-step model required by IFRS 15 in order to identify areas where it needs to exercise judgment and any potential changes resulting from application of the standard. The general findings of this analysis are presented below.
	Analysis of the Group's main promises
	For each automotive project, the three main promises made by Valeo to an automaker typically identified within the scope of the analysis are:
	■ Product Development, which includes determining the intrinsic technical features of parts and those related to the relevant production process. This promise is usually considered to be related to the promise to Supply 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. 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 and as the promise to deliver the parts is fulfilled;
	■ Supply of Parts, sales of which are recognized when control of the parts is transferred to the customer, i.e., generally upon delivery.
	Valeo also considers that the contractual promise made to the automaker in the form of warranties for the parts supplied does not meet the definition of a separate performance obligation as it does not give rise to an "additional service". Warranty costs therefore continue to be accounted for in accordance with IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets".
	Impacts on the presentation of sales and the Group's consolidated statement of income
	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 now recognized based on their net amount. As a result, a presentation impact of 425 million euros for 2017 was recognized as a deduction from Sales on the one hand and Raw materials consumed within Cost of sales on the other. This reclassification mainly concerns the Thermal Systems Business Group's front-end module operations.
	Customer contributions to development costs and prototypes, which were previously presented as a deduction from Research and Development expenditure, are now presented under Sales as they result from a contract with a customer with a view to obtaining goods or services that are an output of the Group's ordinary activities in exchange for consideration. This reclassification represented an amount of 364 million euros for 2017. As research and development costs continue to be presented under Research and Development expenditure, gross margin is no longer included in the consolidated statement of income.

Application by the Group	Valeo has applied IFRS 15 since January 1, 2018, with restatement of comparative periods, i.e., a reduction in equity at January 1, 2017 of 30 million euros. The impacts of the retrospective application of IFRS 15 on the Group's consolidated financial statements are described in Note 1.2., pages 291 to 292.

Standards, amendments and interpretations	**IFRS 9 – Financial instruments** Effective as of January 1, 2018
Presentation and general principles	On July 24, 2014, the IASB published the full version of IFRS 9, marking the completion of its project to replace IAS 39 on financial instruments. IFRS 9 introduces some important changes to IAS 39: ■ the approach for classifying and measuring financial assets is now based on an analysis of both the business model for each asset portfolio and the contractual terms of the financial asset in question; ■ the impairment model no longer uses the approach based on identified credit losses but an approach based on expected credit losses; ■ the accounting for hedges has been significantly improved and is now more closely aligned with the Group's risk management strategy.
Impacts for the Group	Owing to the nature of its operations, the Group has not identified any significant changes to the classification and measurement of its financial assets, with the exception of its interests in investment funds, for which changes in fair value will henceforth be recognized in income. When the Group considers that a long-term investment in equity instruments is not held for trading but for the purposes of establishing close and lasting business relationships and/or as part of technological monitoring, the Group may apply the irrevocable option under which changes in the fair value of such investments are recognized in other comprehensive income. As part of the transition to IFRS 9, Valeo elected to apply this option to the reciprocal shareholdings held by Ichikoh and the stakes acquired in the start-ups Aledia and Navya. Application of this option under the transition to IFRS 9 did not have a material impact on the consolidated financial statements. The expected credit loss impairment model prescribed by IFRS 9 results in recognizing impairment losses against accounts and notes receivable not yet due. A detailed analysis of the impairment model for financial assets, and particularly accounts and notes receivable, led the Group to recognize additional impairment of 1 million euros at January 1, 2017. The Group considers that its existing hedging relationships meeting the qualifying criteria as effective hedges continue to meet IFRS 9 hedge accounting criteria. Lastly, the impacts of applying IFRS 9 to the debt renegotiation that took place in January 2014 represent: ■ an increase of around 12 million euros in consolidated retained earnings (excluding deferred tax) at January 1, 2017; ■ an additional annual financial expense of around 2 million euros, to be recognized over the remaining term of the renegotiated debt (i.e., over a period up to 2024).
Application by the Group	Valeo has applied IFRS 9 since January 1, 2018, with restatement of comparative periods, i.e., a positive impact of 11 million euros on consolidated retained earnings at January 1, 2017. The impacts of the retrospective application of IFRS 15 on the Group's consolidated financial statements are described in Note 1.2, pages 291 to 292.

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, 2018	
Annual Improvements to IFRSs 2014-2016 cycle	Various provisions
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
IFRIC 22	Foreign Currency Transactions and Advance Consideration

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 after January 1, 2018 and not early adopted by the Group

The following standards, amendments and interpretations have been published by the IASB and adopted by the European Union:

Standards, amendments and interpretations	IFRS 16 – Leases Effective as of January 1, 2019
Presentation and general principles	On January 13, 2016, the IASB published IFRS 16 – "Leases". IFRS 16 will replace 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. As of January 1, 2019, IFRS 16 requires lessees to recognize most leases using a single accounting model, i.e., the same model as that used to recognize finance leases under IAS 17. The lessee will recognize: ■ 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; ■ amortization of the right-of-use asset and interest expenses on the lease liability, in the consolidated statement of income.
Impacts for the Group	The Group is currently finalizing its assessment of the impact of applying IFRS 16 on its consolidated financial statements, based on the leases identified and an analysis of their main terms and conditions. Valeo mainly has lease contracts for land and buildings (production facilities, warehouses and offices) which are currently accounted for as operating leases and for which it will be required to recognize a right-of-use asset under IFRS 16. The main measures included in IFRS 16 to simplify application and adopted by the Group are: ■ exclusion of short-term leases; ■ exclusion of leases of low-value assets. The potential impacts at the transition date on the 2019 consolidated financial statements, based on the budget and on the leases in force at the transition date, are as follows:

Item	Nature of impact	Estimated amount
Property, plant and equipment	Increase	440 million euros – 480 million euros
Lease liabilities/Net debt	Increase	440 million euros – 480 million euros
2019 EBITDA(1)	Improvement	0.4 to 0.5 percentage points
2019 financial income and expenses(1)	Deterioration	Additional financial expense of around 20 million euros
2019 net income before taxes(1)	-	Minimal

(1) Estimated cumulative impact at end-December 2019 of contracts restated as part of the January 1, 2019 transition to IFRS 16, based on the 2019 budget.

The above data are indicative and the actual amounts may differ after the transition options have been finalized and IFRS 16 has been adopted or due to the new leases that may be signed during 2019.

The difference between future minimum lease payments on operating leases under IAS 17 and estimated lease liabilities that will be recognized by the Group under IFRS 16 is described in Note 6.5., pages 232 to 233.

Application by the Group	Valeo will apply IFRS 16 using the modified retrospective approach. This simplified approach does not require restatement of financial statements published before the date IFRS 16 is first applied. Within the scope of its transition to IFRS 16, the Group has 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 initial application.

The IASB has also published the following guidance, which is not expected to have a material impact on the Group's consolidated financial statements:

Standards, amendments and interpretations		Effective date
Amendments to IFRS 9	Prepayment Features	January 1, 2019

1.1.3 Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union

The IASB has published the following standards, amendments and interpretations:

Standards, amendments and interpretations		Effective date[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019
Annual Improvements to IFRSs 2015-2017 cycle	Various provisions	January 1, 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
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
Amendments to IAS 1 and IAS 8	Definition of Material	January 1, 2020

(1) Subject to adoption by the European Union.

1.2 Restatement of comparative periods

The consolidated financial statements for the year ended December 31, 2017, which were published in February 2018, have been restated to reflect the impacts of:

- retrospectively applying IFRS 15 – "Revenue from Contracts with Customers" and IFRS 9 – "Financial Instruments" (see Note 1.1.1, pages 288 to 289);
- the definitive allocation of the FTE automotive purchase price to the entity's assets and liabilities (see Note 2.2.1.3, pages 297 to 298); and
- the definitive allocation of the Valeo-Kapec purchase price to the entity's assets and liabilities (see Note 2.2.1.2, pages 296 to 297).

1.2.1 Consolidated statement of income

(in millions of euros)	Full-year 2017 published	IFRS 15	IFRS 9	Valeo-Kapec allocation	Full-year 2017 restated
SALES	**18,550**	**(66)**	**-**	**-**	**18,484**
Cost of sales	(15,076)	425	-	(1)	(14,652)
Research and Development expenditure[1]	(1,130)	(364)	-	-	(1,494)
Selling expenses	(302)	-	-	(1)	(303)
Administrative expenses	(587)	-	-	-	(587)
OPERATING MARGIN	**1,455**	**(5)**	**-**	**(2)**	**1,448**
as a % of sales	*7.8%*				*7.8%*
Share in net earnings of equity-accounted companies	22	(2)	-	-	20
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	**1,477**	**(7)**	**-**	**(2)**	**1,468**
as a % of sales	*8.0%*				*7.9%*
Other income and expenses	(67)	-	-	1	(66)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	**1,410**	**(7)**	**-**	**(1)**	**1,402**
Cost of net debt	(73)	-	(2)	-	(75)
Other financial income and expenses	(47)	-	-	-	(47)
INCOME BEFORE INCOME TAXES	**1,290**	**(7)**	**(2)**	**(1)**	**1,280**
Income taxes	(325)	1	-	-	(324)
NET INCOME FOR THE PERIOD	**965**	**(6)**	**(2)**	**(1)**	**956**
Attributable to:					
▪ Owners of the Company	886	(6)	(2)	(1)	877
▪ Non-controlling interests	79	-	-	-	79

(1) In 2017, Research and Development expenditure was presented net of customer contributions to Research and Development, which are now presented under Sales.

1.2.2 Consolidated statement of financial position

(in millions of euros)	December 31, 2017 published	IFRS 15	IFRS 9	FTE automotive allocation	Valeo-Kapec allocation	December 31, 2017 restated
ASSETS						
Goodwill	2,615	-	-	(31)	(72)	2,512
Other intangible assets	1,830	-	-	89	123	2,042
Property, plant and equipment	4,055	-	-	27	28	4,110
Investments in equity-accounted companies	357	(2)	-	5	-	360
Other non-current financial assets	420	-	-	(1)	-	419
Assets relating to pensions and other employee benefits	5	-	-	-	-	5
Deferred tax assets	456	2	-	-	-	458
NON-CURRENT ASSETS	**9,738**	**-**	**-**	**89**	**79**	**9,906**
Inventories, net	1,720	-	-	(14)	-	1,706
Accounts and notes receivable, net	2,919	-	(1)	(11)	(1)	2,906
Other current assets	483	-	-	1	-	484
Taxes receivable	42	-	-	-	-	42
Other current financial assets	40	-	-	-	-	40
Cash and cash equivalents	2,436	-	-	-	-	2,436
Assets held for sale	41	-	-	-	-	41
CURRENT ASSETS	**7,681**	**-**	**(1)**	**(24)**	**(1)**	**7,655**
TOTAL ASSETS	**17,419**	**-**	**(1)**	**65**	**78**	**17,561**
EQUITY AND LIABILITIES						
Share capital	240	-	-	-	-	240
Additional paid-in capital	1,487	-	-	-	-	1,487
Translation adjustment	(36)	1	-	-	(1)	(36)
Retained earnings	2,723	(36)	9	-	-	2,696
STOCKHOLDERS' EQUITY	**4,414**	**(35)**	**9**	**-**	**(1)**	**4,387**
Non-controlling interests	649	-	-	-	70	719
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS	**5,063**	**(35)**	**9**	**-**	**69**	**5,106**
Provisions for pensions and other employee benefits – long-term portion	1,018	-	-	1	-	1,019
Other provisions – long-term portion	388	-	-	29	(20)	397
Long-term portion of long-term debt	3,237	-	(10)	-	-	3,227
Other financial liabilities – long-term portion	162	-	-	-	-	162
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	17	-	-	-	-	17
Subsidies and grants – long-term portion	43	-	-	-	-	43
Deferred tax liabilities	73	-	-	11	35	119
NON-CURRENT LIABILITIES	**4,938**	**-**	**(10)**	**41**	**15**	**4,984**
Accounts and notes payable	4,394	-	-	1	-	4,395
Provisions for pensions and other employee benefits – current portion	117	-	-	-	-	117
Other provisions – current portion	207	-	-	6	(6)	207
Subsidies and grants – current portion	19	-	-	-	-	19
Taxes payable	116	-	-	-	-	116
Other current liabilities	1,401	35	-	17	-	1,453
Current portion of long-term debt	383	-	-	-	-	383
Other financial liabilities – current portion	15	-	-	-	-	15
Liabilities associated with put options granted to holders of non-controlling interests – current portion	65	-	-	-	-	65
Short-term debt	664	-	-	-	-	664
Liabilities held for sale	37	-	-	-	-	37
CURRENT LIABILITIES	**7,418**	**35**	**-**	**24**	**(6)**	**7,471**
TOTAL EQUITY AND LIABILITIES	**17,419**	**-**	**(1)**	**65**	**78**	**17,561**

1.3 Basis of preparation

The financial statements are presented in euros and are rounded to the nearest million.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions concern both risks specific to the automotive supply business, such as those relating to quality and safety, as well as more general risks to which the Group is exposed on account of its industrial operations across the globe.

The Group exercises its judgment based on past experience and other factors considered to be decisive given the environment and the circumstances. The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in Valeo's future financial statements may differ from the amounts resulting from these current estimates.

Significant estimates, judgments and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2018 chiefly concern:

- the measurement of intangible assets recognized as part of the allocation of the purchase price for Valeo-Kapec and FTE automotive to the relevant entity's assets and liabilities (see Notes 2.2.1.2 and 2.2.1.3, pages 296 to 298);
- the conditions for capitalizing development expenditure (see Note 4.5.1.1, pages 306 to 307);
- estimates of provisions, particularly provisions for pensions and other employee benefits and provisions for risks linked to product warranties (see Notes 5.3 and 7.1, pages 314 to 320 and pages 333 to 334);
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6, pages 324 to 333);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9.2, pages 354 to 355).

NOTE 2 SCOPE OF CONSOLIDATION

2.1 Accounting policies relating to the scope of consolidation

2.1.1 Consolidation methods

2.1.1.1 Full consolidation

The accounts of companies under Valeo's direct and indirect control are included in the consolidated financial statements using the full consolidation method. Control is deemed to exist when the Group:

- has power over an investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to affect those returns through its power over the investee's relevant activities.

All intercompany transactions are eliminated, as are gains on intercompany disposals of assets, intercompany profits included in inventories and intercompany dividends.

The earnings of subsidiaries acquired are consolidated as from the date the Group has control.

2.1.1.2 Equity-method accounting for joint ventures and associates

Joint arrangements organize the sharing of control of an entity by two or more parties. 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 the carrying amount of investments in equity-accounted companies.

The procedure used to test 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 not classified as discontinued operations, any related impairment losses or proceeds from their disposal are recognized through operating income.

2.2 Changes in the scope of consolidation

2.2.1 Transactions that were completed

The main changes that impacted the Group's structure and consolidated financial statements during the period are as follows:

Description	Business Group	Transaction type	Transaction date	Note
Passive Hydraulic Actuator business	Powertrain Systems	Sale	March 28, 2018	2.2.1.1
Valeo-Kapec	Powertrain Systems	Company created with Pyeong Hwa	November 30, 2017	2.2.1.2
FTE automotive	Powertrain Systems	Takeover	October 31, 2017	2.2.1.3

2.2.1.1 Sale of the Passive Hydraulic Actuator business

On March 28, 2018, Valeo sold its Passive Hydraulic Actuator business, part of the Powertrain Systems Business Group, to the Italian group Raicam.

In accordance with IFRS 5, following the July 2017 announcement of the planned sale, the assets and liabilities relating to this business were classified as assets and liabilities held for sale in the consolidated statement of financial position at December 31, 2017 in an amount of 41 million euros and 37 millions of euros, respectively.

The business represented sales of 18 million euros for the three months of activity in first-half 2018, versus 69 million euros in 2017 (12 months of activity).

The sale of this business represented a loss of 33 million euros, primarily reflecting (i) an impairment loss, and (ii) future costs to be incurred directly in connection with the divestment of this business. These items have been recognized in Other income and expenses (see Note 4.6.2, pages 312 to 313).

The residual liabilities held for sale in the consolidated statement of financial position at December 31, 2018 represent obligations that remain to be fulfilled by Valeo.

2.2.1.2 Creation of Valeo-Kapec

On February 6, 2017, Valeo announced it had signed an agreement with the Pyeong Hwa group, its long-standing South Korean partner in transmission manufacturing, to create Valeo-Kapec, in which Valeo owns a 50% stake. Valeo-Kapec, headquartered in Daegu in South Korea, has a global manufacturing footprint and aims to become the world leader in torque converters for automatic and continuously variable transmissions. The partners have contributed their respective torque converter businesses, located for Valeo at Nanjing (China), Atsugi (Japan), San Louis Potosi (Mexico) and Troy (United States), and for Kapec in Daegu, Waegwan and Seongju (South Korea).

Having received the necessary regulatory clearance, Valeo and its partner Pyeong Hwa group announced the completion of the transaction on November 30, 2017.

Valeo-Kapec employs around 3,150 people. The new company is controlled by Valeo and has therefore been fully consolidated in its consolidated financial statements since December 1, 2017.

Valeo's contribution of assets and liabilities to Valeo-Kapec has been accounted for as an equity transaction in accordance with IFRS 10.

The opening balance sheet following the definitive allocation of the purchase price to the assets and liabilities contributed by the partner is as follows:

(in millions of euros)	December 1, 2017
PURCHASE PRICE	**457**
Intangible assets acquired[1]	142
Property, plant and equipment acquired	202
Other non-current assets acquired	331
Current assets acquired	169
Net cash and cash equivalents acquired	4
Non-controlling interests assumed	(340)
Provisions for pensions and other employee benefits assumed	(13)
Other provisions assumed	(14)
Deferred tax assets acquired and liabilities assumed	(41)
Other current liabilities assumed	(111)
IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED AT THE ACQUISITION DATE	**329**
GOODWILL ARISING ON THE ACQUISITION	**128**

(1) Including customer relationships, representing a gross amount of 82 million euros (for the most part amortized over 13 years), technology representing a gross amount of 28 million euros (amortized over eight years) and the trademark, representing a gross amount of 14 million euros, which has an indefinite useful life.

The definitive amount of goodwill resulting from this acquisition was calculated at 128 million euros and reflects strong geographic, product and business complementarity to create purchasing, manufacturing and Research and Development synergies.

(in millions of euros)	December 31, 2017	December 31, 2018
Net cash and cash equivalents acquired	4	-
Consideration paid	(114)	-
Acquisition costs paid during the period	(1)	(8)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**(111)**	**(8)**

The new South Korean operations acquired contributed 524 million euros to consolidated sales in 2018, compared with 42 million euros over a one-month period in 2017.

2.2.1.3 Acquisition of FTE automotive

On June 2, 2016, Valeo announced it had signed an agreement with Bain Capital Private Equity, owner of FTE automotive, to acquire the entire share capital of the company for an enterprise value of 819.3 million euros, which represents an estimated 8x EBITDA for 2016.

FTE automotive, headquartered in Germany, is a leading producer of clutch and gear actuators. Its product portfolio and customer base are highly complementary to Valeo's. The acquisition will enable the Group to expand its offering of active hydraulic actuators, a strategic and fast-growing market driven by the rise of dual-clutch technology and hybrid vehicles. FTE automotive will also strengthen Valeo's aftermarket business. The company has 3,800 employees and a diversified industrial footprint in eight countries, including Germany, the Czech Republic, Slovakia, Mexico and China. In 2016, FTE automotive generated sales of around 550 million euros.

Clearance from the Brazilian antitrust authorities was obtained on November 3, 2016. Further to its decision to sell its Passive Hydraulic Actuator business (see Note 2.2.1.1, pages 296), Valeo received clearance from the European Commission on October 13, 2017 and completed its acquisition of FTE automotive on October 31, 2017.

The opening balance sheet following the definitive allocation of the purchase price to FTE automotive's assets and liabilities is as follows:

(in millions of euros)	November 1, 2017
PURCHASE PRICE	**414**
Intangible assets acquired(1)	201
Property, plant and equipment acquired	137
Other non-current assets acquired	9
Current assets acquired	166
Net cash and cash equivalents acquired	30
Provisions for pensions and other employee benefits assumed	(68)
Other provisions assumed	(60)
Long-term debt acquired	(344)
Deferred tax assets acquired and liabilities assumed	(32)
Other current liabilities assumed	(81)
IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED AT THE ACQUISITION DATE	**(42)**
GOODWILL ARISING ON THE ACQUISITION	**456**

(1) Including customer relationships representing a gross amount of 94 million euros (amortized over 10 years), technology representing a gross amount of 92 million euros (amortized over a period of between 11 and 15 years) and the trademark, representing a gross amount of 13 million euros, which has an indefinite useful life.

The definitive amount of goodwill resulting from this acquisition was calculated at 456 million euros and chiefly reflects operating synergies, particularly purchasing and industrial synergies.

(in millions of euros)	December 31, 2017	December 31, 2018
Net cash and cash equivalents acquired	30	-
Consideration paid	(414)	-
Acquisition costs paid during the period	(2)	(6)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**(386)**	**(6)**

FTE automotive contributed 501 million euros to consolidated sales in 2018, compared with 86 million euros over a two-month period in 2017.

2.2.1.4 Other completed transactions affecting the scope of consolidation

On September 5, 2018, Valeo sold its Lighting business in Argentina, resulting in a loss of 30 million euros during the year, included within Other income and expenses (see Note 4.6.2.1, page 313).

In November 2018, Valeo transferred its 35% stake in Nanjing Valeo Clutch Co, Ltd to Valeo Pyeong Hwa International Co, Ltd for a consideration of 26 million euros. Valeo Pyeong Hwa International Co, Ltd is controlled by Valeo and 50%-owned by the Group. This transaction between owners did not affect the control of Nanjing Valeo Clutch Co, Ltd, which continues to be fully consolidated in the Group's financial statements. Accordingly, it has no impact on the Group's consolidated statement of income, but resulted in a reduction in Valeo's shareholding in Nanjing Valeo Clutch Co, Ltd. Nanjing Valeo Clutch Co, Ltd is now 75%-owned by Valeo Pyeong Hwa International Co, Ltd, representing an indirect shareholding of 37.5% for the Valeo Group, compared to 55% previously.

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, 2018, Valeo and V. Johnson Enterprises had a respective 49% and 51% interest in this company.

V. Johnson Enterprises has a put option that may be exercised under certain conditions unrelated to either changes in shareholdings or to the level of earnings. The option is exercisable in the event that Valeo is unable to contribute to the financing of the venture or if it sold all or part of its interest to a third party. If the put is exercised, all of the shares owned by V. Johnson Enterprises at that time will be sold to Valeo, with the price to be determined according to the provisions of the agreement defining the company's governance arrangements.

The Group reviewed the contingency clauses governing the exercise of this option in light of the present situation and considered that the conditions underlying these clauses were unlikely to materialize. No liability was therefore recognized in this respect.

2.3.1.2 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 33 million euros at December 31, 2018 (31 million euros at December 31, 2017), and mainly include commitments given on the creation of the joint venture with Siemens on December 1, 2016 and on the sale of the Engine Control business in 2016.

2.3.2 Commitments received

Commitments received totaled 492 million euros at December 31, 2018 (490 million euros at December 31, 2017) and correspond principally to guarantees granted to Valeo in connection with its acquisitions, namely FTE automotive, gestigon and Valeo Malaysia CDA Sdn (formerly Precico), 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 Interior Controls. Tomorrow's cars will be automated and connected. Innovative, intuitive interfaces will be needed to support this functional enhancement. The Comfort & Driving Assistance Systems Business Group focuses on driver experience, developing solutions to make mobility safer, more intuitive and more connected ;
- Powertrain Systems, comprising 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. To address the new challenges facing the automotive industry, the strategic objectives of this Business Group are three-fold: reduce harmful emissions from vehicles with internal combustion engines, increase travel range and battery life for hybrid and electric vehicles, and promote passenger health and well-being ;
- Visibility Systems, comprising two Product Groups: Interior and Exterior Lighting Systems and Wiper Systems. This Business Group designs and produces efficient and innovative lighting and wiper systems which support the driver and passengers in all weather, day and night, and in their various onboard activities.

Each of these Business Groups is also responsible for production and for some of the distribution of products for the aftermarket. Income and expenses for Valeo Service, which sells almost exclusively products manufactured by the Group, have been reallocated among the Business Groups identified.

In addition to these four Business Groups, the Other line includes the holding companies and eliminations between the four operating segments.

3.1 Key segment performance indicators

The key performance indicators for each segment as presented in the tables below are as follows:

- sales;
- EBITDA, which corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin) and the impact of government subsidies and grants on non-current assets, and (ii) net dividends received from equity-accounted companies;
- Research and Development expenditure;
- 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.

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**

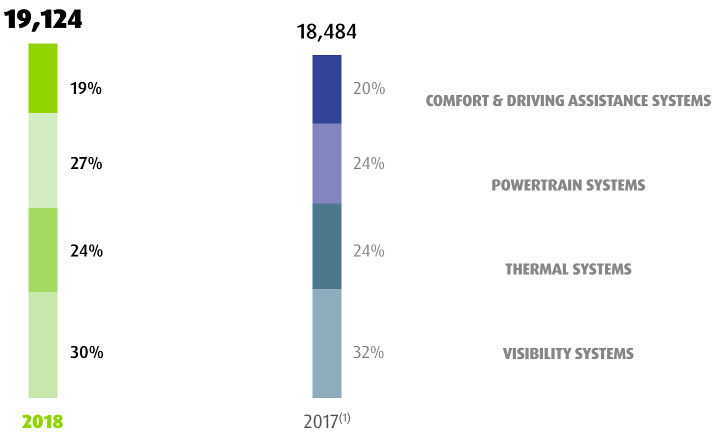
2017

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
▪ segment (excluding Group)(1)	3,674	4,274	4,611	5,825	100	**18,484**
▪ intersegment (Group)	25	80	50	96	(251)	**-**
EBITDA	**525**	**564**	**536**	**764**	**42**	**2,431**
Research and Development expenditure(1)	(518)	(272)	(286)	(395)	(23)	**(1,494)**
Investments in property, plant and equipment and intangible assets	537	390	430	508	37	**1,902**
Segment assets(2)	2,271	3,520	2,251	2,544	144	**10,730**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).
(2) The segment assets shown for the Powertrain Systems Business Group differ from those presented in the 2017 consolidated financial statements published in February 2018 since they have been adjusted to reflect the definitive allocation of goodwill for Valeo-Kapec and FTE automotive (see Note 1.2, pages 291 to 292).

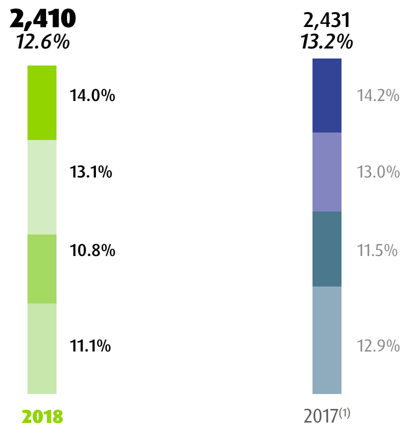
Breakdown of sales by Business Group (including intersegment sales)

(in millions of euros and as a % of sales)



EBITDA by Business Group

(in millions of euros and as a % of sales)



Comfort & Driving Assistance Systems Powertrain Systems Thermal Systems Visibility Systems

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	2018	2017[(1)]
Operating margin	**1,203**	**1,448**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses[(2)]	1,156	950
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(13)	(13)
Dividends paid by equity-accounted companies	64	46
EBITDA	**2,410**	**2,431**
as a % of sales	*12.6%*	*13.2%*

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the application of IFRS 15 and the definitive allocation of accounting items for FTE automotive and Valeo-Kapec (see Note 1.2, pages 291 to 292).
(2) Impairment losses recorded in Operating margin only.

This indicator is used by Management to monitor and track Business Group performance and to decide on the allocation of resources.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	2018	2017[(1)]
Segment assets	**11,683**	**10,730**
Accounts and notes receivable	2,781	2,906
Other current assets	522	484
Taxes receivable	34	42
Financial assets	2,966	2,900
Deferred tax assets	486	458
Assets held for sale[(2)]	-	41
TOTAL GROUP ASSETS	**18,472**	**17,561**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the application of IFRS 15 and the definitive allocation of accounting items for FTE automotive and Valeo-Kapec (see Note 1.2, pages 291 to 292).
(2) At December 31, 2017, assets held for sale corresponded to the assets of the Passive Hydraulic Actuator business (see Note 2.2.1.1, pages 296).

3.3 Reporting by geographic area

Non-current assets consist of property, plant and equipment, intangible assets (excluding goodwill) and investments in equity-accounted companies. Goodwill balances cannot be broken down by geographic area as they are allocated to Business Groups which belong to several areas.

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**

2017

(in millions of euros)	External sales by market(1)	Sales by production area(1)	Non-current assets(1)
France	1,463	3,189	736
Other European countries and Africa	7,632	6,378	2,449
North America	3,287	3,378	903
South America	495	431	69
Asia	5,607	5,905	2,357
Eliminations	-	(797)	(2)
TOTAL	**18,484**	**18,484**	**6,512**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the application of IFRS 15 and the definitive allocation of accounting items for FTE automotive and Valeo-Kapec (see Note 1.2, pages 291 to 292).

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 promise to Supply 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 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 3.5% to 19,124 million euros in 2018 from 18,484 million euros in 2017.

Changes in exchange rates had a negative 2.1% impact, relating mainly to the depreciation of the US dollar, Brazilian real, Chinese renminbi and Japanese yen, while changes in the scope of consolidation during the year had a positive 5.2% impact. Like for like (comparable Group structure and exchange rate basis), consolidated sales climbed 0.4% during the year.

4.1.1 Sales by type

Sales can be analyzed by type as follows:

(in millions of euros)	2018	2017[(1)]
Original equipment	16,146	15,695
Aftermarket	2,010	1,887
Other	968	902
SALES	**19,124**	**18,484**

(1) These data have been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

4.1.2 Original equipment sales by customer portfolio

Original equipment sales can be analyzed by customer portfolio as follows:

(in millions of euros)	2018	%	2017[(1)]	%
German automakers	4,812	30%	4,516	29%
Asian automakers	5,348	33%	4,958	31%
US automakers	2,830	17%	2,958	19%
French automakers	2,192	14%	2,321	15%
Other	964	6%	942	6%
ORIGINAL EQUIPMENT SALES	**16,146**	**100%**	**15,695**	**100%**

(1) These data have been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

4.2 Accounts and notes receivable

Accounts and notes receivable are current financial assets which are initially recognized at fair value and subsequently carried at amortized cost, less any accumulated impairment losses. The fair value of accounts and notes receivable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable may be written down for impairment. Impairment is recognized when it is probable that the receivable will not be recovered and when the amount of the loss can be measured reliably. 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:

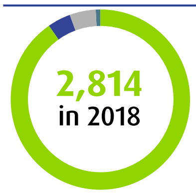
(in millions of euros)	December 31, 2018	December 31, 2017(1)
Accounts and notes receivable, gross	2,814	2,936
Impairment	(33)	(30)
ACCOUNTS AND NOTES RECEIVABLE, NET	**2,781**	**2,906**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and Valeo-Kapec as well as the application of IFRS 9 (see Note 1.2, pages 291 to 292).

At December 31, 2018, Valeo's largest automotive customer accounted for 14% of the Group's accounts and notes receivable, compared to 13% at December 31, 2017.

The average days' sales outstanding stood at 50 days at December 31, 2018, compared to 51 days at December 31, 2017.

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, 2018	December 31, 2017(1)
90.3%	– Not yet due	2,541	2,744
4.3%	– Less than 1 month past due	121	99
4.6%	– More than 1 month but less than 1 year past due	130	76
0.8%	– More than 1 year past due	22	17
	ACCOUNTS AND NOTES RECEIVABLE, GROSS	**2,814**	**2,936**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and Valeo-Kapec as well as the application of IFRS 9 (see Note 1.2, pages 291 to 292).

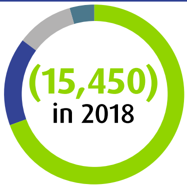
Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2018 totaled 2,541 million euros and 121 million euros, respectively, and represented 95% of total gross accounts and notes receivable (97% at end-2017). Past due receivables were written down in an amount of 33 million euros at December 31, 2018 (30 million euros at December 31, 2017).

Accounts and notes receivable falling due after December 31, 2018, 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 368 million euros at December 31, 2018 versus 312 million euros at December 31, 2017. A total of 165 million euros out of the 368 million euros relates to sale operations carried out on a recurring basis (93 million euros at December 31, 2017). The financial cost of these transactions, recognized in cost of net debt, was around 3 million euros in 2018 (around 4 million euros in 2017).

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)		2018	2017
56.2%(1)	– Raw materials consumed(2)	(10,741)	(10,355)
12.9%(1)	– Labor	(2,476)	(2,275)
8.2%(1)	– Direct production costs and production overheads	(1,567)	(1,471)
3.5%(1)	– Depreciation and amortization(3)	(666)	(551)
	COST OF SALES	**(15,450)**	**(14,652)**

(1) As a % of sales.
(2) The amount shown for Raw materials consumed differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).
(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.

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 on property, plant and equipment, pages 327 to 329) when Valeo has control over these risks and rewards, or is otherwise carried in inventories (until it is sold). 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, 2018, inventories break down as follows:

	December 31, 2018			December 31, 2017(1)
(in millions of euros)	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	840	(120)	720	613
Work-in-progress	197	(26)	171	157
Finished goods and supplies	650	(104)	546	529
Specific tooling	474	(5)	469	407
INVENTORIES, NET	**2,161**	**(255)**	**1,906**	**1,706**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive (see Note 1.2, pages 291 to 292).

Impairment losses taken against inventories amounted to 255 million euros at December 31, 2018 (231 million euros at December 31, 2017), including an allowance (net of reversals) of 24 million euros during the period. Allowances to provisions for impairment of inventories net of reversals amounted to 9 million euros in 2017.

4.5 Operating margin including share in net earnings of equity-accounted companies

Operating margin is equal to sales less direct 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 2018, operating margin including share in net earnings of equity-accounted companies totaled 1,092 million euros, or 5.7% of sales (7.9% of sales in 2017).

Share in net earnings of equity-accounted companies represented a loss of 111 million euros in 2018 and a gain of 20 million euros in 2017. See Note 4.5.3, pages 308 to 311 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 which can lead to new scientific or technical knowledge and understanding. Development is the application of research findings with a view to creating new products, before the start of commercial production.

Research costs are recognized in expenses in the period in which they are incurred.

Development costs are capitalized where the Group can demonstrate that:

- it has the intention and the technical and financial resources to complete the development, evidenced mainly by an engagement letter from the customer stating that Valeo has been chosen as supplier for the project;
- the intangible asset will generate future economic benefits in excess of its carrying amount, i.e., based on whether the project is expected to generate an adequate margin; and
- the cost of the intangible asset can be measured reliably.

Capitalized development costs recorded in assets in the statement of financial position therefore correspond to projects for specific customer applications drawing on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

Capitalized development costs are subsequently amortized on a straight-line basis over a maximum period of four years as from the start of volume production.

Changes in capitalized development costs in 2017 and 2018 are analyzed below:

(in millions of euros)	2018	2017[(1)]
GROSS CARRYING AMOUNT AT JANUARY 1	**2,734**	**2,300**
Accumulated amortization and impairment	(1,432)	(1,307)
NET CARRYING AMOUNT AT JANUARY 1	**1,302**	**993**
Capitalized development expenditure	716	577
Disposals	(1)	-
Changes in scope of consolidation[(1)]	-	31
Impairment	(8)	(4)
Amortization	(302)	(263)
Translation adjustment	8	(33)
Reclassifications	5	1
NET CARRYING AMOUNT AT DECEMBER 31	**1,720**	**1,302**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and Valeo-Kapec (see Note 1.2, pages 291 to 292).

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 2017:

(in millions of euros)	2018	2017[(1)]
Gross Research and Development expenditure	(2,073)	(1,895)
Subsidies and grants, and tax credits	107	91
Capitalized development expenditure	716	577
Amortization and impairment of capitalized development expenditure	(310)	(267)
RESEARCH AND DEVELOPMENT EXPENDITURE	**(1,560)**	**(1,494)**

(1) Research and Development expenditure differs from that presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the application of IFRS 15 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292), particularly the obligation to present customer contributions to development expenditure under Sales.

The Group continued to step up its Research and Development efforts in 2018 to meet the sharp increase in its order intake 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 53 million euros in 2018 (51 million euros in 2017).

4.5.2 Other current assets

Consistent with the treatment for accounts and notes receivable, amounts receivable in respect of the French research tax credit or the CICE tax credit (Crédit d'Impôt pour la Compétitivité et l'Emploi – see Note 5.2, pages 313 to 314) 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, 2018, amounts receivable in respect of the CICE tax credit for 2016, 2017 and 2018 and the French research tax credit for 2015, 2016 and 2017 are no longer carried in the consolidated statement of financial position, which now includes only the estimated 58 million euros receivable in respect of the 2018 research tax credit.

These derecognized receivables were transferred as follows:

- the 2015 CICE tax credit receivable on December 18, 2015 for 15 million euros;
- the 2015 research tax credit receivable on June 22, 2016 for 54 million euros;
- the 2016 CICE tax credit receivable on December 21, 2016 for 15 million euros;
- the 2016 research tax credit receivable on June 22, 2017 for 57 million euros;
- the 2017 CICE tax credit receivable on December 22, 2017 for 17 million euros;
- the 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 cost of these transfers for the Group, recognized in cost of net debt for the period, was 1 million euros, stable compared to 2017.

At December 31, 2017, only the 2017 research tax credit receivable was still carried on the consolidated statement of financial position for an estimated 55 million euros.

4.5.3 Associates and joint ventures

4.5.3.1 Share in net earnings of equity-accounted companies

(in millions of euros)	2018	2017[(1)]
Share in net earnings of associates	3	30
Share in net earnings (losses) of joint ventures	(114)	(10)
SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	**(111)**	**20**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and the application of IFRS 15 (see Note 1.2, pages 291 to 292).

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)	2018	2017
Ichikoh Industries Limited[(1)]	-	20
Detroit Thermal Systems	3	8
Other	-	2
SHARE IN NET EARNINGS OF ASSOCIATES	**3**	**30**

(1) Ichikoh has been consolidated by Valeo with effect from February 1, 2017. In 2017, the share in net earnings of associates relating to Ichikoh covered a period of four months (from October 1, 2016 to January 30, 2017), along with the disposal gain resulting from the remeasurement of the previously-held interest in Ichikoh amounting to 14 million euros.

Share in net earnings of joint ventures

(in millions of euros)	2018	2017[1]
Valeo Siemens eAutomotive	(147)	(55)
CloudMade	(3)	(3)
Chinese joint ventures	33	43
Other	3	5
SHARE IN NET EARNINGS (LOSSES) OF JOINT VENTURES	**(114)**	**(10)**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and the application of IFRS 15 (see Note 1.2, pages 291 to 292).

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)	2018	2017[1]
INVESTMENTS IN ASSOCIATES AT JANUARY 1	**34**	**86**
Share in net earnings of associates	3	30
Dividend payments	(9)	(8)
Impact of changes in scope of consolidation[1][2]	-	(76)
Other movements	-	2
Translation adjustment	1	-
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	**29**	**34**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and the application of IFRS 15 (see Note 1.2, pages 291 to 292).
(2) Changes in the scope of consolidation in 2017 mainly included the impacts of the change in the consolidation method for Ichikoh following the takeover on January 20, 2017.

The Group's investments in associates are detailed below:

	Percentage interest *(in %)*		Carrying amount *(in millions of euros)*	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017[1]
Detroit Thermal Systems	49.0	49.0	14	18
Valeo Pyeong Hwa Metals Co. Ltd[2]	49.0	49.0	-	(1)
Kuantic	33.3	33.3	5	6
Other	N/A	N/A	10	11
INVESTMENTS IN ASSOCIATES			**29**	**34**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and the application of IFRS 15 (see Note 1.2, pages 291 to 292).
(2) At December 31, 2017, the investment in Valeo Pyeong Hwa Metals Co. Ltd was recorded in "Other financial liabilities – long-term portion".

Investments in joint ventures

Changes in the "Investments in joint ventures" caption can be analyzed as follows:

(in millions of euros)	2018	2017[(1)]
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	**325**	**385**
Net earnings (losses) of joint ventures	(114)	(10)
Dividend payments	(55)	(38)
Impact of changes in scope of consolidation	-	(3)
Other movements	1	(2)
Translation adjustment	1	(7)
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	**158**	**325**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and the application of IFRS 15 (see Note 1.2, pages 291 to 292).

The Group's investments in joint ventures are detailed below:

	Percentage interest *(in %)*		Carrying amount *(in millions of euros)*	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017[(1)]
Valeo Siemens eAutomotive	50.0	50.0	23	180
Chinese joint ventures	N/A	N/A	100	109
CloudMade	50.0	50.0	22	24
Other	N/A	N/A	13	12
INVESTMENTS IN JOINT VENTURES			**158**	**325**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and the application of IFRS 15 (see Note 1.2, pages 291 to 292).

4.5.3.3 Financial information on equity-accounted companies

This information is presented based on a 100% holding and according to IFRS.

Information for equity-accounted associates is provided on an aggregate basis since the entities are not material taken individually.

Associates

Summarized financial data in respect of associates are set out in the table below:

(in millions of euros)	December 31, 2018	December 31, 2017[(1)]
Non-current assets	70	71
Current assets	85	85
Non-current liabilities	48	25
Current liabilities	67	70

(in millions of euros)	2018	2017[(1)]
Sales	306	307
Operating expenses	(311)	(286)

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and the application of IFRS 15 (see Note 1.2, pages 291 to 292).

Joint ventures

Summarized financial data in respect of joint ventures are set out in the table below:

(in millions of euros)	December 31, 2018	December 31, 2017(1)
Non-current assets	815	612
Current assets	953	813
Non-current liabilities	612	253
Current liabilities	966	768

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and the application of IFRS 15 (see Note 1.2, pages 291 to 292).

(in millions of euros)	2018	2017(1)
Sales	997	925
Operating expenses	(1,220)	(992)

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and the application of IFRS 15 (see Note 1.2, pages 291 to 292).

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, 2018	December 31, 2017(1)
Accounts and notes receivable	4	5
Accounts and notes payable	6	9
Net debt (cash)	(4)	(2)

(in millions of euros)	2018	2017(1)
Sales of goods and services	33	32
Purchases of goods and services	(42)	(41)

(1) Due to Valeo's takeover of Ichikoh on January 20, 2017, the transactions carried out with this company in 2017 are not presented above.

Transactions with joint ventures

(in millions of euros)	December 31, 2018	December 31, 2017(1)
Accounts and notes receivable	46	27
Accounts and notes payable	21	27
Net debt (cash)	(260)	(95)

(in millions of euros)	2018	2017(1)
Sales of goods and services	88	52
Purchases of goods and services	(7)	(16)

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for FTE automotive and the application of IFRS 15 (see Note 1.2, pages 291 to 292).

4.6 Operating income and other income and expenses

4.6.1 Operating income

Operating income includes all income and expenses other than:

- interest income and expense;
- other financial income and expenses;
- income taxes.

Operating income including share in net earnings of equity-accounted companies totaled 1,036 million euros in 2018 versus 1,402 million euros in 2017.

4.6.2 Other income and expenses

In order to facilitate interpretation of the statement of income and Group performance, unusual items that are material to the consolidated financial statements are presented separately within operating income under Other income and expenses.

This caption mainly includes:

- transaction costs and capital gains and losses arising on changes in the scope of consolidation;
- major litigation and disputes unrelated to the Group's operations (this therefore excludes the cost of any disputes relating to the quality of products sold, customers, suppliers or contract losses);
- costs relating to restructuring plans;
- impairment losses on non-current assets chiefly recognized as a result of impairment tests on cash-generating units (CGUs) and goodwill.

Other income and expenses can be analyzed as follows in 2018 and 2017:

(in millions of euros)	*Notes*	2018	2017(1)
Transaction costs and capital gains and losses arising on changes in the scope of consolidation:			
▪ Acquisition fees		(2)	(4)
▪ Sale of the Lighting business in Argentina	*4.6.2.1*	(30)	-
▪ Sale of the Passive Hydraulic Actuator business	*2.2.1.1*	(5)	(14)
Claims and litigation:	*4.6.2.2*		
▪ Antitrust investigations		(2)	(3)
▪ Other disputes		(2)	(13)
Restructuring plans	*4.6.2.3*	(15)	(18)
Impairment of the Passive Hydraulic Actuator business	*2.2.1.1*	-	(14)
OTHER INCOME AND EXPENSES		**(56)**	**(66)**

(1) These data differ from the data presented in the 2017 consolidated financial statements since they have been adjusted to reflect the definitive allocation of accounting items for Valeo-Kapec (see Note 1.2, pages 291 to 292).

4.6.2.1 Transaction costs and capital gains and losses arising on changes in the scope of consolidation

On September 5, 2018, Valeo sold its Lighting business in Argentina, resulting in a loss of 30 million euros during the year (see Note 2.2.1.4, page 298).

4.6.2.2 Claims and litigation

At the end of July 2011, antitrust investigations were initiated against numerous automotive suppliers (including Valeo) by the US and European antitrust authorities in the area of components and systems supplied to the automotive industry.

In 2018, claims and litigation mainly comprised legal advisory costs relating to these investigations (see Note 7.2, page 334).

4.6.2.3 Restructuring plans

Restructuring costs for 2018 chiefly include expenses relating to early retirement plans in Germany and additional costs in connection with a restructuring plan in South Korea.

Restructuring costs for 2017 primarily related to the costs of a plan announced in South America in first-half 2017, the impact of a plant closure in China and the cost of early retirement plans in Germany.

NOTE 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

5.1 Headcount

Including temporary staff, the Group's headcount is as follows:

	2018	2017
Total employees at December 31	113,600	111,600
Average employees during the year	114,125	105,350

5.2 Employee benefits

Employee benefits are measured in accordance with IAS 19. They comprise both short- and long-term benefits.

Group employees are entitled to short-term benefits such as paid annual leave, paid sick leave, bonuses and other benefits (other than termination benefits), payable within 12 months of the end of the period in which the corresponding services are rendered by employees.

These benefits are shown in current liabilities and expensed in the period in which the related service is rendered by the employee.

Long-term benefits cover two categories of employee benefits:

- post-employment benefits, which include statutory retirement bonuses, supplementary pension benefits, and coverage of certain medical costs for retirees and early retirees;
- other long-term benefits payable (during employment), corresponding primarily to long-service bonuses.

Benefits offered to each employee depend on local legislation, collective bargaining agreements, or other agreements in place in each Group entity.

These benefits are broken down into:

- defined contribution plans, under which the employer pays fixed contributions on a regular basis and has no legal or constructive obligation to pay further contributions. These are recognized in expenses based on calls for contributions;
- defined benefit plans, under which the employer guarantees a future level of benefits. An obligation under defined benefit plans (see Note 5.3, pages 314 to 320) 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)	2018	2017
Wages and salaries(1)	3,450	3,137
Social security charges	675	617
Share-based payment	3	27
Pension expenses under defined contribution plans	112	109
TOTAL	**4,240**	**3,890**

(1) Including temporary staff.

In France, the Group is eligible for the CICE tax credit, which is calculated on a proportion of compensation paid by French companies to their employees. It is paid by the French state, regardless of an entity's income tax position. If an entity is not liable for income tax, it is paid by the State within a period of three years.

The CICE tax credit does not therefore fall within the scope of IAS 12 – "Income Taxes". It is recognized as a deduction from personnel expenses within consolidated operating income and represented income of 16 million euros in 2018 versus income of 17 million euros in 2017.

Pension expenses under defined benefit plans are set out in Note 5.3, pages 314 to 320.

Provisions for restructuring plans and employee disputes are set out in Note 7.1, pages 333 to 334.

5.3 Provisions for pensions and other employee benefits

As indicated in Note 5.2, page 313, long-term benefits arising under defined benefit plans give rise to an obligation which is recognized in Provisions for pensions and other employee benefits.

The pension provision is equal to the present value of Valeo's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. An asset is only recognized on overfunded plans if it represents future economic benefits that are available to the Group.

The provision for other long-term benefits is equal to the present value of the future benefit obligation. The expected cost of these benefits is recorded in personnel expenses over the employee's working life in the Company.

The calculation of these provisions is based on valuations performed by independent actuaries using the projected unit credit method and end-of-career salaries. These valuations incorporate both macroeconomic assumptions specific to each country in which the Group operates (discount rate, increases in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

Discount rates are determined by reference to market yields at the valuation date on high-quality corporate bonds with a term consistent with that of the employee benefits concerned.

The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. Actuarial gains and losses arising on long-term benefits payable during employment are recognized immediately in income. However, actuarial gains and losses arising on post-employment benefits are taken directly to other comprehensive income net of deferred tax.

Past service costs resulting from the adoption of a new plan or change in an existing defined benefit plan are recognized immediately in income.

The expense recognized in the statement of income includes:

- service cost for the period, past service costs, and the impact of any plan curtailments or settlements;
- net interest cost on pension obligations recognized in financial income (including the impact of 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) varies depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2018, 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, Japan, the United Kingdom and the United States, 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, now closed to new entrants (the last plan in force concerning a specific level of Valeo management (*cadres hors catégorie*) was closed on June 30, 2017). The portion of these obligations relating to the Group's executive managers is detailed in Note 5.5, page 323.

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, 2018:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	13,101	22,276	10,542	10,880	56,799
Active employees having left the Group	-	2,077	1,823	598	4,498
Retirees	7	4,878	4,610	1,672	11,167
Total employees	**13,108**	**29,231**	**16,975**	**13,150**	**72,464**
Average duration of post-employment benefit plans *(years)*	**12**	**21**	**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, 2018	December 31, 2017
Eurozone	1.90	2.00
United Kingdom	2.50	2.30
United States	4.05	3.60
Japan	0.45	0.50
South Korea	3.25	3.25

The weighted average long-term salary inflation rate was around 3.1% at December 31, 2018, largely unchanged from December 31, 2017.

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 320.

5.3.3 Breakdown and movements in obligations

Pension obligations and provisions break down as follows by major geographic area:

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.

2017

(in millions of euros)	France	Other European countries[1]	North America[2]	Asia	Total
Present value of unfunded obligations	220	471	99	117	**907**
Present value of funded obligations	41	172	405	225	**843**
Market value of plan assets	(6)	(87)	(336)	(190)	**(619)**
NET PROVISIONS RECOGNIZED AT DECEMBER 31, 2017	**255**	**556**	**168**	**152**	**1,131**
Permanent employees at December 31, 2017[3]	12,610	31,114	13,306	21,072	**78,102**

(1) The present value of unfunded pension obligations in other European countries differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive (see Notes 2.2.1.3 and 1.2, pages 297 to 298 and pages 291 to 292).
(2) Unfunded pension obligations in North America include medical plans in the United States representing 74 million euros.
(3) 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 2018 and 2017 are shown in the tables below by major geographic area:

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 past service costs and gains on settlements.

Actuarial gains totaling 16 million euros in 2018 primarily reflect 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.

2017

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2017	**262**	**592**	**568**	**160**	**1,582**
Actuarial gains and losses recognized in other comprehensive income	(5)	(26)	16	-	**(15)**
Benefits paid	(17)	(20)	(36)	(24)	**(97)**
Translation adjustment	-	(5)	(69)	(25)	**(99)**
Changes in scope of consolidation(1)	-	72	-	207	**279**
Reclassifications(2)	-	(2)	-	-	**(2)**
Expenses (income) for the year:	21	32	25	24	**102**
▪ *Service cost*	*20*	*21*	*2*	*21*	***64***
▪ *Interest cost*	*4*	*12*	*21*	*3*	***40***
▪ *Other(3)*	*(3)*	*(1)*	*2*	*-*	***(2)***
BENEFIT OBLIGATIONS AT DECEMBER 31, 2017	**261**	**643**	**504**	**342**	**1,750**

(1) Changes in the scope of consolidation in 2017 related to the acquisitions of Ichikoh, FTE automotive and Valeo-Kapec. The amount shown for changes in the scope of consolidation in other European countries differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive (see Notes 2.2.1.3 and 1.2, pages 297 to 298 and pages 291 to 292).
(2) Pension obligations relating to the Passive Hydraulic Actuator business were reclassified within Liabilities held for sale at December 31, 2017 (see Note 2.2.2.1, page 296).
(3) Other mainly includes actuarial gains and losses recognized immediately in income, as well as past service costs and gains on settlements.

Actuarial gains totaling 15 million euros in 2017 primarily reflected the impact of the rise in discount rates in eurozone countries, partially offset by the impact of a fall in discount rates in the United States.

5.3.4 Movements in provisions

Movements in provisions in 2018 and 2017, including items relating to pensions and other employee benefits, are shown in the table below:

(in millions of euros)	France	Other European countries	North America	Asia	Total
PROVISIONS AT JANUARY 1, 2017	**255**	**512**	**234**	**71**	**1,072**
Actuarial gains and losses recognized in other comprehensive income	(5)	(32)	(23)	(9)	**(69)**
Amounts utilized during the year	(16)	(18)	(31)	(26)	**(91)**
Translation adjustment	-	(3)	(25)	(14)	**(42)**
Changes in scope of consolidation(1)	-	69	-	108	**177**
Reclassifications(2)	-	(2)	-	-	**(2)**
Expenses (income) for the year:	21	30	13	22	**86**
▪ *Service cost*	*20*	*21*	*2*	*21*	***64***
▪ *Net interest cost*	*4*	*10*	*9*	*1*	***24***
▪ *Other*	*(3)*	*(1)*	*2*	*-*	***(2)***
PROVISIONS AT DECEMBER 31, 2017	**255**	**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)***
PROVISIONS AT DECEMBER 31, 2018	**265**	**563**	**162**	**161**	**1,151**
Of which current portion (less than one year)	24	21	42	17	**104**

(1) The amount shown for changes in the scope of consolidation in other European countries differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive (see Notes 2.2.1.3 and 1.2, pages 297 to 298 and pages 291 to 292).
(2) Provisions relating to the Passive Hydraulic Actuator business were reclassified within Liabilities held for sale at December 31, 2017.

An expense of 84 million euros was recognized in 2018 in respect of pensions and other employee benefits (stable compared to 2017), with 58 million euros included in Operating margin, 24 million euros in Other financial income and expenses and 2 million euros in Other income and expenses.

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2018 and 2017 is shown in the tables below:

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.

2017

(in millions of euros)	France	Other European countries	North America	Asia[(1)]	Total
Cash at bank	-	1	3	44	**48**
Shares	6	49	203	48	**306**
Government bonds	-	18	65	42	**125**
Corporate bonds	-	16	65	15	**96**
Real estate	-	-	-	3	**3**
Other[(2)]	-	3	-	38	**41**
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2017	**6**	**87**	**336**	**190**	**619**

(1) At December 31, 2017, a Japanese plan was overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized a non-current financial asset for the amount of the surplus, i.e., 5 million euros, as it considers the right to a refund is unconditional within the meaning of IFRIC 14.
(2) Other mainly relates to investments in financing vehicles.

These assets are managed by specialized asset management companies.

In managing the risk arising on these assets, the diversification of the funds among the different asset classes (equities, bonds, cash equivalents) is defined by the Investment Committees or trustees specific to each country concerned, acting on recommendations from external advisors. Asset allocation decisions depend on the market outlook and the characteristics of the pension obligations.

These committees carry out regular reviews of the investments made and of their performance.

The Group is not exposed to margin calls on its pension obligations due to the nature of its plan assets.

Movements in the value of plan assets in 2018 and 2017 can be analyzed as follows:

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 is chiefly attributable to the favorable impact of the US dollar and Japanese yen, offset by the actual return on plan assets for the period representing a loss of 17 million euros.

Contributions totaling 43 million euros were paid to external funds in 2018, down 3 million euros compared to estimates. Contributions are estimated at 57 million euros for 2019.

2017

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2017	**7**	**80**	**334**	**89**	**510**
Expected return on plan assets	-	2	12	2	**16**
Contributions paid to external funds	4	4	23	18	**49**
Benefits paid	(5)	(6)	(28)	(16)	**(55)**
Actuarial gains and losses	-	6	39	9	**54**
Changes in scope of consolidation[(1)]	-	3	-	99	**102**
Translation adjustment	-	(2)	(44)	(11)	**(57)**
PLAN ASSETS AT DECEMBER 31, 2017	**6**	**87**	**336**	**190**	**619**

(1) Changes in the scope of consolidation in 2017 related to the acquisitions of Ichikoh, FTE automotive and Valeo-Kapec.

The increase in the fair value of plan assets in 2017 was chiefly attributable to acquisitions in the period for 102 million euros, as well as a good fund performance. The actual return on plan assets for the period totaled 70 million euros.

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)	2018	2017	2016	2015	2014
Benefit obligations	1,768	1,750	1,582	1,526	1,552
Financial assets	(617)	(619)	(510)	(526)	(493)
NET BENEFIT OBLIGATIONS	**1,151**	**1,131**	**1,072**	**1,000**	**1,059**
Actuarial (losses) gains recognized in other comprehensive income	(18)	69	(92)	93	(225)

Actuarial gains and losses recognized in other comprehensive income in 2018 include:

- 21 million euros in actuarial gains on changes in financial assumptions, chiefly due to the rise in discount rates in the United States and partially offset by the fall in discount rates in the eurozone;
- 5 million euros in actuarial losses on changes in demographic assumptions, chiefly due to changes in the mortality table used for Germany; and
- 34 million euros in actuarial losses 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, 2018:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5-point increase	(14)	(65)	(26)	(18)	**(123)**
Impact of a 0.5-point decrease	15	71	28	18	**132**
Salary inflation rate					
Impact of a 0.5-point increase	15	2	1	6	**24**
Impact of a 0.5-point decrease	(13)	(1)	(1)	(6)	**(21)**

At December 31, 2018, the value of the Group's benefit obligation is less sensitive to changes in the salary inflation rate than to changes in the discount rate, particularly in the United States and the United Kingdom. This is due to the existence of plans which have now been frozen and which only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2018 service cost. A 0.5-point decrease in the discount rate would lead to an additional expense of 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
2019	19	15	7	8	**49**
2020	8	16	7	11	**42**
2021	9	17	7	9	**42**
2022	16	18	7	11	**52**
2023	23	20	6	11	**60**
2024/2028	95	111	37	58	**301**
TOTAL	**170**	**197**	**71**	**108**	**546**

5.4 Share-based payment

Some Group employees receive equity-settled compensation in the form of share-based payment.

Free share plans

The fair value of the benefit granted to employees within the scope of free share plans is estimated based on the share price at the grant date, taking into account a discount corresponding to the dividends forfeited over the vesting period and a discount to reflect the lock-up period requirement, calculated using the approach set out in the French national accounting board's (CNC) December 2004 statement.

The overall cost of equity-settled plans is calculated and fixed at the grant date of the plan concerned. The number of instruments that Valeo expects to deliver to beneficiaries factors in the turnover of the beneficiary populations concerned by each plan. Since the final allotment of free shares is subject to a presence condition, this personnel expense is recognized against equity on a straight-line basis over the rights vesting period. 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.

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 321.

An expense of 3 million euros was recognized in 2018 in respect of stock purchase option and free share plans, compared to an expense of 27 million euros in 2017. The decrease in this expense is primarily attributable to changes in the share price and to revised estimates of the number of instruments that Valeo expects 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, 2018 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, 2018	Year of vesting[2]
2013	1,421,442	*669,942*	117	2016/2018
2014	970,440	*316,770*	336,381	2017/2019
2015	957,027	*260,805*	394,623	2018/2020
2016	1,267,022	*573,522*	819,794	2019/2021
2017	1,012,043	*466,551*	707,593	2020/2022
2018	1,234,623	*570,123*	933,327	2021/2023
TOTAL	**6,862,597**	**2,857,713**	**3,191,835**	

(1) These free shares are subject to the Group meeting performance conditions over the three years following their grant.
(2) The vesting year varies depending on the country in which the plan's beneficiaries are resident.

The main data and assumptions underlying the valuation of free share plans at fair value were as follows:

	2018		2017	
Free shares	**France**	**Other countries**	**France**	**Other countries**
Share price at authorization date (*in euros*)	55.7	55.7	59.0	59.0
Risk-free rate *(%)*	0.1	N/A	0.0	N/A
Dividend rate *(%)*	2.7	N/A	1.4	N/A
FAIR VALUE OF EQUITY INSTRUMENTS *(IN EUROS)*	**48.4**	**46.7**	**50.9**	**51.4**

5.4.2 Stock purchase option plans

The terms and conditions of the employee stock purchase option plans operated by the Valeo Group at December 31, 2018 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 Dec. 31, 2018	Expiration date
2011	878,520	631,110	14.14	50,390	2019
2012	1,101,480	795,690	13.59	127,823	2020
TOTAL	**1,980,000**	**1,426,800**		**178,213**	

(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 2018 are detailed below:

	Number of options and free shares	Weighted average exercise price
OPTIONS NOT EXERCISED/FREE SHARES OUTSTANDING AT JANUARY 1, 2018	**3,819,472**	**1.67**
Options/free shares granted	962,893	-
Options/free shares canceled(1)	(1,127,782)	-
Options/free shares expired	(75,094)	7.10
Options exercised/free shares remitted	(1,153,821)	2.95
OPTIONS NOT EXERCISED/FREE SHARES OUTSTANDING AT DECEMBER 31, 2018	**2,425,668**	**1.01**
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2018	**178,213**	**13.75**

(1) Including 944,380 shares considered to have been canceled owing to a failure to meet some or all of the performance conditions.

5.4.4 Employee share ownership plan: Shares4U

In countries that meet the Group's eligibility criteria and where permitted by local laws and regulations, Valeo offers its employee beneficiaries the possibility of becoming shareholders through an employee share issue carried out specifically for this purpose.

As in 2016 and 2017, a new standard plan was offered to employees during first-half 2018, 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, 2018. The subscription price of 43.58 euros is the average of the Group's opening share price on the 20 trading days preceding the date of the decision, less a 20% discount. The shares are locked up for five years (except in the case of an early release event provided for by the applicable local law). Employees bear the risk of fluctuations in the share price relative to the subscription price.

By subscribing to shares within the scope of the Group Employee Savings Plan (*Plan d'Épargne de Groupe* – PEG), employees can benefit from a contribution from their employer. Outside France, employees are awarded free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan. Free shares awarded are existing Valeo shares repurchased on the market.

In all, 599,979 shares were subscribed at a price of 43.58 euros each, representing a 26 million euro capital increase on June 28, 2018 (see Note 10.1, pages 356 to 357).

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:

	2018	2017
Date rights granted	May 2	June 3
Reference price *(in euros)*	54.47	64.52
Face value discount *(%)*	20.00	20.00
Subscription price *(in euros)*	43.58	51.62
Beneficiary's 5-year interest rate *(%)*	3.83	3.93
Risk-free interest rate *(%)*	0.37	0.26
Repo rate *(%)*	0.350	0.480

Including a discount to reflect the lock-up period requirement, the total cost of Shares4U 2018 is 16 million euros, of which 8 million euros were recognized in personnel expenses for 2018 (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, 2018, the Operations Committee had 14 members.

Valeo's Board of Directors approved a number of agreements resulting in the Chairman and Chief Executive Officer's eligibility for the following benefits:

- life insurance covering death, disability, or any consequences of accidents during business travel;
- a non-competition payment over a period of 12 months in the event of his departure from Valeo. If this clause is adopted, the Chairman and Chief Executive Officer will receive a non-competition payment equal to 12 months of compensation. A prior decision of the Board of Directors is required to decide whether or not the non-competition agreement will be upheld at the time the Chairman and Chief Executive Officer leaves, in particular when he leaves Valeo to claim or after having claimed his pension rights;
- a defined benefit pension including the option of paying over benefits to the surviving beneficiary in the event of death if the main beneficiary is still working and if the event occurs after the legal voluntary retirement age. The supplementary pension is capped at 20% of the reference salary. The reference salary takes into account the basic fixed compensation and the portion of variable compensation actually paid for the periods after February 1, 2014. Since February 18, 2016, vesting of rights to this supplementary pension is subject to a performance condition, the attainment of which is reviewed each year.

Compensation and other benefits accruing to the members of the Board of Directors and to the members of the Operations Committee can be analyzed as follows:

(in millions of euros)	2018	2017
SHORT-TERM BENEFITS		
▪ Fixed, variable, exceptional and other compensation	14	13
▪ Attendance fees	1	1
OTHER BENEFITS		
▪ Post-employment benefits	2	3
▪ Share-based compensation(1)	(5)	7

(1) The 5 million euro gain from share-based payments in 2018 is primarily attributable to the impact of the failure to meet some or all of the performance obligations.

At December 31, 2018, provisions included in the Group's statement of financial position in respect of pension obligations accruing to executive managers amounted to 24 million euros, compared with 19 million euros in 2017.

NOTE 6 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

6.1 Goodwill

Goodwill is initially recognized on business combinations as described in Note 2.1.3, page 294.

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 2017 were carried out as described in Note 6.4, pages 329 to 332.

Changes in goodwill in 2018 and 2017 are analyzed below:

(in millions of euros)	2018	2017[1]
NET GOODWILL AT JANUARY 1	**2,512**	**1,944**
Acquisitions during the year	3	663
Disposals during the year	-	-
Impairment[2]	-	(14)
Translation adjustment	35	(81)
NET GOODWILL AT DECEMBER 31	**2,550**	**2,512**
Including accumulated impairment losses at December 31	-	-

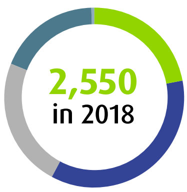
(1) The amount shown for Acquisitions during the year for 2017 differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive and Valeo-Kapec (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298 and pages 291 to 292).

(2) Goodwill allocated to the Passive Hydraulic Actuator business was written down in full at December 31, 2017 and reclassified within Assets held for sale (see Note 2.2.1.1, page 296).

The increase in goodwill in 2018 mainly reflects the appreciation in the Japanese yen (20 million euros) and the US dollar (16 million euros) against the euro between the two periods.

The increase in goodwill in 2017 primarily reflected goodwill generated on the creation of Valeo-Kapec (see Note 2.2.1.2, pages 296 to 297), and on the acquisition of controlling interests in FTE automotive (see Note 2.2.1.3, pages 297 to 298), Ichikoh, gestigon and Valeo Malaysia CDA Sdn (formerly Precico). These impacts were very slightly offset by the depreciation in the US dollar (45 million euros) and the Japanese yen (26 million euros) against the euro between the two periods.

Goodwill can be broken down by Business Group as follows:



(in millions of euros)		December 31, 2018	December 31, 2017[1]
22%	– Comfort & Driving Assistance Systems	566	557
36%	– Powertrain Systems	912	911
23%	– Thermal Systems	597	581
18%	– Visibility Systems	468	456
1%	– Other	7	7
	GOODWILL	**2,550**	**2,512**

(1) The amount of goodwill allocated to the Powertrain Systems Business Group differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive and Valeo-Kapec (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).

6.2 Other intangible assets

Separately acquired intangible assets are initially recognized at cost in accordance with IAS 38. Intangible assets acquired as part of a business combination are recognized at fair value, separately from goodwill. Intangible assets are subsequently carried at cost, less accumulated amortization and impairment losses. They are tested for impairment using the methodology described in Note 6.4, pages 329 to 332.

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, pages 306 to 307. 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 based on their useful lives — up to 25 years
- other intangible assets — 3 to 5 years

Other intangible assets can be analyzed as follows:

(in millions of euros)	December 31, 2018 Gross carrying amount	December 31, 2018 Amortization and impairment losses	December 31, 2018 Net carrying amount	December 31, 2017[1] Net carrying amount
Software	396	(299)	97	95
Patents and licenses	246	(119)	127	148
Capitalized development expenditure	3,359	(1,639)	1,720	1,302
Customer relationships and other intangible assets	700	(225)	475	497
OTHER INTANGIBLE ASSETS	**4,701**	**(2,282)**	**2,419**	**2,042**

(1) The amount shown for Other intangible assets for 2017 differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive and Valeo-Kapec (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).

Changes in intangible assets in 2018 and 2017 are analyzed below:

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 amount shown for Other intangible assets for 2017 differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive and Valeo-Kapec (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).*

2017

(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, 2017	**320**	**179**	**2,300**	**361**	**3,160**
Accumulated amortization and impairment	(238)	(96)	(1,307)	(147)	**(1,788)**
NET CARRYING AMOUNT AT JANUARY 1, 2017	**82**	**83**	**993**	**214**	**1,372**
Acquisitions	35	10	577	9	**631**
Disposals	-	-	-	(2)	**(2)**
Changes in scope of consolidation[(1)]	6	92	31	295	**424**
Impairment	-	1	(4)	-	**(3)**
Amortization	(34)	(10)	(263)	(26)	**(333)**
Translation adjustment	(2)	(1)	(33)	(16)	**(52)**
Reclassifications	8	(27)	1	23	**5**
NET CARRYING AMOUNT AT DECEMBER 31, 2017	**95**	**148**	**1,302**	**497**	**2,042**

(1) *The amount shown for Other intangible assets for 2017 differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of allocating goodwill to FTE automotive and Valeo-Kapec (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).*

Changes in the scope of consolidation in 2017 resulted primarily from the takeover of Ichikoh and FTE automotive.

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 329 to 332.

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:

(in millions of euros)	December 31, 2018 Gross carrying amount	December 31, 2018 Depreciation and impairment losses	December 31, 2018 Net carrying amount	December 31, 2017[1] Net carrying amount
Land	352	(15)	337	323
Buildings	1,815	(1,074)	741	668
Machinery and industrial equipment	7,635	(4,834)	2,801	2,499
Specific tooling	2,181	(1,781)	400	338
Other property, plant and equipment	821	(529)	292	245
Property, plant and equipment in progress	50	-	50	37
PROPERTY, PLANT AND EQUIPMENT	**12,854**	**(8,233)**	**4,621**	**4,110**

(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 (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).

Certain items of property, plant and equipment were pledged as security at December 31, 2018 (see Note 6.5.2, page 333).

Changes in property, plant and equipment in 2018 and 2017 are analyzed below:

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 (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).

2017

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2017(1)	**257**	**1,383**	**6,023**	**1,924**	**633**	**13**	**10,233**
Accumulated depreciation and impairment	(12)	(906)	(4,115)	(1,644)	(493)	-	**(7,170)**
NET CARRYING AMOUNT AT JANUARY 1, 2017(1)	**245**	**477**	**1,908**	**280**	**140**	**13**	**3,063**
Acquisitions	20	103	868	146	115	19	**1,271**
Disposals	(21)	(1)	(23)	(7)	(3)	(1)	**(56)**
Changes in scope of consolidation(1)	93	158	281	17	39	17	**605**
Impairment	-	-	5	2	-	-	**7**
Depreciation	-	(65)	(387)	(123)	(44)	-	**(619)**
Translation adjustment	(16)	(27)	(102)	(11)	(10)	-	**(166)**
Reclassifications	2	23	(51)	34	8	(11)	**5**
NET CARRYING AMOUNT AT DECEMBER 31, 2017	**323**	**668**	**2,499**	**338**	**245**	**37**	**4,110**

(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 (see Notes 2.2.1.3, 2.2.1.2 and 1.2, pages 297 to 298, pages 296 to 297 and pages 291 to 292).

Changes in the scope of consolidation in 2017 resulted primarily from the creation of Valeo-Kapec and the takeover of FTE automotive and Ichikoh.

Finance leases

Finance leases transferring substantially all of the risks and rewards related to ownership of the leased asset to the Group are accounted for as follows:

- the leased assets are recognized in property, plant and equipment in the Group's statement of financial position at the inception of the lease, at an amount equal to the lower of the fair value of the leased asset and the present value of future minimum lease payments. This amount is then reduced by depreciation and by any impairment losses;
- the corresponding financial obligation is recorded in debt;
- lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Leases in which the lessor retains substantially all of the risks and rewards related to ownership of the leased asset are classified as operating leases. Lease payments under an operating lease are recognized as an operating expense on a straight-line basis over the lease term. Outstanding lease payments are detailed in Note 6.5.1, pages 332 to 333.

Finance leases included within property, plant and equipment can be analyzed as follows:

(in millions of euros)	December 31, 2018	December 31, 2017
Buildings	9	10
Machinery and industrial equipment	10	15
Specific tooling	-	4
Other property, plant and equipment	4	4
TOTAL	**23**	**33**

6.4 Impairment losses on non-current assets

Property, plant and equipment and intangible assets with definite useful lives are tested for impairment whenever objective indicators exist that they may be impaired. Goodwill and intangible assets not yet ready to be brought into service are tested for impairment at least once a year and whenever there is an indication that they may be impaired.

Cash-generating units (CGUs) and goodwill

CGUs are operating entities that generate independent cash flows. Based on the Group's organizational structure, CGUs generally correspond to groups of plants belonging to the same Product Line or Product Group. At December 31, 2018, 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, pages 299 to 302 on segment information. The Business Groups are groups of CGUs and correspond to the level at which management monitors goodwill.

At the end of the year, goodwill is tested for impairment using the same methodology and assumptions as those used for CGUs and as described below.

Impairment tests

Impairment tests compare the recoverable amount of a non-current asset with its net carrying amount. If the asset's carrying amount is greater than its recoverable amount, it is written down to its recoverable amount. The recoverable amount of an asset or group of assets is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is determined using available information allowing Valeo to establish a best estimate of the selling price net of the costs necessary to make the sale, between knowledgeable, willing parties in an arm's length transaction.

Value in use corresponds to the present value of the future cash flows expected to be derived from an asset or group of assets, taking into account its residual value.

Since there is seldom a reliable basis to measure the fair value less costs to sell of a group of assets belonging to Valeo, the Group uses value in use for CGUs and goodwill impairment tests to determine the recoverable amount of such assets or groups of assets, unless otherwise specified.

The value in use of CGUs and goodwill is determined as follows:

- post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term business plans drawn up by Group entities and approved by General Management, are discounted;
- cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted where applicable for non-recurring items;
- cash flows are discounted based on a rate which reflects current market assessments of the time value of money and the risks specific to the asset (or group of assets). This rate corresponds to the post-tax weighted average cost of capital (WACC). The use of a post-tax rate applied to post-tax cash flows results in recoverable amounts that are similar to those that would have been obtained by applying pre-tax rates to pre-tax cash flows.

The impairment loss to be recognized against a CGU is allocated to the CGU's assets in proportion to their net carrying amount.

Impairment losses recognized for goodwill may not be reversed.

Impairment losses recognized for assets other than goodwill may only be reversed if there are indications that the impairment may no longer exist or may have decreased. If this is the case, the carrying amount of the asset is increased to its revised estimated recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset.

6.4.1 Impairment testing

The tests are carried out using the following assumptions:

- the projections used are based on past experience, macroeconomic data for the automotive market, order intake and products under development;
- a perpetuity growth rate of 1.5%, which is the same as that used in 2017 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% (0.5% higher than in 2017 to reflect uncertainties across the automotive industry), 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 1.15 (1.08 in 2017).

The key assumptions underpinning the perpetuity growth rate and the discount rate are the same for each group of CGUs to which goodwill has been allocated. Business Groups were created in the organization set up in 2010 to adapt to the increasing globalization of automotive markets and customers. Business Groups are largely similar in terms of market and positioning, and enjoy a global geographic base as well as relations with the world's leading automakers.

To prepare these medium-term business plans and the budget used to perform impairment tests on CGUs and goodwill, the Group based itself in particular on projected data for the automotive market, as well as its own order 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 2019-2023 are underpinned by the following assumptions:

- world automotive production of 107 million vehicles in 2023, representing average annual growth of 2.4% for 2018-2023. This assumption is consistent with several independent external forecasts available in September 2018, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 55% of global production, Europe and Africa 25%, North America 17% and South America 3%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.25 US dollars, 8.13 Chinese renminbi, 138 Japanese yen, 1,375 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 less than 30% of cumulative original equipment sales over the five-year forecast period and less than 60% of original equipment sales for the final year.

6.4.2 Goodwill

No impairment losses were recognized against goodwill in 2018 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 2017.

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 2018 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	1,330	(496)	(216)	(267)	(877)
Powertrain Systems Business Group	2,358	(635)	(253)	(339)	(1,102)
Thermal Systems Business Group	2,817	(597)	(256)	(298)	(1,035)
Visibility Systems Business Group	3,048	(613)	(263)	(333)	(1,084)

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 2018, a fall of more than 20% in 2018 sales compared to 2017, 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 2018. Seven CGUs were selected:

- the Electronic Systems Product Group (part of the Powertrain Systems Business Group);
- the Air Charging Systems Product Line (part of the Powertrain Systems Business Group);
- the Combustion Engine Systems Product Line – mechanical actuators and sensors (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 Modules Product Line (part of the Comfort & Driving Assistance Business Group);
- the Valeo Telematics & Acoustics Product Line (part of the Comfort & Driving Assistance Systems Business Group);
- the Compressors Product Group (part of the Thermal Systems Business Group);

No impairment losses were recognized in 2018.

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 seven CGUs tested for impairment:

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on 2018 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
Electronic Systems Product Group CGU	5	(43)	(15)	(44)	(90)
Air Charging Systems Product Line CGU	17	(8)	(3)	(3)	(13)
Combustion Engine Systems Product Line – mechanical actuators and sensors CGU	224	(47)	(18)	(23)	(80)
Active Safety Systems Product Line CGU	886	(174)	(77)	(66)	(286)
Top Column Modules Product Line CGU	167	(47)	(19)	(31)	(86)
Valeo Telematics & Acoustics Product Line CGU	98	(27)	(10)	(21)	(52)
Compressors Product Group CGU	2	(31)	(13)	(41)	(74)

6.5 Off-balance sheet commitments relating to leases and investments

6.5.1 Leases

Future minimum lease commitments outstanding at December 31, 2018 and 2017 (excluding capital leases) are as follows:

(in millions of euros)	December 31, 2018	December 31, 2017
Less than 1 year	91	77
1 to 5 years	231	167
More than 5 years	152	103
TOTAL	**474**	**347**

Lease rentals recognized as expenses in the period in respect of outstanding leases (excluding payments under capital leases) totaled 120 million euros in 2018 and 100 million euros in 2017.

Lease commitments in respect of capital leases are as follows at December 31, 2018 and 2017:

(in millions of euros)	December 31, 2018	December 31, 2017
Future minimum lease payments:		
Less than 1 year	12	15
1 to 5 years	14	17
More than 5 years	10	7
TOTAL	**36**	**39**
Of which interest charges	(4)	(2)
Present value of future lease payments:		
Less than 1 year	12	14
1 to 5 years	13	16
More than 5 years	7	7
TOTAL	**32**	**37**

At January 1, 2019, the financial liability measured in accordance with IFRS 16 is estimated at between 440 million euros and 480 million euros (see Note 1.1.2, page 290). The difference between the financial liability estimated under IFRS 16 and the future minimum lease commitments reported above is primarily due to the effect of discounting future lease payments, which reduces the reported commitment, and an increase in the terms of the leases under consideration.

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 718 million euros at December 31, 2018, versus 496 million euros at December 31, 2017, as well as other commitments relating to operating activities in the amount of 19 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, 2018	December 31, 2017
Property, plant and equipment	1	11
Financial assets	2	2
TOTAL	**3**	**13**

NOTE 7 OTHER PROVISIONS AND CONTINGENT LIABILITIES

7.1 Other provisions

A provision is recognized when:

- the Group has a present legal, contractual or constructive obligation resulting from a past event;
- it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation; and
- the amount of the obligation can be estimated reliably.

Provisions are measured in accordance with IAS 37 and take into account assumptions deemed most probable at the end of the reporting period.

Provisions for customer warranties are set aside to cover the estimated cost of returns of goods sold and are computed either on a statistical basis or based on specific quality risks. Statistical warranty provisions cover risks related to contractual warranty obligations, and are determined based on both historical data and probability calculations. The provision for specific quality risks covers costs arising in specific situations not covered by usual warranties. The corresponding expense is recognized in Cost of sales.

Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or by announcing its main features.

A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group under said contracts.

Provisions for tax disputes relate to probable risks arising on positions taken by the Group or its subsidiaries. Each position is assessed individually and not offset, and reflects the best estimate of the risk at the end of the reporting period. Where applicable, it includes any late-payment interest and fines.

Provisions intended to cover commercial risks and disputes arising in the ordinary course of operations are also included in this caption.

Provisions relating to events that are expected to materialize in more than one year or whose timing cannot be reliably determined are classified within Other provisions – long-term portion.

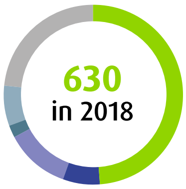
Movements in provisions in 2018 are shown in the table below:

(in millions of euros)	Provisions for product warranties	Provisions for restructuring costs	Other provisions	Total
PROVISIONS AT JANUARY 1, 2018[(1)]	**259**	**55**	**290**	**604**
Additions	156	14	50	**220**
Amounts utilized during the year	(74)	(23)	(34)	**(131)**
Reversals	(36)	(2)	(33)	**(71)**
Changes in scope	-	-	-	**-**
Translation adjustment and other movements	4	(2)	6	**8**
PROVISIONS AT DECEMBER 31, 2018	**309**	**42**	**279**	**630**
Of which current portion (less than one year)	161	18	94	**273**

(1) The amount shown for Provisions differs from that presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of the definitive allocation of goodwill to FTE automotive and Valeo-Kapec (see Note 1.2, pages 291 to 292).

At December 31, 2018, the Group recognized two material accrued income items with respect to product warranties. 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, 2018 and 2017, provisions break down as follows:



(in millions of euros)		December 31, 2018	December 31, 2017[(1)]
49%	– Provisions for product warranties	309	259
7%	– Provisions for restructuring costs	42	55
12%	– Provisions for tax-related disputes	73	57
2%	– Environmental provisions	15	16
7%	– Provisions for onerous contracts	45	56
23%	– Provisions for employee-related and other disputes	146	161
	PROVISIONS FOR OTHER CONTINGENCIES	**630**	**604**

(1) The amount shown for Provisions for other contingencies differs from that presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of the definitive allocation of goodwill to FTE automotive and Valeo-Kapec (see Note 1.2, pages 291 to 292).

Provisions for employee-related and other disputes, which totaled 146 million euros at December 31, 2018, cover risks arising in connection with former employees (in particular relating to asbestos), intellectual property disputes and various other disputes related to Valeo's operating activities across the globe, as well as the main risks relating to antitrust investigations. Each known dispute was reviewed at the end of the reporting period. Based on the opinions of the Group's legal counsel, the provisions set aside are considered adequate to cover the estimated risks.

7.2 Antitrust investigations

At the end of July 2011, antitrust investigations were initiated against several automotive suppliers (including Valeo) by the US and European antitrust authorities in the area of components and systems supplied to the automotive industry.

In the United States, a settlement was reached on September 20, 2013 between the Department of Justice and the Japanese subsidiary Valeo Japan Co. Ltd, which agreed to pay a fine of 13.6 million US dollars. This agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings instituted or likely to be instituted by the US federal authorities against the Valeo Group for practices that came to light during their investigations.

Three class actions were filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, which Valeo has settled. The first class action, which was brought by automotive dealers, was settled on August 25, 2016 and was definitively approved by the competent court on November 30, 2016. The second, which was brought by automotive end purchasers, was settled on September 28, 2016 and was definitively approved by the competent court on April 19, 2017. The third and final class action in the United States, which was brought by direct customers, was settled on March 21, 2017 following definitive approval by the competent court on November 21, 2018.

Separately, two class actions remain ongoing in Canada.

Investigations by the European antitrust authorities have been concluded and the related fines, totaling 26.7 million euros, were paid in June 2017.

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.

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 impacts of this decision cannot be quantified at the date of this document.

NOTE 8 FINANCING AND FINANCIAL INSTRUMENTS

8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- long-term debt, liabilities relating to put options granted to holders of non-controlling interests, and short-term debt and bank overdrafts, which make up gross debt (see Note 8.1.2, pages 337 to 341);
- loans and other non-current financial assets (see Note 8.1.3.1, page 342);
- cash and cash equivalents (see Note 8.1.3.2, pages 342 to 343);
- derivative instruments (see Note 8.1.4, pages 344 to 350);
- other current and non-current financial assets and liabilities (see Note 8.1.5, pages 350 to 351);
- accounts and notes receivable (see Note 4.2, pages 303 to 304) and payable.

8.1.1 Fair value of financial assets and liabilities

(in millions of euros)	2018 carrying amount under IFRS 9			December 31, 2018	December 31, 2017[1]
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Other non-current financial assets:					
■ Long-term investments	-	217	-	217	172
■ Long-term loans and receivables	295	-	-	295	78
■ Deposits and guarantees	32	-	-	32	26
■ Other non-current financial assets	5	-	-	5	5
■ Hedging derivatives	-	25	-	25	3
■ Trading derivatives	-	-	16	16	135
Assets relating to pensions and other employee benefits	-	4	-	4	5
Accounts and notes receivable[1]	2,781	-	-	2,781	2,906
Other current financial assets:					
■ Hedging derivatives	-	6	-	6	14
■ Trading derivatives	-	-	7	7	26
■ Interest accrued on long-term loans	-	-	2	2	-
Cash and cash equivalents	-	-	2,357	2,357	2,436
LIABILITIES					
Non-current financial liabilities:					
■ Hedging derivatives	-	9	-	9	36
■ Trading derivatives	-	-	7	7	125
Bonds[1]	3,745	-	-	3,745	3,379
EIB (European Investment Bank) loans	-	-	-	-	21
Other long-term debt	155	-	-	155	210
Liabilities associated with put options granted to holders of non-controlling interests	-	89	-	89	82
Accounts and notes payable[1]	4,475	-	-	4,475	4,395
Other current financial liabilities:			-		
■ Hedging derivatives	-	10	-	10	5
■ Trading derivatives	-	-	32	32	10
Short-term debt	900	-	-	900	664

(1) The amounts shown for Accounts and notes receivable, Bonds, and Accounts and notes payable 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 applying IFRS 9 and allocating the purchase price for FTE automotive (see Notes 1.1.1, 2.2.1.3 and 1.2.2, respectively, pages 288 to 289, pages 297 to 298 and page 292).

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.

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.

(in millions of euros)	December 31, 2018 Carrying amount	Fair value	Level	December 31, 2017[(1)] Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	2,357	2,357	1	2,436	2,436	1
Derivative financial instruments[(2)]	54	54	2-3	178	178	2-3
LIABILITIES						
Bonds[(1)]	3,745	3,598	1	3,379	3,494	1
EIB (European Investment Bank) loan	-	-		21	21	2
Other long-term debt	155	155	2	210	210	2
Loans recognized at amortized cost	**3,900**	**3,753**		**3,610**	**3,725**	
Short-term debt	900	900	1-2	664	664	1-2
Derivative financial instruments[(2)]	58	58	2-3	176	176	2-3
Put options granted to holders of non-controlling interests	89	89	3	82	82	3

(1) The amount shown for Bonds differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

(2) The method used to estimate the fair value of derivative financial instruments recorded in assets and liabilities corresponds to Level 2 in the fair value hierarchy for derivatives hedging foreign currency, commodity and interest rate risks. 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 net impact of taking into account credit risk was calculated according to the probabilities of default issued by Bloomberg.

At December 31, 2017 and 2018, this has only a minimal impact on the Group.

8.1.2 Gross debt

Gross debt includes long-term debt, liabilities relating to put options granted to holders of non-controlling interests, and short-term debt and bank overdrafts.

At December 31, 2018, the Group's gross debt can be analyzed as follows:

(in millions of euros)	December 31, 2018 Non-current	Current	Total	December 31, 2017[(1)] Non-current	Current	Total
Long-term debt	3,466	434	**3,900**	3,227	383	**3,610**
Put options granted to holders of non-controlling interests	17	72	**89**	17	65	**82**
Short-term debt	-	900	**900**	-	664	**664**
GROSS DEBT	**3,483**	**1,406**	4,889	**3,244**	**1,112**	4,356

(1) The amount shown for Bonds differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

8.1.2.1 Long-term debt

This caption primarily includes bonds and other borrowings.

Bonds and other borrowings are valued at amortized cost. The amount of interest recognized in financial expenses is calculated by multiplying the loan's effective interest rate by its carrying amount. Any difference between the expense calculated using the effective interest rate and the actual interest payment impacts the value at which the loan is recognized.

Analysis of long-term debt

(in millions of euros)	December 31, 2018	December 31, 2017(1)
Bonds	3,745	3,379
EIB (European Investment Bank) loans	-	21
Lease obligations	32	37
Other borrowings	84	132
Accrued interest	39	41
LONG-TERM DEBT	**3,900**	**3,610**

(1) The amount shown for Bonds differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

Change in and characteristics of long-term debt

(in millions of euros)	Bonds(1)	EIB (European Investment Bank) loans	Other loans and lease obligations	Accrued interest	Total
CARRYING AMOUNT AT JANUARY 1, 2018	**3,379**	**21**	**169**	**41**	**3,610**
Increases/subscriptions	600	-	3	-	**603**
Redemptions/repayments	(274)	(22)	(64)	-	**(360)**
Changes in scope of consolidation(1)	-	-	-	-	**-**
Value adjustments	20	-	-	-	**20**
Translation adjustment	20	1	8	-	**29**
Other movements	-	-	-	(2)	**(2)**
CARRYING AMOUNT AT DECEMBER 31, 2018	**3,745**	**-**	**116**	**39**	**3,900**

(1) The amount shown for Bonds differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

As part of the Euro Medium Term Note financing program, on June 18, 2018 Valeo issued 600 million euros' worth of seven-year bonds maturing in 2025 and paying a fixed coupon of 1.50%.

The Group also made the following redemptions and repayments in the period:

- in May 2018, the Group redeemed the 274 million euro bond issued in 2011 under the Euro Medium Term Note program;
- in November 2018, the Group repaid the final installment on the EIB loan for 25.75 million US dollars (22 million euros).

At December 31, 2018, the key terms and conditions of long-term debt were as shown below:

Type	Outstanding at Dec. 31, 2018 *(in millions of euros)*	Issuance	Maturity	Nominal *(in millions)*	Nominal amount outstanding *(in millions)*	Currency	Nominal interest rate	Other information
Bond (EMTN program)	350	November 2017	November 2019	350	350	EUR	3-month Euribor 0.25%	Variable rate floor: 0%
Convertible bond	475	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	0.375%	-
Bond (EMTN program)	497	January 2017	January 2023	500	500	EUR	0.625%	-
Bond (EMTN program)(1)	637	January 2014	January 2024	700	700	EUR	3.25%	-
Bond (EMTN program)	596	June 2018	June 2025	600	600	EUR	1.50%	-
Bond (EMTN program)	592	March 2016	March 2026	600	600	EUR	1.625%	
Other long-term debt(2)	155	-	-	-	155	-	-	-
TOTAL LONG-TERM DEBT	**3,900**							

(1) The amount shown for the bond maturing in 2024 differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 on debt renegotiation (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

(2) Other long-term debt chiefly comprises debt contracted by Ichikoh entities in an amount of 71 million euros and debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.

At December 31, 2018, the Group had drawn an amount of 3.3 billion euros under its Euro Medium Term Note financing program capped at 5 billion euros (versus 3 billion euros drawn at December 31, 2017).

The Group also has confirmed bank credit lines with an average maturity of 4.0 years, representing an aggregate amount of 1.1 billion euros. None of these credit lines had been drawn down at December 31, 2018. 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

		Maturity					
			≥ 1 year and ≤ 5 years				> 5 years
(in millions of euros)	Carrying amount	< 1 year	2020	2021	2022	2023	2024 and beyond
Bonds	3,745	350	-	475	598	497	1,825
Lease obligations	32	11	10	2	1	1	7
Other borrowings	84	34	15	13	10	6	6
Accrued interest	39	39	-	-	-	-	-
LONG-TERM DEBT	**3,900**	**434**	**25**	**490**	**609**	**504**	**1,838**

At December 31, 2018, the current portion of long-term debt relates primarily to the 350 million euro private placement to be repaid in November 2019.

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, 2018, the average maturity of Valeo's (the parent company) debt was 4.6 years, down from 4.8 years at December 31, 2017.

The future cash flows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2018 was used for variable-rate interest.

		Contractual cash flows						
			≥ 1 year and ≤ 5 years				> 5 years	
(in millions of euros)	Carrying amount	< 1 year	2020	2021	2022	2023	2024 and beyond	Total
Bonds	3,745	397	47	549	647	545	1,970	**4,155**
Other long-term debt	155	84	25	15	11	7	13	**155**
LONG-TERM DEBT	**3,900**	**481**	**72**	**564**	**658**	**552**	**1,983**	**4,310**

Off-balance sheet commitments relating to Group financing

Certain financing contracts include early repayment clauses in the event of failure to comply with specified financial ratios. The table below sets out the main covenants:

Financing agreements	Ratios	Thresholds	Ratio at December 31, 2018[1]
Credit lines	Consolidated net debt/consolidated EBITDA	< 3.25	**0.9**

(1) Calculated over 12 months.

Bonds issued within the scope of the Euro Medium Term Note financing program and most bank credit lines include an option granted to bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a withdrawal of the rating or a downgrade in the rating to below investment grade (assuming that the bonds were previously rated investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one-category downgrade in the rating (e.g., from Ba1 to Ba2).

The convertible loan also includes a change of control clause under which investors can request early repayment or – on the choice of the issuer – buyback.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

At the date the consolidated financial statements were authorized for issue, the Group expects to comply with all debt covenants over the next few months.

Group credit ratings

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status and were as follows at December 31, 2018:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	October 31, 2018	BBB	Stable	A-2
Moody's	November 2, 2018	Baa2	Negative	P-2

8.1.2.2 Liabilities associated with put options granted to holders of non-controlling interests

The Group may grant put options to third parties holding non-controlling interests, on all or some of their shares. These puts are considered by the Group as non-interest bearing debt.

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, 2017	**79**	**56**	**23**
Fair value adjustments recognized against non-controlling interests	**4**	4	-
Fair value adjustments recognized in retained earnings	**(1)**	5	(6)
LIABILITIES AT DECEMBER 31, 2017	**82**	**65**	**17**
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**

At December 31, 2018, 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, 2018, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. The Group's partner, Marco Polo, was granted a put option which it may exercise at any time following an agreed period of one year.

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	2020	2021	2022	2023	2024 and beyond
Liabilities associated with put options granted to holders of non-controlling interests	89	72	-	17	-	-	-	-

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, 2018	December 31, 2017
Negotiable European Commercial Paper	814	542
Short-term loans and overdrafts	86	122
SHORT-TERM DEBT	**900**	**664**

Valeo has a short-term commercial paper financing program for a maximum amount of 1.4 billion euros. At December 31, 2018, a total of 814 million euros (542 million euros at December 31, 2017) had been drawn on this program.

The 86 million euros in short-term bank loans relate mainly to overdraft facilities.

8.1.3 Net debt

Net debt includes all long-term debt, liabilities relating to put options granted to non-controlling interests (see Note 8.1.2.2, pages 340 to 341), 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 344 to 350).

	December 31, 2018			December 31, 2017[1]		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	3,466	434	**3,900**	3,227	383	**3,610**
Put options granted to holders of non-controlling interests	17	72	**89**	17	65	**82**
Short-term debt	-	900	**900**	-	664	**664**
GROSS DEBT	**3,483**	**1,406**	**4,889**	**3,244**	**1,112**	**4,356**
Long-term loans and receivables (including accrued interest)	(295)	(2)	**(297)**	(78)	-	**(78)**
Cash and cash equivalents	-	(2,357)	**(2,357)**	-	(2,436)	**(2,436)**
Derivative instruments associated with interest rate and currency risks[2]	**5**	**8**	**13**	**15**	**(15)**	**-**
NET DEBT	**3,193**	**945**	**2,248**	**3,181**	**(1,339)**	**1,842**

(1) *The amount shown for Bonds differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).*
(2) *The fair value of derivative instruments associated with an item of net debt solely comprises the fair value of derivatives hedging financial currency risk at end-December 2018 and end-December 2017.*

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, 2018	December 31, 2017
Marketable securities	738	1,182
Cash	1,619	1,254
CASH AND CASH EQUIVALENTS	**2,357**	**2,436**

Cash and cash equivalents totaled 2,357 million euros at December 31, 2018, consisting of 738 million euros of marketable securities with a low price volatility risk, and 1,619 million euros in cash. Marketable securities chiefly comprise money market mutual funds (FCP).

These items were measured using Level 1 inputs of the fair value hierarchy.

Short-term liquidity management

Cash is pooled whenever this is permitted by local legislation. In 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 crossborder, multi-currency cash pooling arrangement in euros for European subsidiaries, in US dollars for US subsidiaries, and in Hungarian forints and Czech korunas for subsidiaries in Eastern Europe. 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, 2018	December 31, 2017[1]
Euro	2,624	2,136
US dollar	391	296
Japanese yen	(109)	20
Brazilian real	(19)	(25)
South Korean won	(117)	(55)
Chinese renminbi	(451)	(328)
Other currencies	(71)	(202)
TOTAL	**2,248**	**1,842**

(1) The amount shown for Bonds differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 9 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

5

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.

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, 2018 and December 31, 2017:

(in millions of euros)	Accounting classification	Nominal purchase price[1]	Nominal sale price[1]	OCI reserves	Other financial assets		Other financial liabilities		December 31, 2018	December 31, 2017
					Non-current	Current	Non-current	Current	TOTAL	TOTAL
Forward foreign currency contracts	Cash flow hedge	862	(161)	19	18	6	(1)	(2)	**21**	**(2)**
Forward foreign currency contracts	Trading	200	(76)	-	-	2	-	(2)	-	-
Total operating foreign currency derivatives		**1,062**	**(237)**	**19**	**18**	**8**	**(1)**	**(4)**	**21**	**(2)**
Swaps	Fair value hedge	468	-	(14)	7	-	(8)	-	**(1)**	**(28)**
Swaps	Trading	169	-	-	-	5	(3)	(14)	**(12)**	**28**
Total financial foreign currency derivatives		**637**	**-**	**(14)**	**7**	**5**	**(11)**	**(14)**	**(13)**	**-**
Swaps – Purchases	Cash flow hedge	129	-	(7)	-	-	-	(8)	**(8)**	**6**
Total commodity derivatives		**129**	**-**	**(7)**	**-**	**-**	**-**	**(8)**	**(8)**	**6**
Convertible bond options	Trading	59	59	-	2	-	(2)	-	**-**	**-**
Cross options	N/A	N/A	N/A	N/A	14	-	(2)	(16)	**(4)**	**(2)**
Total other derivatives				**-**	**16**	**-**	**(4)**	**(16)**	**(4)**	**(2)**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS					**41**	**13**	**(16)**	**(42)**	**(4)**	**2**

(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 - "Financial Instruments".

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 2017, the ineffective portion of these hedges of operational currency risk was not material in 2018.

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 loss of 13 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, 2018				December 31, 2017
(in millions of euros)	USD	JPY	EUR	Total	Total
Accounts and notes receivable	166	67	1,060	**1,293**	**611**
Other financial assets	324	37	161	**522**	**597**
Accounts and notes payable	(205)	(53)	(860)	**(1,118)**	**(948)**
Long-term debt	(836)	(25)	(522)	**(1,383)**	**(1,448)**
GROSS EXPOSURE	**(551)**	**26**	**(161)**	**(686)**	**(1,188)**
Forward sales	(373)	(36)	(5)	**(414)**	**(763)**
Forward purchases	1,430	109	181	**1,720**	**(1,686)**
NET EXPOSURE	**506**	**99**	**15**	**620**	**(265)**

In the table above, the EUR column represents the euro exposure of Group entities whose functional currency is not the euro. Exposure arises chiefly on subsidiaries based in Central and Eastern Europe – mainly the Czech Republic – which are financed in euros by Valeo.

At December 31, 2017, the breakdown by currency of the net exposure in the statement of financial position (a negative 265 million euros) was as follows:

- a positive amount of 339 million euros relating to the US dollar;
- a positive amount of 37 million euros relating to the Japanese yen;
- a negative amount of 641 million euros relating to the euro.

Analysis of the sensitivity of net foreign currency risk exposure

The sensitivity analysis was based on an exchange rate of 1.15 US dollars, 125.85 Japanese yen, and 25.72 Czech koruna for 1 euro at December 31, 2018 (1.20 US dollars, 135.01 Japanese yen and 25.53 Czech koruna at December 31, 2017).

An increase of 10% in the value of the euro against these currencies at December 31, 2018 and December 31, 2017 would have had the following pre-tax impacts:

	December 31, 2018		December 31, 2017	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Exposure to US dollar	(23)	(28)	(4)	(29)
Exposure to Japanese yen	(3)	(7)	2	(6)
Exposure to euro	(10)	(6)	(35)	(29)
TOTAL	**(36)**	**(41)**	**(37)**	**(64)**

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, 2018 would have had the opposite impact to the one shown above.

Remaining contractual maturities of foreign currency derivatives

The European Central Bank (ECB) closing rates and forward rates at December 31, 2018 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	2020	2021	2022	2023	2024 and beyond	Total
Forward foreign currency contracts used as hedges:								
■ Assets	26	8	2	3	3	4	6	**26**
■ Liabilities	(5)	(4)	(1)	-	-	-	-	**(5)**
Currency swaps used as hedges:								
■ Assets	12	5	-	7	-	-	-	**12**
■ Liabilities	(25)	(14)	(3)	(8)		-	-	**(25)**

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, 2018 and December 31, 2017 break down as follows:

(in tons)	December 31, 2018	December 31, 2017
Aluminum	39,158	40,321
Secondary aluminum	8,840	13,623
Copper	8,890	9,253
Zinc	895	708
Polypropylene	4,189	-
TOTAL	**61,972**	**63,905**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized loss of 8 million euros relating to existing hedges was recognized directly in other comprehensive income for 2018.

An unrealized gain of 6 million euros recognized in other comprehensive income in 2017 and arising on existing commodity hedges was reclassified in full to operating income in 2018.

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, 2018 and December 31, 2017:

	December 31, 2018		December 31, 2017	
(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	-	10	-	13
Impact of a 10% fall in metal futures prices	-	(10)	-	(13)

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, 2018 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	2020	2021	2022	2023	2024 and beyond	Total
Commodity derivatives:								
■ Assets	-	-	-	-	-	-	-	**-**
■ Liabilities	(8)	(8)	-	-	-	-	-	**(8)**

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, 2018, 91% of long-term debt (i.e., due in more than one year) was at fixed rates (90% at December 31, 2017).

The Group had no outstanding interest rate derivatives at either December 31, 2018 or December 31, 2017.

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:

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**

2017

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	904	143	1,174	350	1,826	-	3,904	493	**4,397**
Loans	-	-	-	(78)	-	-	-	(78)	**(78)**
Cash and cash equivalents	-	(2,436)	-	-	-	-	-	(2,436)	**(2,436)**
NET POSITION BEFORE HEDGING	**904**	**(2,293)**	**1,174**	**272**	**1,826**	**-**	**3,904**	**(2,021)**	**1,883**
Derivative instruments	-	-	-	-	-	-	-	-	**-**
NET POSITION AFTER HEDGING	**904**	**(2,293)**	**1,174**	**272**	**1,826**	**-**	**3,904**	**(2,021)**	**1,883**

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, 2018, 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, 2018		December 31, 2017	
(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	23	-	20	-

Similarly, at December 31, 2018, 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, 2018, 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, 2018 versus 88 million euros at December 31, 2017.
- 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 12 million euros at December 31, 2018 and 28 million euros at December 31, 2017;
  - 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 16 million euros at December 31, 2018 and 31 million euros at December 31, 2017.

  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	2020	2021	2022	2023	2024 and beyond
Convertible bond options:							
■ Assets	2	-	-	2	-	-	-
■ Liabilities	(2)	-	-	(2)	-	-	-
Put and call options relating to the Valeo-Siemens joint venture[1]:							
■ Assets	12	-	-	12	-	-	-
■ Liabilities	(16)	(16)	-	-	-	-	-

(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 income, unless the investment is neither held for trading nor contingent consideration is 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 income. Once this election has been made, unrealized gains and losses recognized in other comprehensive income may not subsequently be recycled to 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 217 million euros at end-December 2018 and can be analyzed as follows:

(in millions of euros)	2018	2017
LONG-TERM INVESTMENTS AT JANUARY 1	**172**	**44**
Acquisitions	43	79
Changes in scope of consolidation[1]	-	51
Changes in fair value recognized in equity	(21)	5
Changes in fair value recognized in income	22	-
Translation adjustment	1	(7)
LONG-TERM INVESTMENTS AT DECEMBER 31	**217**	**172**

(1) *Changes in the scope of consolidation in 2017 related to the takeover of Ichikoh, which holds securities listed on an active market. The fair value of these securities corresponds to their stock market value.*

They mainly comprise investments in the following funds:

(in millions of euros)	2018	2017
Hubei Cathay China	47	48
Sino-French Innovation Fund (Cathay)	47	25
Sino-French Innovation Fund II (Cathay)	25	-
Other long-term investments[1]	98	99
LONG-TERM INVESTMENTS AT DECEMBER 31	**217**	**172**

(1) Other investments for less than 25 million euros 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. 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, 2018, these instruments represented 102 million euros of accounts and notes receivable and 102 million euros of accounts and notes payable (145 million euros and 92 million euros, respectively, at December 31, 2017).

Valeo also operates a reverse factoring program, which has been in place since 2014. This program involves a sale of accounts and notes receivable to a financial institution ("factor") initiated by Valeo (and not by the supplier). Relations between the parties are structured based on two separate agreements:

- Valeo suppliers enter into a sale agreement with the factor for the amounts they are owed by Valeo;
- Valeo enters into an agreement with the factor under which it agrees to pay the invoices sold by its suppliers to the factor at the date they fall due (pre-approved invoices), without recourse.

This program allows the suppliers concerned to ensure that their receivables will be promptly settled by the financial institution. Valeo settles the invoices with the factor at their contractual due dates.

An analysis by the Group indicates that the reverse factoring arrangement does not alter the substance of its payables, which continue to be included in working capital.

8.2 Financial income and expenses

Financial income and expenses comprise interest income, interest expense (cost of net debt), and other financial income and expenses.

8.2.1 Cost of net debt

Interest expense corresponds to interest recognized on debt, while interest income corresponds to interest earned on cash and cash equivalents.

(in millions of euros)	2018	2017
Interest expense[1]	(89)	(88)
Interest income	23	15
COST OF NET DEBT	**(66)**	**(73)**

(1) Including in 2018 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 and CICE 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 on financial instruments;
- the cost of credit insurance and write-downs taken in respect of credit risk and losses on bad debts in the event of client default;
- the net interest cost arising on provisions for pensions and other employee benefits, which includes the impact of unwinding the discount on the obligations to take into account the passage of time, and financial income related to the expected return on plan assets;
- changes in the fair value of long-term investments held for trading.

(in millions of euros)	2018	2017
Net interest cost on provisions for pensions and other employee benefits[1]	(24)	(24)
Currency gains (losses)	(21)	(20)
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	22	-
Other	(1)	(4)
OTHER FINANCIAL INCOME AND EXPENSES	**(25)**	**(47)**

(1) See Note 5.3.4.

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)	2018	2017(1)
Current taxes	(319)	(229)
Deferred taxes	16	(95)
INCOME TAXES	**(303)**	**(324)**

(1) The amount shown for Deferred taxes differs from that presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 15 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

The Group recognized income tax expense of 303 million euros for 2018, corresponding to an effective tax rate of 28.7%, in particular reflecting deferred taxes recognized. This notably includes deferred tax assets in the Czech Republic, the United States and France.

9.1.2 Tax proof

(in millions of euros)	2018	2017(1)
NET INCOME BEFORE INCOME TAXES EXCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	**1,056**	**1,260**
Standard tax rate in France	34.43%	34.43%
THEORETICAL INCOME TAX EXPENSE	**(364)**	**(434)**
Impact of:		
■ Unrecognized deferred tax assets and unused tax losses (current year)	(22)	(21)
■ Recognition of previously unrecognized deferred tax assets	35	87
■ Other tax rates	98	(15)
■ Utilization of prior-year tax losses	6	43
■ Permanent differences between accounting income and taxable income	(39)	35
■ Tax credits	2	2
■ *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE)	(19)	(21)
GROUP INCOME TAX EXPENSE	**(303)**	**(324)**

(1) The amount shown for Net income before taxes and Unrecognized deferred tax assets differs from that presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 15 (see Notes 1.1.1 and 1.2, pages 288 to 289 and pages 291 to 292).

- In 2018, unrecognized deferred tax assets and unused tax losses by main country chiefly relate to Brazil, China and Hungary.
- Previously unrecognized deferred tax assets for 35 million euros essentially relate to deferred tax assets recognized in 2018 in the Czech Republic, the United States and France.

- The favorable 98 million euro impact relating to tax rates that are different from the standard tax rate breaks down as follows:

Country	Current tax rate(1)	2018	2017
China	25.0%	21	40
Poland	19.0%	13	17
South Korea	24.2%	25	11
Thailand	20.0%	2	8
Turkey	22.0%	6	5
Spain	25.0%	7	4
Czech Republic	19.0%	3	6
Japan	31.8%	2	3
United States	21.0%	26	(116)
Germany	27.8%	(8)	(6)
Other countries		1	13
TOTAL		**98**	**(15)**

(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.

- In addition to reductions granted in respect of the Group's Research and Development activities, which are considered as subsidies in substance, permanent differences between accounting income and taxable income comprise non-deductible interest expense and the impact of the Base Erosion and Anti-Abuse Tax (BEAT) introduced in the latest 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 2018 therefore includes a net expense of 19 million euros in respect of the CVAE tax (21 million euros in 2017).

9.2 Deferred taxes

Deferred taxes are accounted for using the liability method for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements, and for all tax loss carryforwards.

The main temporary differences relate to tax loss carryforwards, provisions for pensions and other employee benefits, other temporarily non-deductible provisions and capitalized development costs. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are only recognized to the extent that it appears probable that Valeo will generate future taxable profits against which these tax assets will be able to be recovered. The Group reviews the probability of future recovery of deferred tax assets on a periodic basis for each tax entity. This review can, where appropriate, lead the Group to derecognize deferred tax assets that it had recognized in prior years. The probability of recovery is assessed using the approach deemed most appropriate in light of the entity's legal and tax organization, tax history and projected taxable earnings outlook. These are assessed on the basis of a tax plan which uses assumptions consistent with those used in the medium-term business plans and budgets prepared by the Group's entities and approved by General Management. Taxes payable and tax credits receivable on planned dividend distributions by subsidiaries are recorded in the statement of income.

Deferred tax assets and liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities concern income taxes levied by the same taxation authority. In France, Valeo has elected for tax consolidation. The tax group includes the parent company and its principal French subsidiaries that are eligible for tax consolidation. Valeo 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, 2018	December 31, 2017[1]
Loss carryforwards	655	701
Capitalized development expenditure	(293)	(242)
Pensions and other employee benefits	244	242
Other provisions	126	120
Inventories	67	61
Provisions for restructuring costs	7	9
Tooling	-	(2)
Non-current assets	(66)	(60)
Other	181	134
TOTAL DEFERRED TAXES, GROSS	**921**	**963**
Unrecognized deferred tax assets	(524)	(624)
TOTAL DEFERRED TAXES	**397**	**339**
Of which:		
■ Deferred tax assets	486	458
■ Deferred tax liabilities	(89)	(119)

(1) The amount shown for Deferred taxes differs from that presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of applying IFRS 15 and IFRS 9 as well as the definitive allocation of goodwill to FTE automotive and Valeo-Kapec (see Note 1.2, pages 291 to 292).

At December 31, 2018, 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 2019 through 2023	33	(7)
Tax losses available for carryforward in 2023 and thereafter	74	(17)
Tax losses available for carryforward indefinitely	1,395	(351)
CURRENT TAX LOSS CARRYFORWARDS	**1,502**	**(375)**
Unrecognized deferred tax assets on temporary differences		(149)
TOTAL		**(524)**

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, 2018 can be analyzed as follows:

	2018	2017
NUMBER OF SHARES OUTSTANDING AT JANUARY 1	**237,924,000**	**237,902,266**
Number of treasury shares purchased/sold under the liquidity agreement(1) or delivered following the exercise of stock options or free shares granted	600,925	739,753
Number of shares purchased under the share buyback program(2)	(1,837,417)	(1,228,009)
Number of shares issued under employee stock ownership plans: Shares4U(3)	599,979	509,990
NUMBER OF SHARES OUTSTANDING AT DECEMBER 31	**237,287,487**	**237,924,000**
Number of treasury shares held by the Group	2,965,613	1,729,121
NUMBER OF SHARES REPRESENTING THE COMPANY'S SHARE CAPITAL AT DECEMBER 31(4)	**240,253,100**	**239,653,121**

(1) See Note 10.1.1.2, page 356.
(2) See Note 10.1.1.3, pages 356 to 357.
(3) As part of the Shares4U 2018 plan (see Note 5.4.4, page 284), a capital increase reserved for employees took place on June 28, 2018, issuing 599,979 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, 2018, at 43.58 euros. This gave rise to 26 million euros in additional paid-in capital.
(4) Each share has a par value of 1 euro at end-2017 and end-2018 and is fully paid up. Shares that have been registered in the name of the same holder for at least four years (5,476,768 shares at December 31, 2018) carry double voting rights.

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 was signed with an investment services provider on April 22, 2004 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI). At December 31, 2018, 591,500 shares and 997,523 euros had been allocated to the liquidity agreement compared with 75,000 shares and 22,400,662 euros at December 31, 2017.

10.1.1.3 Share buyback program

As in 2017, during the year 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. 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 2017 and 2018 share buyback programs are as follows:

	2018 program	2017 program
Date agreement took effect	March 8, 2018	March 7, 2017
Expiration date	May 29, 2018	May 12, 2017
Maximum nominal amount of buyback *(in millions of euros)*	100	75
Treasury shares delivered *(in number of shares)*	1,837,417	1,228,009
Average share price *(in euros per share)*	54.42	61.07

10.1.2 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized gain of 53 million euros (unrealized loss of 318 million euros at December 31, 2017). In 2018, this essentially reflected the rise in the value of the US dollar (62 million euros) and the Japanese yen (48 million euros), partially offset by the fall in the Turkish lira (17 million euros) and the Chinese renminbi (13 million euros).

10.1.3 Non-controlling interests

Changes in non-controlling interests can be analyzed as follows:

(in millions of euros)	2018	2017 restated[1]
NON-CONTROLLING INTERESTS AT JANUARY 1	**719**	**236**
Share in net earnings	96	79
Dividends paid	(28)	(20)
Changes in scope of consolidation[2]	15	449
Fair value adjustments to put options granted to holders of non-controlling interests[3]	(2)	(4)
Other movements	(3)	-
Translation adjustment	10	(21)
NON-CONTROLLING INTERESTS AT DECEMBER 31	**807**	**719**

(1) The amount shown for Non-controlling interests differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of the definitive allocation of the purchase price to Valeo-Kapec (see Notes 2.2.1.2 and 1.2, pages 296 to 297 and 291 to 292).
(2) Changes in the scope of consolidation in 2018 essentially reflect the impacts of the reduction in Valeo's shareholding in Nanjing Valeo Clutch Co, Ltd (see Note 2.2.1.4, page 298). At December 31, 2017, this item chiefly related to the acquisition of Ichikoh and the creation of Valeo-Kapec.
(3) See Note 8.1.2.2, pages 340 to 341.

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, 2018	December 31, 2017	2018	2017[1]
Pyeong Hwa Company[2]	50.0	50.0	585	532
Ichikoh China Alliance entities	6.7	6.7	27	25
Other Ichikoh entities	44.9	44.9	140	108
Other individually non-material interests	N/A	N/A	55	54
NON-CONTROLLING INTERESTS			**807**	**719**

(1) The amount shown for Non-controlling interests differs from the amount presented in the 2017 consolidated financial statements published in February 2018 since it has been adjusted to reflect the impacts of the definitive allocation of the purchase price to Valeo-Kapec (see Notes 2.2.1.2 and 1.2, pages 296 to 297 and 291 to 292).
(2) Pyeong Hwa Company is our longstanding partner in Valeo Pyeong Hwa entities in South Korea and our partner in Valeo-Kapec (see Note 2.2.1.2, pages 296 to 297).

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.

	2018	2017
Net income attributable to owners of the Company *(in millions of euros)*	546	877
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	237,613	237,879
DILUTED EARNINGS PER SHARE *(IN EUROS)*	**2.30**	**3.69**

	2018	2017
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	237,613	237,879
Dilutive effect from *(in thousands)*:		
▪ Stock options	209	548
▪ Free shares	1,575	2,311
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES *(IN THOUSANDS OF SHARES)*	**239,397**	**240,738**
DILUTED EARNINGS PER SHARE *(IN EUROS)*	**2.28**	**3.64**

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 2018 and 2017:

(in millions of euros)	2018	2017 restated
Depreciation, amortization and impairment of non-current assets	1,143	951
Net additions to (reversals from) provisions	(2)	(121)
Losses (gains) on sales of non-current assets	11	27
Expenses related to share-based payment	3	27
Losses (gains) on long-term investments	(22)	-
Losses (gains) on previously held interests	36	-
Other losses (gains) with no cash effect	11	-
TOTAL	**1,180**	**884**

11.2 Changes in working capital

Changes in the main components of working capital in 2018 and 2017 are shown in the table below:

(in millions of euros)	2018	2017 restated
Inventories	(200)	(205)
Accounts and notes receivable	124	(243)
Accounts and notes payable	80	394
Other receivables and payables	67	93
TOTAL	**71**	**39**

Accounts and notes receivable falling due after December 31, 2018 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, pages 303 to 304 (accounts and notes receivable) and in Note 4.5.2, page 308 (amounts receivable under French research and CICE tax credits).

11.3 Acquisitions of investments with gain of control, net of cash acquired

The outflow of 41 million euros relates mainly to additional impacts in connection with the takeover of FTE automotive (see Note 2.2.1.3, pages 297 to 298), Valeo-Kapec (see Note 2.2.1.2, pages 297 to 298) and peiker.

11.4 Disposals of investments with loss of control, net of cash transferred

In 2018, a net cash outflow of 7 million euros chiefly relates to the impact of the sale of the Lighting business in Argentina (see Note 2.2.1.4, page 298).

11.5 Sale (purchase) of treasury stock

The net cash outflow of 118 million euros chiefly relates to the impact of the share buyback program implemented during the period, giving rise to a cash outflow of 100 million euros (see Note 10.1.1.3, pages 356 to 357).

11.6 Issuance and repayment of long-term debt

In 2018, the Group issued 600 million euros' worth of seven-year bonds maturing in 2025 and paying a fixed coupon of 1.50%. It also redeemed the 273 million euro bond issued in 2011 under the Euro Medium Term Note financing program, repaid a 22 million euro installment on the EIB loan, and repaid annual installments on loans taken out by Ichikoh's Japanese subsidiaries (see Note 8.1.2.1, pages 338 to 340).

11.7 Free cash flow and net cash flow

Free cash flow corresponds to net cash from operating activities (excluding the change in non-recurring sales of accounts and notes receivable) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets. This indicator reflects the Group's ability to generate cash from its operations and is taken into account by General Management to define its investment strategy and financing policy.

Net cash flow corresponds to free cash flow less (i) cash flows from investing activities, relating to acquisitions and disposals of investments and to changes in certain items shown in Non-current financial assets, (ii) cash flows in respect of financing activities relating to share capital, dividends paid, treasury share purchases and sales, interest paid and received, loan issue costs and premiums and acquisitions of investments without gain of control, and (iii) changes in non-recurring sales of accounts and notes receivable.

Free cash flow and net cash flow can be reconciled as follows with the consolidated statement of cash flows between 2018 and 2017:

(in millions of euros)	2018	2017 restated
Gross operating cash flows	2,366	2,265
Income taxes paid	(267)	(265)
Changes in working capital	71	39
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	**2,170**	**2,039**
Net payments for purchases of intangible assets and property, plant and equipment	(2,025)	(1,745)
Elimination of change in non-recurring sales of accounts and notes receivable(1)	16	(16)
FREE CASH FLOW	**161**	**278**
Change in non-recurring sales of accounts and notes receivable(1)	(16)	16
Net change in non-current financial assets	(212)	(91)
Acquisitions of investments with gain of control, net of cash acquired	(41)	(537)
Acquisitions of investments in associates and/or joint ventures	(2)	(7)
Disposals of investments with loss of control, net of cash transferred	(7)	(1)
Acquisitions of investments without gain of control	(2)	(16)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(324)	(317)
Capital increase in cash	26	26
Sale (purchase) of treasury stock	(118)	(73)
Net interest paid/received	(58)	(63)
Loan issue costs and premiums	(5)	(7)
NET CASH FLOW	**(598)**	**(792)**

(1) *Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. An agreement spanning one or more years is drawn up for recurring transactions. Each contract is analyzed in light of 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 303 to 304).*

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)	2018	2017	2018	2017
Audit				
Statutory audit, certification and review of the individual and consolidated financial statements	1.8	1.8	1.4	1.4
Non-audit services	0.1	0.1	0.1	0.1
TOTAL FEES	**1.9**	**1.9**	**1.5**	**1.5**

Non-audit services provided by Ernst & Young et Autres and Mazars to the Group and the entities it controls in 2018 concern (i) comfort letters in connection with bond issues, and (ii) statements issued to validate information presented in expenditure reports relating to subsidized projects and in connection with sales of receivables.

NOTE 13 LIST OF CONSOLIDATED COMPANIES

Company	December 31, 2018		December 31, 2017	
	Consolidation method	% interest	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 Équipements Électriques Moteur	FC	100	FC	100
Valeo Finance	FC	100	FC	100
Valeo Management Services	FC	100	FC	100
Valeo Matériaux de Friction	FC	100	FC	100
Valeo Comfort and Driving Assistance	FC	100	FC	100
Valeo Service	FC	100	FC	100
Valeo Systèmes de Contrôle Moteur	FC	100	FC	100
Valeo Systèmes d'Essuyage	FC	100	FC	100
Valeo Systèmes Thermiques	FC	100	FC	100
Valeo Vision	FC	100	FC	100
peiker France SAS(5)	-	-	FC	100
Valeo Siemens eAutomotive France SAS	EM	50	EM	50
Spheros Climatechnics France SAS	FC	100	FC	100
Kuantic	EM	33	EM	33
Axodel(5)	-	-	EM	33
FTE automotive France S.a.r.l.(5)	-	-	FC	100
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 292 to 293).
(1) Entity sold during the year (see Note 2.2.1.4, page 298).
(2) Transaction between owners (see Note 2.2.1.4, page 298).
(3) Acquisition in the period with no material impact on the consolidated financial statements.
(4) Transactions between owners with no material impact on the consolidated financial statements.
(5) Mergers and liquidations.
(6) 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, 2018 Consolidation method	% interest	December 31, 2017 Consolidation method	% interest
EUROPE				
GERMANY				
Valeo Auto-Electric GmbH(6)	FC	100	FC	100
Valeo GmbH(6)	FC	100	FC	100
Valeo Holding GmbH(6)	FC	100	FC	100
Valeo Klimasysteme GmbH(6)	FC	100	FC	100
Valeo Schalter und Sensoren GmbH(6)	FC	100	FC	100
Valeo Service Deutschland GmbH(6)	FC	100	FC	100
Valeo Wischersysteme GmbH(6)	FC	100	FC	100
peiker acustic GmbH(6)	FC	100	FC	100
Valeo peiker Telematik GmbH(5)	-	-	FC	100
CloudMade Deutschland GmbH	EM	50	EM	50
Valeo Thermal Commercial Vehicles Germany GmbH (formerly Spheros GmbH)(6)	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(6)	FC	100	FC	100
FTE Holding GmbH(5)	-	-	FC	100
FTE Verwaltungs GmbH(6)	FC	100	FC	100
FTE Asia GmbH(6)	FC	100	FC	100
FTE automotive GmbH(6)	FC	100	FC	100
FTE automotive systems GmbH(6)	FC	100	FC	100
FTE automotive Möve GmbH(6)	FC	100	FC	100
gestigon GmbH(6)	FC	100	FC	100
UNITED KINGDOM				
Valeo (UK) Limited	FC	100	FC	100
Valeo Climate Control Limited	FC	100	FC	100
Valeo Engine Cooling UK Limited	FC	100	FC	100
Valeo Management Services UK Limited	FC	100	FC	100
Valeo Service UK Limited	FC	100	FC	100
Valeo Air Management UK Limited	FC	100	FC	100
CloudMade Holdings Limited	EM	50	EM	50
CloudMade Limited	EM	50	EM	50
FTE automotive UK Limited	FC	100	FC	100
IRELAND				
Connaught Electronics Limited	FC	100	FC	100
HI-KEY Limited	FC	100	FC	100
Valeo Ichikoh Holding Limited	FC	93	FC	93

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 292 to 293).
(1) Entity sold during the year (see Note 2.2.1.4, page 298).
(2) Transaction between owners (see Note 2.2.1.4, page 298).
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Company	December 31, 2018 Consolidation method	December 31, 2018 % interest	December 31, 2017 Consolidation method	December 31, 2017 % 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	FC	100	FC	100
CZECH REPUBLIC				
Valeo Autoklimatizace k.s.	FC	100	FC	100
Valeo Compressor Europe s.r.o.	FC	100	FC	100
Valeo Vymeniky Tepla 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 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 292 to 293).
(1) Entity sold during the year (see Note 2.2.1.4, page 298).
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(4) Transactions between owners with no material impact on the consolidated financial statements.
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Company	December 31, 2018 Consolidation method	December 31, 2018 % interest	December 31, 2017 Consolidation method	December 31, 2017 % 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	FC	100	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
Transfrig(3)	FC	100	-	-
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
Automotive Climate Control, Inc.(5)	-	-	FC	100
ValeoThermal Commercial Vehicles North America, Inc. (formerly Spheros North America, Inc.)	FC	100	FC	100
PIAA Corp., USA	FC	55	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
CANADA				
Valeo Canada, Inc.	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 292 to 293).
(1) Entity sold during the year (see Note 2.2.1.4, page 298).
(2) Transaction between owners (see Note 2.2.1.4, page 298).
(3) Acquisition in the period with no material impact on the consolidated financial statements.
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(6) 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, 2018 Consolidation method	December 31, 2018 % interest	December 31, 2017 Consolidation method	December 31, 2017 % interest
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 Technical Center, SA de CV (formerly Valeo Technical Center)	FC	100	FC	100
Valeo Thermal Commercial Vehicles Mexico, SA de C.V. (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 Ltda[4]	FC	60	FC	45
FTE Indústria e Comércio Ltda	FC	100	FC	100
ARGENTINA				
Cibie Argentina, SA[1]	-	-	FC	100
Emelar Sociedad Anonima	FC	100	FC	100
Valeo Embragues Argentina, SA	FC	100	FC	100
Valeo Termico Argentina, SA	FC	100	FC	100
Valeo Climatizacion de vehiculos comerciales SAS	FC	100	-	-
COLOMBIA				
Spheros Thermosystems Colombia Ltda	FC	60	FC	60

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(1) Entity sold during the year (see Note 2.2.1.4, page 298).
(2) Transaction between owners (see Note 2.2.1.4, page 298).
(3) Acquisition in the period with no material impact on the consolidated financial statements.
(4) Transactions between owners with no material impact on the consolidated financial statements.
(5) Mergers and liquidations.
(6) 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, 2018 Consolidation method	December 31, 2018 % interest	December 31, 2017 Consolidation method	December 31, 2017 % interest
ASIA PACIFIC				
THAILAND				
Valeo Niles (Thailand) Co. Ltd	FC	100	FC	100
Valeo Compressor Clutch (Thailand) Co. Ltd(5)	-	-	FC	100
Valeo Siam Thermal Systems Co. Ltd	FC	74.9	FC	74.9
Valeo Thermal Systems Sales (Thailand) Co. Ltd	FC	74.9	FC	74.9
Valeo Comfort and Driving Assistance Systems (Thailand) Ltd	FC	100	FC	100
Ichikoh Industries (Thailand) Co. Ltd	FC	55	FC	55
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	FC	55	FC	55
MALAYSIA				
Valeo Malaysia SDN BHD	FC	100	FC	100
Ichikoh (Malaysia) SDN BHD	FC	38.6	FC	38.6
Valeo Malaysia CDA SDN BHD (formerly Precico)	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

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 292 to 293).
(1) Entity sold during the year (see Note 2.2.1.4, page 298).
(2) Transaction between owners (see Note 2.2.1.4, page 298).
(3) Acquisition in the period with no material impact on the consolidated financial statements.
(4) Transactions between owners with no material impact on the consolidated financial statements.
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(6) 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, 2018		December 31, 2017	
	Consolidation method	% interest	Consolidation method	% interest
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	FC	55.1	FC	55.1
Life Elex. Inc.	FC	32.6	FC	32.6
Kyushu Ichikoh Industries LTD	FC	55.1	FC	55.1
Hakuden LTD	FC	55.1	FC	55.1
Misato Industries LTD	FC	55.1	FC	55.1
PIAA Corporation	FC	55.1	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	-	-
Nitto Manufacturing Co. Ltd	FC	87.2	FC	87.2

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 292 to 293).
(1) Entity sold during the year (see Note 2.2.1.4, page 298).
(2) Transaction between owners (see Note 2.2.1.4, page 298).
(3) Acquisition in the period with no material impact on the consolidated financial statements.
(4) Transactions between owners with no material impact on the consolidated financial statements.
(5) Mergers and liquidations.
(6) 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, 2018 Consolidation method	% interest	December 31, 2017 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	FC	93.3	FC	93.3
Fuzhou Niles Electronic Co. Ltd	FC	51	FC	51
Guangzhou Valeo Engine Cooling Co. Ltd	FC	100	FC	100
Huada Automotive Air Conditioner (Hunan) Co. Ltd	EM	45	EM	45
Nanjing Valeo Clutch Co. Ltd(2)	FC	37.5	FC	55
Shanghai Valeo Automotive Electrical Systems Company Ltd	EM	50	EM	50
Shenyang Valeo Auto Lighting Co. Ltd	FC	93.3	FC	93.3
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	FC	50	FC	50
Tianjin Valeo Xinyue Auto Parts Co. Ltd(5)	-	-	FC	100
Taizhou Valeo-Wenling Automotive Systems Co. Ltd	FC	73	FC	73
Valeo Auto Parts Trading (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	FC	100	FC	100
Valeo Kapec Torque Converters (Nanjing) Co. Ltd (formerly Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd)	FC	50	FC	50
Valeo Engine Cooling (Foshan) Co. Ltd	FC	100	FC	100
Valeo Engine Cooling (Shashi) Co. Ltd(5)	-	-	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	FC	93.3	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	FC	93.3	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 (formerly Valeo Niles (Guangzhou) Electronics Co. Ltd)	FC	100	FC	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	FC	73	FC	73
Wuhu Valeo Automotive Lighting Systems Co. Ltd	FC	93.3	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

FC: fully consolidated/EM: equity method (see Note 2.1.1, pages 292 to 293).
(1) Entity sold during the year (see Note 2.2.1.4, page 298).
(2) Transaction between owners (see Note 2.2.1.4, page 298).
(3) Acquisition in the period with no material impact on the consolidated financial statements.
(4) Transactions between owners with no material impact on the consolidated financial statements.
(5) Mergers and liquidations.
(6) 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, 2018		December 31, 2017	
	Consolidation method	% interest	Consolidation method	% interest
Valeo ePowertrain (Shenzhen) Co. Ltd	EM	50	EM	50
Valeo Siemens eAutomotive Shanghai Co. Ltd	EM	50	EM	50
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	FC	55	FC	55
Roncheng Life	EM	10	EM	10
Valeo Powertrain (Nanjing) Co. Ltd	FC	100	FC	100
Valeo Powertrain (Shanghai) Co. Ltd	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	27.5	-	-
FTE automotive (Taicang) Co. Ltd	FC	100	FC	100
INDIA				
Amalgamations Valeo Clutch Private Ltd	EM	50	EM	50
Valeo Friction Materials India Ltd	FC	60	FC	60
Valeo Lighting Systems (India) Private Ltd(5)	-	-	FC	100
Valeo India Private Ltd	FC	100	FC	100
Valeo Service India Auto Parts Private Limited(4)	FC	100	FC	60
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 292 to 293).
(1) Entity sold during the year (see Note 2.2.1.4, page 298).
(2) Transaction between owners (see Note 2.2.1.4, page 298).
(3) Acquisition in the period with no material impact on the consolidated financial statements.
(4) Transactions between owners with no material impact on the consolidated financial statements.
(5) Mergers and liquidations.
(6) 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

For the year ended December 31, 2018

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 regulations and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of Valeo for the year ended December 31, 2018.

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, 2018 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, 2018 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 Notes 1.1.2 and 1.2 to the consolidated financial statements outlining the changes in accounting methods relating to IFRS 15 – "Revenue from Contracts with Customers" and IFRS 9 – "Financial Instruments", applied since January 1, 2018. 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 of December 31, 2018, goodwill amounted to 2,550 million euros and other intangible assets and property, plant and equipment amounted to 7,040 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 described in the Notes 6.1, 6.2, 6.3 and 6.4 of the financial statements.

We considered the recoverable value of goodwill and CGUs, which represent a particularly significant amount, to be a key audit matter as the evaluation of the recoverable amounts of the non-current assets, based on the discounted value of future cash flows, 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 financial statements;
- evaluated the consistency of the cash flow projections with the latest management's estimates, as they were reported to the board of directors during the preparation process of the medium-term business plan;
- examined the implementation methods, the valuation method of the recoverable values and its arithmetical implementation;
- conducted an analysis of the management's business plans, by Business Groups and, for the ones having a significant impairment risk, by CGUs, including by comparing with the financial performance of the fiscal year;
- analyzed the main valuation hypotheses (discount rate and long-term growth rate and perpetuity growth rate), which we compared with the values provided by the main financial analysts;
- evaluated the impact of variations in discount rate and main operational assumptions through sensitivity analyses.

Finally, we assessed the content of the disclosures in Note 6.4 of the financial statements regarding the impairment losses on goodwill and CGUs' assets.

Evaluation of the provisions for specific quality risks

Risk identified

Provisions for customer warranties are set aside to cover the estimated cost of future returns of goods sold. Those provisions are computed either on a statistical basis or based on specific quality risks.

These provisions cover costs related to legal or contractual warranty obligations and costs arising in specific situations not covered by usual warranties with respect to the products already sold.

The estimation of these costs is based on both historical data and probability calculations: returns rates observed by products for statistical provisions and reparation costs estimation for provisions for specific quality risks.

These provisions are described in the Notes 7.1 of the financial statements.

We considered the accounting of provisions for specific quality risk to be a key audit matter as the evaluation of those provisions requires significant estimates and judgments of the management.

Our response

We got acquainted with the identification and assessment process of these provisions.

As part of our audit work on this topic we also:

- assessed the group valuation methodology;
- assessed the completeness of provisions for specific quality risks by conducting interviews with the director in charge of the monitoring of quality at group level and with site financial controllers and by examining the group 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 site financial controllers and with financial direction of the Business Groups on specific quality risks, in order to assess the main hypotheses underlying the estimation of the risk.

Finally, we assessed the content of the disclosures in the financial statements regarding the customer warranties provisions in Note 7.1.

Initial accounting of Valeo-Kapec and FTE

Risk identified

In the context of its development, the Group was led to carry out targeted external growth operations.

The Korean company Valeo-Kapec and its subsidiaries are controlled since November 30, 2017. They are 50% owned as Valeo and its partner, Pyeong Hwa group, have contributed their respective businesses.

The German company FTE Automotive and its subsidiaries have been fully acquired since October 31, 2017.

In 2017, these acquisitions had led to a preliminary purchase price allocation to the acquired assets and liabilities. The definitive allocation exercise was conducted in 2018, resulting in the recognition of goodwill for 128 million euros (Valeo-Kapec) and 456 million euros (FTE Automotive).

The terms and details of these acquisition are described in Notes 2.1.3, 2.2.1.2 and 2.2.1.3 of the financial statements.

We considered the accounting of these acquisitions to be a key audit matter as these are significant transactions which require significant management judgement regarding the identification and evaluation of the fair value of each acquired asset and hability. Management has been accompanied by valuation external experts in this exercise of the purchase price allocation.

Our response

We have obtained and read the legal documentation of the transactions and assessed the related accounting treatment.

Through the expertise of our valuation specialists, we:

- assessed the identification of intangible assets acquired by corroborating it with (i) our discussion with management, (ii) sectorial benchmarks and (iii) our understanding of the business of the acquired entity;
- examined the valuation methodologies used by management and their external valuation expert in the fair value determination of acquired assets and liabilities;
- analyzed the valuation assumptions used, such as discount rate, fixed assets' useful lives, royalties rates and internal rate of return, by comparing them to source data and sectorial market data.

Finally, we assessed the content of the disclosures in Notes 2.2.1.2 and 2.2.1.3 of the financial statements regarding the implementation of these initial accountings.

Specific verifications

As required by law we have also verified, 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 its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated non-financial statement provided for by Article L.225-102-1 of the French Commercial Code (*Code de commerce*) is included in the information pertaining to the Group presented in the management report, it being specified that, in accordance with the provisions of Article L.823-10 of said Code, we have verified neither the fair presentation nor the consistency with the financial statements of the information contained in this statement which has to be subject to a report by an independent third party.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were initially appointed as statutory auditors of Valeo by the annual general meeting held on June 3, 2010.

As at December 31, 2018, our firms were in the 9th year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) 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 21, 2019

The Statutory Auditors
French original signed by

MAZARS		ERNST & YOUNG et Autres	
Thierry Colin	Jean-Marc Deslandes	Jean-François Ginies	Philippe Berteaux

5.5 Analysis of Valeo's results AFR

Following the creation of subsidiaries for its industrial activities in 2002, Valeo 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 net operating income of 4 million euros in 2018, compared to a net operating loss of 53 million euros in 2017.

Operating income was 107 million euros for the year, up 30 million euros on 2017. This improvement chiefly reflects reversals of provisions in the year for 69 million euros (40 million euros more than in 2017), with 46 million euros utilized and 23 million euros written back. The provision utilization is mainly related 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. It also reflects the exercise of stock purchase options under the March 27, 2012 plan. The 23 million euro reversal from provisions chiefly results from changes in the number of shares Valeo expects to remit to beneficiaries under its May 26, 2016 and March 22, 2017 free share plans.

Valeo booked operating expenses of 103 million euros during the year, down 27 million euros on 2017. Lower operating expenses are essentially attributable to the 36 million euro decrease in amounts set aside in the year to provisions for contingencies and charges related to free share and stock option plans.

Net financial income came in at 224 million euros for 2018, down 89 million euros on 2017 (313 million euros). The decrease chiefly reflects the impact of measuring the securities portfolio: following 74 million euros in net reversals of impairment provisions for investments in subsidiaries and affiliates in 2017, Valeo set aside a net amount of 35 million euros to these provisions in 2018. In 2018, Valeo collected 115 million euros in dividends from its holding company, Valeo International Holding BV, compared to 130 million euros in 2017. Valeo's cash management activities generated a 35 million euro rise in net interest income in 2018.

No non-recurring items were recognized in 2018, compared to non-recurring income of 2 million euros in 2017.

Income tax for 2018 represented a tax benefit of 30 million euros arising on tax consolidation. The income tax benefit for 2017 included income of 35 million euros arising on tax consolidation and 21 million euros relating to the Constitutional Court ruling of October 6, 2017, which declared the additional tax on dividend payouts unconstitutional. Since this ruling is applicable to all dividends on which the tax was paid, the full amount of provisions set aside in respect of this additional tax on dividend payouts was reversed in an amount of 17 million euros and accrued income of 4 million euros was booked in respect of the additional tax paid on 2013 dividends.

Net income came in at 258 million euros for 2018, compared with 318 million euros in 2017.

At December 31, 2018, Valeo's stockholders' equity stood at 3,792 million euros, down slightly on the end-2017 figure (3,804 million euros). This 12 million euro net decrease reflects net income of 258 million euros for the year, the 26 million euro share capital increase reserved for employees as part of the Group's 2018 employee share ownership plan (Shares4U), and the June 2018 payment to shareholders of a dividend totaling 296 million euros in respect of 2017 earnings. Valeo paid 297 million euros in dividends in 2017.

The employee share subscription offers, available in 2016, 2017 and 2018 to 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 2018. No overheads were added back to income for tax purposes in the year.

Since January 1, 2009, Valeo has applied new payment terms in its dealings with suppliers, as required under the French Law on the Modernization of the Economy. Suppliers are paid 45 days after the end of the month of the invoice date for all new orders issued after January 1, 2009, and for open orders on that date. If the payment terms applied before the law came into force called for shorter settlement periods, no changes were made. At December 31, 2018, trade payables due by that date excluding accrued payables totaled 1 million euros. At December 31, 2017, trade payables totaled 6 million euros, including 1 million euros payable by end-December 2017 and 5 million euros payable in January 2018.

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, 2018.

Trade payables

	Article D.441-4-I, 1° of the French Commercial Code: Outstanding incoming invoices as of December 31, 2018					
(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	13					**46**
Total amount of invoices (incl. VAT)	166	230	199	86	98	**613**
Percentage of total amount of purchases over the period (incl. VAT)	0.8%	1.1%	0.9%	0.4%	0.4%	**2.8%**
(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.441-4-I, 2° of the French Commercial Code: Outstanding outgoing invoices as of December 31, 2018					
(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	8					**11**
Total amount of invoices (incl. VAT)	1,076	2,715	0	0	43	**2,758**
Percentage of total sales over the period (incl. VAT)	2.6%	6.5%	0.0%	0.0%	0.1%	**6.6%**
(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					

5.6 2018 parent company financial statements AFR

In accordance with Article 28 of European Regulation no. 809/2004 dated April 29, 2004, the following information is incorporated by reference in this Registration Document:

- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2017, set out on pages 381 to 404 and 405 to 408 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2018 under number D.18-0208;
- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2016, set out on pages 371 to 393 and 394 of the Registration Document registered with the AMF on March 24, 2017 under number D.17-0226;

5.6.1 Income statement

(in millions of euros)	*Notes*	2018	2017
Provision reversals	*3.1.2*	69	29
Other operating income	*4.1.1*	36	43
Expense transfers	*4.1.2*	2	5
TOTAL OPERATING INCOME		**107**	**77**
Other purchases and external charges	*4.1.3*	(24)	(34)
Personnel expenses	*3.2*	(48)	(29)
Other taxes		(2)	(2)
Depreciation and amortization	*4.1.4*	(11)	(11)
Provisions	*3.1.2*	(18)	(54)
TOTAL OPERATING EXPENSES		**(103)**	**(130)**
OPERATING INCOME (LOSS)		**4**	**(53)**
Net financial income	*7*	224	313
INCOME BEFORE TAX AND NON-RECURRING ITEMS		**228**	**260**
Non-recurring income (expense)		-	2
Income tax	*8.2*	30	56
NET INCOME FOR THE YEAR		**258**	**318**

The Notes are an integral part of these financial statements.

5.6.2 Balance sheet

(in millions of euros)	*Notes*	December 31, 2018 Gross	December 31, 2018 Depr., amort. & impairment losses	December 31, 2018 Net	December 31, 2017 Net
ASSETS					
Intangible assets		-	-	-	1
Property, plant and equipment		5	(4)	1	1
Long-term financial assets	*5*	8,016	(482)	7,534	5,223
TOTAL NON-CURRENT ASSETS		**8,021**	**(486)**	**7,535**	**5,225**
Prepaid and recoverable taxes	*8.4/10.1*	92	-	92	121
Other operating receivables	*11.1*	13	-	13	14
Financial receivables	*6.1.4*	1,981	-	1,981	3,344
Marketable securities and cash and cash equivalents	*6.1.5*	1,568	(7)	1,561	1,624
Accrued assets	*4.2.2*	89	-	89	112
TOTAL CURRENT ASSETS		**3,743**	**(7)**	**3,736**	**5,215**
TOTAL ASSETS		**11,764**	**(493)**	**11,271**	**10,440**

(in millions of euros)	*Notes*	December 31, 2018	December 31, 2017
EQUITY AND LIABILITIES			
Share capital	*9.1*	240	240
Additional paid-in capital	*9.2*	1,513	1,487
Legal reserve		25	25
Untaxed reserves		4	4
Other reserves		263	263
Retained earnings		1,489	1,467
Net income for the year		258	318
STOCKHOLDERS' EQUITY	*9*	**3,792**	**3,804**
Provisions for contingencies arising on stock option and free share plans	*3.1.2*	60	111
Provisions for pensions and other employee benefits	*3.3*	1	1
Other provisions for contingencies and charges	*4.2.1*	15	11
PROVISIONS FOR CONTINGENCIES AND CHARGES		**76**	**123**
Long-term portion of long-term debt	*6.1.2*	3,502	3,229
Current portion of long-term debt	*6.1.2*	388	336
Short-term debt	*6.1.3*	3,213	2,641
Operating payables	*10.1*	6	16
Other payables	*8.5/10.1*	294	285
Accrued liabilities		-	6
TOTAL LIABILITIES		**7,403**	**6,513**
TOTAL EQUITY AND LIABILITIES		**11,271**	**10,440**

The Notes are an integral part of these financial statements.

5.6.3 Statement of cash flows

(in millions of euros)	*Notes*	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		258	318
Expenses (income) with no cash effect:			
▪ depreciation and amortization/deferred charges		20	17
▪ net additions to/(reversals from) impairment and provisions		(10)	(73)
▪ other expenses (income) with no cash effect		-	-
GROSS OPERATING CASH FLOWS		**268**	**262**
Changes in working capital:			
▪ operating receivables		31	(33)
▪ operating payables		(10)	4
▪ other receivables and payables		(5)	(58)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**284**	**175**
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*	(2,322)	(495)
Disposals and capital decreases in long-term financial assets	*5.2*	1	-
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(2,340)**	**(495)**
Net cash generated (used) before financing activities		**(2,056)**	**(320)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	*9.4*	(296)	(297)
Change in share capital:			
▪ issuance of shares paid up in cash		26	26
Change in long-term debt:			
▪ issuance of long-term debt	*6.1.2*	623	1,450
▪ repayment of long-term debt	*6.1.2*	(295)	(167)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**58**	**1,012**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,998)**	**692**
Cash and cash equivalents at beginning of year	*6.1.1*	**2,327**	**1,635**
Cash and cash equivalents at end of year	*6.1.1*	**329**	**2,327**

(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).

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 the parent company of the Valeo Group.

It acts as a holding company through financial investments, which give it direct or indirect control over the Group's companies. It is the head of the tax consolidation group in France.

It also implements the Group financing policy and ensures that the subsidiaries' financing requirements are covered. 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 2018 parent company financial statements are consistent with those used to prepare the 2017 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 emerging markets. 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 plans for 2019-2023 are underpinned by the following assumptions:

- world automotive production of 107 million vehicles in 2023, representing average annual growth of 2.4% for 2018-2023. This assumption is consistent with several independent external forecasts available in September 2018, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 55% of global production, Europe and Africa 25%, North America 17% and South America 3%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.25 US dollars, 8.13 Chinese renminbi, 138 Japanese yen, 1,375 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 less than 30% of cumulative original equipment sales over the five-year forecast period and less than 60% of original equipment sales for the final year.

The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in future financial statements may differ from the amounts resulting from these estimates.

2.2 Foreign currency translation

Transactions in foreign currencies are translated using the exchange rates prevailing at the transaction date.

Assets and liabilities denominated in foreign currencies are translated using the year-end exchange rate.

If no foreign currency hedges are in place, the differences resulting from the translation of foreign currency receivables and payables at the year-end exchange rate are recognized within accruals in the balance sheet. Provisions are recognized for unrealized foreign exchange losses at year-end to the extent of the unhedged risk. If foreign currency hedges are in place (see Note 6.3, pages 390 to 392), 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 options

Some Valeo Group employees of its direct and indirect subsidiaries receive equity-settled compensation, consisting of free share or stock 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 fall within this category.

3.1.2 Free share and stock option plans involving the delivery of existing shares

Personnel expenses relating to these free shares and stock options are not recorded at the grant date but at the date the free shares are delivered or the stock options are exercised. However, a provision for contingencies and charges is recognized when it is probable that there will be an outflow of resources, 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:

- the beneficiaries of stock option plans are not deemed likely to exercise their stock options. This situation is assessed at the end of each reporting period and is the case when the market value of the shares is lower than the option's exercise price;
- performance conditions are highly unlikely to be met for performance share plans.

In the case of exercisable plans, a provision is recognized for treasury shares set aside to cover these plans, corresponding to:

- the number of shares to be allotted; multiplied by
- the cost of the shares at the date they are 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 388 to 389) 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 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.

Terms and conditions of stock option plans

The terms and conditions of the shareholder-approved employee stock option plans operated by the Valeo Group at December 31, 2018 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)	Number of options canceled(3)	Outstanding options not yet exercised at Dec. 31, 2018	Expiration date
2011	878,520	*631,110*	14.14	381,900	50,390	2019
2012	1,101,480	*795,690*	13.59	118,650	127,823	2020
TOTAL	**1,980,000**	***1,426,800***		**500,550**	**178,213**	

(1) These stock options are subject to the Group meeting performance conditions.
(2) The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting allotting the options, or 100% of the average purchase price of treasury shares held if this is higher than the Valeo quoted share price.
(3) Corresponding to the number of options canceled since the plan was set up.

Terms and conditions of free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by the Valeo Group at December 31, 2018 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, 2018	Year of vesting(2)
2013	1,421,442	*669,942*	117	2016/2018
2014	970,440	*316,770*	336,381	2017/2019
2015	957,027	*260,805*	394,623	2018/2020
2016	1,267,022	*573,522*	819,794	2019/2021
2017	1,012,043	*466,551*	707,593	2020/2022
2018	1,234,623	*570,123*	1,205,057	2021/2023
TOTAL	**6,862,597**	***2,857,713***	**3,463,565**	

(1) These free shares are subject to the Group meeting performance conditions.
(2) The vesting year varies depending on the country in which the plan's beneficiaries are based.

Provisions for contingencies arising on stock option and free share plans

Movements in provisions for contingencies arising on stock option and free share plans in 2018 and 2017 were as follows:

(in millions of euros)	2018	2017
Provisions at January 1	**111**	**85**
Utilizations	(46)	(27)
Reversals	(23)	(1)
Additions	18	54
Provisions at December 31	**60**	**111**
Of which current portion (less than 1 year)	*21*	*44*

At December 31, 2017 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 388 to 389).

The 46 million euro provision utilization recognized in the income statement in 2018 mainly reflects 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 options under the March 27, 2012 stock option plan. The 23 million euro reversal relates mainly to the fact that the performance shares awarded under the May 26, 2016 and March 22, 2017 plans are considered non-exercisable.

The 27 million euro provision utilization in 2017 mainly reflected a (i) 24 million euro reversal relating to the delivery of shares to non-French beneficiaries under the March 27, 2012 free share plan and the delivery of shares to French beneficiaries under the March 27, 2014 free share plan, and (ii) a 3 million euro reversal relating to the exercise of stock options under the March 27, 2012 stock option plan.

3.2 Personnel expenses

(in millions of euros)	2018	2017
Employee compensation	(2)	(3)
Other personnel expenses	(46)	(26)
Personnel expenses	**(48)**	**(29)**

3.2.1 Employee compensation

This item includes compensation awarded to Valeo's Chairman and Chief Executive Officer (see Note 3.4, page 383).

3.2.2 Other personnel expenses

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. Valeo recognized an expense of 42 million euros corresponding to the net carrying amount of the treasury shares delivered (see Note 3.1.2, pages 381 to 382). 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 is permitted. The provision set aside in respect of these plans was also reversed in an amount of 44 million euros. Other personnel expenses also include an expense of 1 million euros arising on the exercise of stock options, and social security charges amounting to 1 million euros.

In 2017, the Company delivered 101,760 shares to non-French beneficiaries under the 2012 free share plan and 419,049 shares to French beneficiaries under the 2014 free share plan. Valeo recognized an expense of 22 million euros in 2017 corresponding to the net carrying amount of the treasury shares delivered. The provision set aside in respect of these plans was also reversed in an amount of 24 million euros. Other personnel expenses also included an expense of 3 million euros arising on the exercise of stock options and social security charges amounting to 1 million euros.

3.3 Provisions for pensions and other employee benefits

The Company accounts for its pension obligations in accordance with ANC Recommendation no. 2013-02 of November 7, 2013 on the measurement and recognition of pension and employee benefit obligations.

These pension obligations solely correspond to supplementary pension benefits payable to former employees. No additional entitlement to these benefits was therefore recognized in 2017 or 2018.

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 1.90% at December 31, 2018 and 2.00% at December 31, 2017.

The provision amounts to 1 million euros at both December 31, 2018 and December 31, 2017.

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

	2018	2017
Headcount at December 31	1	1
Compensation granted to the corporate officer *(in thousands of euros)*	1,860	2,686
Directors' fees *(in thousands of euros)*[(1)]	919	894

(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)	2018	2017
Trademark license fees	26	28
Other	10	15
Other operating income	**36**	**43**

Trademark license agreements, under which Valeo allows some of its French subsidiaries to benefit from the Group's expertise, values, business model and processes, generated income of 26 million euros in 2018.

The amount recorded under "Other" corresponds to rebillings to subsidiaries.

4.1.2 Expense transfers

Expense transfers represent 2 million euros in 2018 and relate to issuance fees on the June 2018 bond issue for 600 million euros (see Note 6.1.2, page 387). Expense transfers represented 5 million euros in 2017 and related to issue fees on the January 2017 bond issue for 500 million euros and on the September 2017 bond issue for 600 million euros.

4.1.3 Other purchases and external charges

(in millions of euros)	2018	2017
Deferred issuance fees	(2)	(5)
Other	(22)	(29)
Other purchases and external charges	**(24)**	**(34)**

"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 new 2018 bond issue (see Note 6.1.2 and Note 4.1.2, page 387 and 384). These are recognized over the term of this bond.

4.1.4 Depreciation and amortization

Depreciation and amortization expense totaling 11 million euros in 2018 relates to issuance fees for all of the bonds described in the section on long-term debt (see Note 6.1.2, page 387). Depreciation and amortization expense in 2017 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, 2018	December 31, 2017
Provisions for contingencies related to subsidiaries	8	3
Provisions for disputes	7	8
Other provisions for contingencies and charges	**15**	**11**

At December 31, 2018, other provisions for contingencies and charges comprise:

- an 8 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 392);
- a provision for disputes totaling 7 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 2017 are shown in the table below:

(in millions of euros)	2018	2017
Other provisions at January 1	**11**	**30**
Utilizations	-	(1)
Reversals	(1)	(19)
Additions	5	1
Other provisions at December 31	**15**	**11**
Of which current portion (less than 1 year)	-	-

The decrease in other provisions in 2017 was mainly due to the 17 million euro reversal in respect of tax contingencies (see Note 8.2, page 393).

4.2.2 Accrued assets

At December 31, 2018, accrued assets totaling 89 million euros mainly include 55 million euros in deferred bond issuance costs (64 million euros at end-2017) and 30 million euros in stock purchase options in relation to the convertible bond versus 40 million euros at end-2017 (see Note 6.1.2, page 387).

NOTE 5 LONG-TERM FINANCIAL ASSETS

Investments in subsidiaries and affiliates are initially recognized at cost, including transfer duties, fees and commission and legal costs. In accordance with the opinion issued on June 15, 2007 by the CNC's Emerging Issues Task Force, since 2007 the Company has included acquisition costs in the initial recognition cost of the shares concerned.

At the 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 380), as well as stockholders' equity and the Group's strategic interests.

The calculation of value in use based on projected data draws on various methods:

- post-tax cash flow projections covering a period of five years, prepared on the basis of medium-term business plans, are discounted at the post-tax weighted average cost of capital (WACC), while cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted, where applicable, for non-recurring items. The discount rate and perpetuity growth rate assumptions are the same as those used for the Group's CGU and goodwill impairment tests, i.e., 9.5% and 1.5% for 2018, compared with 9% and 1.5% for 2017;
- 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, 2018			December 31, 2017
(in millions of euros)	Gross	Impairment	Net	Net
Investments in subsidiaries and affiliates	2,718	(481)	2,237	2,247
Loans and advances to subsidiaries and affiliates	5,296	-	5,296	2,974
Other investment securities	2	(1)	1	2
Long-term financial assets	**8,016**	**(482)**	**7,534**	**5,223**

Loans and advances to subsidiaries and affiliates comprise medium- and long-term loans granted to Valeo's direct and indirect subsidiaries.

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, 2016	**2,172**	**2,479**	**2**	**4,653**
Acquisitions and increase in the share capital of subsidiaries	-	-	-	-
Disposals and decrease in the share capital of subsidiaries	-	-	-	-
Changes in impairment losses and other movements	75	495	-	570
NET CARRYING AMOUNT AT DECEMBER 31, 2017	**2,247**	**2,974**	**2**	**5,223**
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**

The measurement of the securities portfolio at the end of 2018 led the Company to recognize net additions of 30 million euros to impairment provisions for investments in subsidiaries and affiliates. In 2017, the Company recognized 75 million euros in net reversals from impairment provisions for investments in subsidiaries and affiliates (see Note 7, page 392).

Loans and advances to subsidiaries and affiliates rose by 2,322 million euros in 2018, chiefly reflecting the conversion of current account advances into long-term loans with Valeo Group subsidiaries.

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 2017 can be analyzed as follows:

(in millions of euros)	*Notes*	December 31, 2018	December 31, 2017
Long-term portion of long-term debt	*6.1.2*	3,502	3,229
Current portion of long-term debt	*6.1.2*	388	336
Loans and advances to subsidiaries and affiliates[(1)]	*5*	(5,296)	(2,974)
Long-term debt		**(1,406)**	**591**
Short-term debt	*6.1.3*	3,213	2,641
Financial receivables	*6.1.4*	(1,981)	(3,344)
Marketable securities and cash and cash equivalents	*6.1.5*	(1,561)	(1,624)
Short-term cash position		**(329)**	**(2,327)**
Net debt		**(1,735)**	**(1,736)**

(1) Loans and advances to subsidiaries and affiliates are now included in the calculation of net debt.

6.1.2 Analysis of long-term debt

(in millions of euros)	December 31, 2018 Less than 1 year	1 to 5 years	More than 5 years	Total	December 31, 2017 Total
Bonds	350	1,602	1,900	**3,852**	**3,502**
European Investment Bank (EIB) loans	-	-	-	**-**	**21**
Accrued interest	38	-	-	**38**	**42**
Long-term debt	**388**	**1,602**	**1,900**	**3,890**	**3,565**

As part of the Euro Medium Term Note financing program, on June 18, 2018 Valeo issued 600 million euros' worth of six-year bonds maturing in 2025 and paying a fixed coupon of 1.50%.

The Group also made the following redemptions and repayments during the year:

- in May 2018, the Group redeemed the 274 million euro bond issued in 2011 under the Euro Medium Term Note program;
- in November 2018, the Group repaid the final installment on the European Investment Bank (EIB) loan for 22 million euros.

At December 31, 2018, the main terms and conditions of long-term debt were as shown below:

Type	Outstanding at Dec. 31, 2018 *(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)	350	November 2017	November 2019	350	EUR	3-month Euribor +0.25%	Variable rate floor: 0%
Bond (EMTN program)	600	September 2017	September 2022	600	EUR	0.375%	-
Bond (EMTN program)	500	January 2017	January 2023	500	EUR	0.625%	-
Convertible bond	502	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%	-
Accrued interest	38						
TOTAL LONG-TERM DEBT	**3,890**						

The current portion of long-term debt relates to the 350 million euro bond maturing in November 2019 and to 38 million euros in accrued interest.

5

6.1.3 Analysis of short-term debt

(in millions of euros)	December 31, 2018	December 31, 2017
Current accounts with subsidiaries	2,336	2,048
Negotiable European Commercial Paper	814	542
Bank overdrafts	42	13
Other short-term debt	21	38
Short-term debt	**3,213**	**2,641**

Short-term debt mainly consists of current accounts with subsidiaries and commercial paper.

At December 31, 2018, other short-term debt reflects the fair value of financial instruments hedging foreign currency loans granted to subsidiaries, generating an unrealized loss of 13 million euros (8 million euros at December 31, 2017), and the fair value of foreign currency hedging instruments in respect of the convertible bond, generating an unrealized loss of 8 million euros (unrealized loss of 30 million euros at December 31, 2017).

6.1.4 Analysis of financial receivables

(in millions of euros)	December 31, 2018	December 31, 2017
Current account advances	1,843	3,178
Other financial receivables	138	166
Financial receivables	**1,981**	**3,344**

Financial receivables consist primarily of current account advances to subsidiaries.

At December 31, 2018, other financial receivables relate mainly to the dividend receivable from Valeo International Holding BV for 115 million euros and the fair value of financial instruments hedging foreign currency loans and borrowings granted to subsidiaries for 22 million euros. At December 31, 2017, other financial receivables related mainly to the dividend receivable from Valeo International Holding BV for 130 million euros, the fair value of financial instruments hedging foreign currency loans and borrowings granted to subsidiaries and the EIB loan for 27 million euros.

6.1.5 Cash and cash equivalents

Marketable securities are stated at the lower of cost and market value when the related securities correspond to treasury shares purchased for the purpose of stabilizing the Company's share price or shares that have not been allocated to employee share plans.

(in millions of euros)	December 31, 2018	December 31, 2017
Marketable securities	731	1,064
Cash and cash equivalents	830	560
Marketable securities and cash and cash equivalents	**1,561**	**1,624**

At December 31, 2018, the marketable securities portfolio mainly included money-market funds (*fonds commun de placement* – FCP) for 593 million euros (988 million euros at December 31, 2017).

It also includes 2,965,613 treasury shares with a carrying amount net of impairment of 138 million euros at end-2018. At December 31, 2017, Valeo held 1,729,121 of its own shares with a carrying amount of 76 million euros.

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.

Cash equivalents include term deposits amounting to 300 million euros at December 31, 2018 and 90 million euros at end-2017.

As in 2017, 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, 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 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 and 2017 share buyback programs are as follows:

	2018 program	2017 program
Date agreement took effect	March 8, 2018	March 7, 2017
Expiration date	May 29, 2018	May 12, 2017
Maximum nominal amount of buyback *(in millions of euros)*	100	75
Treasury shares delivered *(in number of shares)*	1,837,417	1,228,009
Average share price *(in euros per share)*	54.42	61.07

The liquidity agreement was signed with an investment services provider on April 22, 2004 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI). At December 31, 2018, 591,500 shares had been allocated to this liquidity agreement compared with 75,000 shares at December 31, 2017. The net value of these shares was 15 million euros at December 31, 2018.

In 2018, the Company purchased 2,086,868 and sold 1,570,368 of its own shares under this agreement.

For shares allocated to stock 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 281 to 282). At December 31, 2018 and 2017, these shares allocated to stock option and free share plans consist only of shares intended for employees, which are partially allocated to specific plans. At December 31, 2018, there were 44,138 unallocated shares with a net value of 1 million euros.

In 2018, the Company delivered 1,117,425 shares under stock option and free share plans. In 2017, 763,549 shares were delivered.

6.2 Liquidity reserve and covenants

6.2.1 Credit lines

At December 31, 2018, Valeo had confirmed bank credit lines with an average maturity of four years, representing an aggregate amount of 1.1 billion euros. None of these credit lines were drawn down during 2018. 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, 2018, the Group had drawn an amount of 3.3 billion euros under its Euro Medium Term Note financing program capped at 5 billion euros (3 billion euros drawn at December 31, 2017).

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 1.4 billion euros. At December 31, 2018, a total of 814 million euros (542 million euros at December 31, 2017) had been drawn on this program.

6.2.4 Debt rating

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status and were as follows at December 31, 2018:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	October 31, 2018	BBB	Stable	A-2
Moody's	November 2, 2018	Baa2	Negative	P-2

6.2.5 Covenants

Certain financing contracts include early repayment clauses in the event of failure to comply with specified financial ratios. The table below sets out the main covenants:

Financing agreements	Ratios	Thresholds	Ratio at December 31, 2018(1)
Credit lines	Consolidated net debt(2)/consolidated EBITDA(3)	<3.25	0.9

(1) Calculated over 12 months.

(2) Group consolidated 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 one of these items, as presented in the Group's consolidated financial statements prepared under IFRS.

(3) Group consolidated EBITDA corresponds to consolidated operating margin before depreciation, amortization and impairment losses (included in the operating margin), the impact of government subsidies and grants on non-current assets, and net dividends received from equity-accounted companies, as presented in the Group's consolidated financial statements prepared under IFRS.

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 – on the choice of the issuer – buyback.

The Group's bank credit lines and long-term debt include cross-default clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

At the date the consolidated financial statements were authorized for issue, the Group expects to comply with all debt covenants over the next few months.

6.3 Foreign currency, commodity and interest rate risk hedging

Valeo enters into derivatives with banks as part of its pooled management of 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.). Premiums/discounts arising on derivatives are recognized over the term of the hedge within financial income.

Financial income and expenses relating to interest rate hedges are recognized on a symmetrical basis with the income and expense on the hedged item.

6.3.1 Currency risk hedging

Operational currency risk

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 balance sheet exposures (non-financial foreign currency receivables and payables). Subsidiaries principally hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties.

The Valeo Group also hedges its operating margin against foreign currency risk with the parent company, on a regular basis over the budget period and on an exceptional basis over a contractual period (beyond one year) for specific major contracts.

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, 2018, the Company's only external foreign currency debt is 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, 2018, Valeo's net position in the main foreign currencies was as follows:

	December 31, 2018						December 31, 2017
(in millions of euros)	USD	CZK	GBP	JPY	Other	Total	Total
Forward sales with subsidiaries	(447)	(354)	(2)	(28)	(428)	**(1,259)**	**(1,082)**
Forward purchases with subsidiaries	539	-	21	31	5	**596**	**583**
Net position with subsidiaries	**92**	**(354)**	**19**	**3**	**(423)**	**(663)**	**(499)**
Forward sales with external counterparties	(491)	(34)	(127)	(46)	(6)	**(704)**	**(738)**
Forward purchases with external counterparties	1,376	107	9	97	462	**2,051**	**1,857**
Net position with external counterparties	**885**	**73**	**(118)**	**51**	**456**	**1,347**	**1,119**
Total net position	**977**	**(281)**	**(99)**	**54**	**33**	**684**	**620**

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 7 million euros at December 31, 2018 (unrealized loss of 1 million euros at December 31, 2017).

6.3.2 Commodity risk hedging

The Valeo Group manages its subsidiaries' 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 respectively cover approximately three-quarters and one-half of the Group's exposure.

Residual exposure to non-ferrous metals listed on the London Metal xchange, 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 the price of these commodities on the Group's earnings and to give Valeo the time it needs to negotiate the corresponding price rises with its customers. Subsidiaries' exposure to these risks is hedged with Valeo SA.

The Company favors hedging instruments which do not involve physical delivery of the underlying commodity (primarily swaps on the average monthly price).

Steel, most plastics, and rare-earth metals cannot be hedged on the financial market as they are not listed on an organized exchange.

Volumes of non-ferrous metals hedged at December 31, 2018 and December 31, 2017 break down as follows:

(in tons)	December 31, 2018	December 31, 2017
Aluminum	37,800	39,519
Secondary aluminum	8,773	13,599
Copper	8,542	8,994
Zinc	839	657
Polypropylene	4,189	-
TOTAL	**60,143**	**62,769**

Commodities hedged at December 31, 2018 and 2017 were as follows:

	December 31, 2018			December 31, 2017
(in millions of euros)	With subsidiaries	With external counterparties	Total	Total
Forward sales	(129)	-	**(129)**	**(121)**
Forward purchases	-	129	**129**	**121**
Total net position	**(129)**	**129**	**-**	**-**

The market value of instruments hedging metals prices included in the net position with external counterparties represented an unrealized loss of 7 million euros at December 31, 2018 (unrealized gain of 6 million euros at December 31, 2017).

6.3.3 Interest rate risk hedging

Valeo uses interest rate swaps to convert interest rates on its debt into a variable or a fixed rate, either at the origination of the loan or during its term. Valeo no longer had any interest rate hedges at December 31, 2017 or 2018.

At December 31, 2018, 91% of long-term debt was at fixed rates (90% at December 31, 2017).

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	852	2,749	1,602	-	1,900	-	4,354	2,749	**7,103**
Financial receivables	(60)	(2,893)	(123)	(168)	(4,032)	-	(4,215)	(3,061)	**(7,276)**
Cash and cash equivalents	-	(1,561)	-	-	-	-	-	(1,561)	**(1,561)**
Net position before hedging	**792**	**(1,705)**	**1,479**	**-**	**(2,132)**	**-**	**139**	**(1,705)**	**(1,566)**
Derivative instruments	-	-	-	-	-	-	-	-	-
Net position after hedging	**792**	**(1,705)**	**1,479**	**-**	**(2,132)**	**-**	**139**	**(1,705)**	**(1,566)**

NOTE 7 NET FINANCIAL INCOME

(in millions of euros)	2018	2017
Dividends	143	153
Interest income	194	153
Interest expense	(59)	(53)
Net (additions to)/reversals from provisions for impairment and for investments in subsidiaries and affiliates	(41)	74
Other financial income and expenses	(13)	(14)
Net financial income	**224**	**313**

Dividend income amounted to 143 million euros in 2018, down slightly on 2017. This amount includes a 115 million euro dividend from Valeo International Holding BV, along with an 18 million euro dividend from Turkish subsidiary Valeo Otomotiv Sanayi ve Ticaret AS and a 7 million euro dividend from South Korean subsidiary Valeo Pyeong Hwa International. Dividend income in 2017 chiefly related to the 130 million euro dividend from Valeo International Holding BV and the 15 million euro dividend from Turkish subsidiary Valeo Otomotiv Sanayi ve Ticaret AS.

Interest income chiefly relates to financing granted to Group subsidiaries.

At December 31, 2018, the measurement of the portfolio of investments in subsidiaries and affiliates resulted in a net 30 million euro accrual to impairment provisions (see Note 5.2, page 386) and a net 5 million euro accrual to provisions for contingencies (see Note 4.2.1, pages 384 to 385). The accrual for the year notably includes a 17 million euro increase in impairment of investments in Valeo Embrayages.

At end-2017, the measurement of the portfolio of investments in subsidiaries and affiliates resulted in a net reversal of 75 million euros from impairment provisions and the recognition of a 1 million euro accrual to provisions for contingencies. Reversals primarily concerned Valeo Systèmes de Contrôle Moteur.

Other financial income and expenses in 2018 include 12 million euros relating to the deferred recognition of bond redemption premiums and stock purchase options regarding the convertible bond (12 million euros in 2017), 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, 2018, the amount of tax savings arising from tax losses transferred to Valeo by its subsidiaries came to 1,241 million euros (1,147 million euros at December 31, 2017).

If a subsidiary returns to profit, it will utilize the previous tax losses and Valeo SA will be required to pay over the corresponding tax savings to the French State. If a subsidiary leaves the tax consolidation group, Valeo SA may be required to pay over the related tax savings to this subsidiary, based on the terms and conditions stipulated in the sale agreement.

8.2 Income tax

(in millions of euros)	**2018**	**2017**
Net tax benefit arising on tax consolidation	30	35
Net (additions to)/reversals from provisions for tax risks	-	17
Accrued tax income	-	4
Income tax	**30**	**56**

Group relief arising on tax consolidation for a net amount of 30 million euros in 2018 chiefly reflects the 31 million euro tax benefit received from subsidiaries. The net tax benefit arising on tax consolidation in 2017 (35 million euros) chiefly included the tax benefit received from subsidiaries in an amount of 33 million euros.

In the absence of tax consolidation, the Company would have been liable for an income tax expense of 42 million euros in the year ended December 31, 2018 (29 million euros in the year ended December 31, 2017).

On October 6, 2017, France's Constitutional Council ruled that the provisions of Article 235 *ter* ZCA of the French Tax Code (*Code général des impôts*) violated the constitution insofar as they introduced a difference in the tax treatment of parent companies depending on whether or not the dividends redistributed by parent companies were paid by subsidiaries based in the European Union, even though parent companies each faced the same situation regarding the surtax. Since this ruling was applicable to all dividends on which the tax was paid, the tax authorities were required to refund all amounts paid in respect of this surtax. Accordingly, the full amount of provisions set aside in respect of this additional tax (17 million euros) was reversed in 2017 and accrued income of 4 million euros was booked in respect of the additional tax paid in 2013. This income was collected at the beginning of 2018.

8.3 Items that could result in a decrease or increase in Valeo's future tax liability

	December 31, 2018		**December 31, 2017**	
(in millions of euros)	**Tax basis**	**Corresponding tax**	**Tax basis**	**Corresponding tax**
Timing differences between the recognition of income and expenses for accounting and tax purposes	58	15	58	17
Contribution premium	(134)	(35)	(134)	(39)
Tax loss carryforwards	1,242	321	1,269	367
TOTAL	**1,166**	**301**	**1,193**	**345**

8.4 Prepaid and recoverable taxes

At December 31, 2018, prepaid and recoverable taxes totaling 92 million euros included the research tax credit for 2018 amounting to 58 million euros and the tax benefit of 31 million euros arising on the 2018 tax consolidation (see Note 8.2, page 393).

The research tax credit receivable in respect of 2017 was sold by Valeo to several banks in 2018 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.

At December 31, 2017, prepaid and recoverable taxes totaling 121 million euros include the research tax credit for 2017 amounting to 55 million euros and the tax benefit of 33 million euros arising on the 2017 tax consolidation.

8.5 Other payables

At December 31, 2018, other payables represent 294 million euros and include 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.

At December 31, 2017, other payables totaling 285 million euros related mainly to amounts owed to subsidiaries that are members of the tax consolidation group in respect of the research tax credit and the CICE tax credit, representing 222 million euros and 61 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 2016 and 2017, a new plan was offered to employees in the first half of 2018. This plan allows employees to subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set at 43.58 euros on May 2, 2018 by the Group's Chairman and Chief Executive Officer, acting on the authority of the Board of Directors. The 2018 subscription price is the average of the Group's opening share price on the 20 trading days preceding the date of the decision, less a 20% discount. The shares are locked up for five years (except in the case of an early release event provided for by the applicable local law). Employees bear the risk of fluctuations in the share price relative to the subscription price. By subscribing to shares within the scope of the Group Employee Savings Plan (*Plan d'Epargne de Groupe* – PEG), employees can benefit from a contribution from their employer. Outside France, employees are awarded free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan. Free shares awarded are existing Valeo shares repurchased on the market. In all, 599,979 shares were subscribed at a price of 43.58 euros each, representing a 26 million euro capital increase on June 28, 2018.

At December 31, 2018, Valeo's share capital totaled 240 million euros, divided into 240,253,100 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 (5,476,768 shares at December 31, 2018). Share capital stood at 240 million euros at December 31, 2017.

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 2018 generated additional paid-in capital of 26 million euros in the year (see Note 9.1, page 394). Additional paid-in capital was 25 million euros for the employee share subscription offer launched in 2017.

9.3 Reserves

Reserves available for distribution amounted to 1,872 million euros at December 31, 2018 (1,972 million euros at December 31, 2017) before appropriation of income for the year and after deduction of the net carrying amount of treasury shares held at December 31, 2018 (138 million euros versus 76 million euros at December 31, 2017).

9.4 Movements

(in millions of euros)	Share capital	Additional paid-in capital	Reserves and other	Stockholders' equity
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2016	**239**	**1,462**	**2,056**	**3,757**
Dividends paid	-	-	(297)	(297)
Other movements	-	-	-	-
Capital increase	1	25	-	26
Net income for the year	-	-	318	318
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2017	**240**	**1,487**	**2,077**	**3,804**
Dividends paid	-	-	(296)	(296)
Other movements	-	-	-	-
Capital increase	-	26	-	26
Net income for the year	-	-	258	258
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2018	**240**	**1,513**	**2,039**	**3,792**

NOTE 10 OTHER INFORMATION

10.1 Maturity of receivables and payables

(in millions of euros)	December 31, 2018	Of which non-current portion (more than 1 year)	Of which current portion (less than 1 year)
Prepaid and recoverable taxes	92	58	34
Other operating receivables	13	-	13
Operating receivables	**105**	**58**	**47**

(in millions of euros)	December 31, 2018	Of which non-current portion (more than 1 year)	Of which current portion (less than 1 year)
Trade payables	3	-	3
Accrued taxes and payroll costs	3	-	3
Operating payables	**6**	**-**	**6**
Other payables	**294**	**227**	**67**

Accrued expenses included in trade payables amounted to 3 million euros at December 31, 2018.

An analysis of long-term debt is provided in Note 6.1.2, page 387.

5

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 2017:

(in millions of euros)	2018	2017
Income statement		
Net financial income	314	290
Balance sheet at December 31		
Loans and advances to subsidiaries and affiliates	5,296	2,974
Financial receivables	1,170	3,307
Prepaid and recoverable taxes	43	15
Debt	2,336	2,048
Other payables	292	283

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 2018.

10.3 Off-balance sheet commitments

10.3.1 Commitments given

	December 31, 2018			December 31, 2017		
(in millions of euros)	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Commitments given	13	141	**154**	-	138	**138**

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, 2018 and 123 million euros at December 31, 2017). 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 three-year vendor warranty commitment for 13 million euros granted in connection with the sale of the Engine Control business to Continental on February 29, 2016;
- 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

	December 31, 2018			December 31, 2017		
(in millions of euros)	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Commitments received	-	15	**15**	-	15	**15**

At December 31, 2018 and 2017, commitments received include reciprocal commitments with Siemens and PHC Co Ltd. (see Note 10.3.1, page 396).

NOTE 11 LIST OF SUBSIDIARIES AND AFFILIATES

At December 31, 2018

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	749	(164)	100	838	838	625	-	-	43	-
Valeo Systèmes de Contrôle Moteur Cergy Saint Christophe – France	55	107	100	502	164	75	-	384	(31)	-
Valeo International Holding BV Amsterdam – Netherlands	129	1,013	100	436	436	-	-	-	148	115
Valeo Vision Bobigny – France	10	270	90	377	377	-	-	580	42	-
Valeo Systèmes Thermiques Le Mesnil Saint-Denis – France	37	422	47	216	216	143	-	467	205	-
Valeo Embrayages Amiens – France	39	(7)	100	140	31	90	-	276	(11)	-
Valeo Matériaux de Friction Limoges – France	60	34	100	60	60	-	-	62	-	-
Valeo Otomotiv Sanayi ve Ticaret AS[3] Bursa – Turkey	20	72	100	40	40	16	-	336	39	18
Valeo Service Saint Denis – France	13	18	100	38	29	-	-	162	-	-
Valeo Auto-Electric GmbH Bietigheim – Germany	-	196	5	27	10	-	-	4	-	-
Valeo Pyeong Hwa Co. Ltd[3] Daegu – South Korea	12	199	50	13	13	-	-	578	20	2
Amalgamations Valeo Clutch Private Ltd[2][3] Chennai – India	11	5	50	9	9	-	-	65	2	1
Équipement 11 Paris – France	-	(5)	100	8	-	8	-	-	(7)	-
Valeo Service Benelux BV Helmond – Netherlands	4	3	100	8	8	-	-	37	1	-
Valeo Pyeong Hwa International Co. Ltd[3] Daegu – South Korea	2	77	50	1	1	-	-	140	2	7
Other French subsidiaries and affiliates (aggregate)	-	-	-	-	-	-	-	-	-	-
Other foreign subsidiaries and affiliates (aggregate)	-	-	-	5	5	-	-	-	-	-
TOTAL				**2,718**	**2,237**					**143**

(1) Including net income for 2018 before appropriation.
(2) Last financial year ended March 31, 2018.
(3) Translated at the year-end exchange rate and at average exchange rates for 2018.

NOTE 12 SUBSEQUENT EVENTS

To Valeo's knowledge, no events have occurred since December 31, 2018 that could have a material impact on the Company's business, financial position or assets and liabilities.

5.6.5 Statutory Auditors' report on the financial statements

For the year ended December 31, 2018

This is a translation into English of the Statutory Auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users. This Statutory Auditors' report includes information required by European regulation and French law, such as information about the appointment of the Statutory Auditors or verification of the management report and other documents provided to shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders of Valeo,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying financial statements of Valeo for the year ended December 31, 2018.

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 at December 31, 2018 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 these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from January 1, 2018 to the date of our report and, in particular, we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) no. 537/2014 or in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Furthermore, the non-audit services that we provided to your Company and the entities it controls during the financial year that are not disclosed in the management report or in the notes to the financial statements are as follows:

- Non-audit services provided by Ernst & Young et Autres to Valeo and entities it controls amount to 0.1 million euros and concern (i) comfort letters in connection with bond issues, and (ii) statements issued to validate information presented in expenditure reports relating to subsidized projects and in connection with sales of receivables.
- Non-audit services provided by Mazars to Valeo and entities it controls amount to 0.1 million euros and concern (i) comfort letters in connection with bond issues, and (ii) statements issued to validate information presented in expenditure reports relating to subsidized projects and in connection with sales of receivables.

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matter relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

Measurement of investments in subsidiaries and affiliates and related receivables

Risk identified	Our response
At December 31, 2018, the net carrying amount of investments in subsidiaries and affiliates and related receivables amounted to 7,533 million euros, i.e., 67% of total assets. Investments in subsidiaries and affiliates are initially recognized at cost. At the end of the reporting period, the Company measures investments in subsidiaries and affiliates at their value in use. If value in use falls below the carrying amount, an impairment provision is recorded corresponding to the difference between these two amounts. Provisions for contingencies relating to subsidiaries are intended to cover the negative net equity of certain subsidiaries. At December 31, 2018, these provisions represented 8 million euros. Value in use is determined based on a multi-criteria analysis adapted to the investments concerned. The criteria correspond to projected data from subsidiaries' medium-term business plans, as well as stockholders' equity, and the Group's strategic interests. Loans and advances to subsidiaries and affiliates comprise medium- and long-term loans granted to Valeo's direct and indirect subsidiaries. These long-term financial assets are described in Note 5 to the financial statements. In view of the material nature 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, we conducted the following procedures, based on the available documentation, that mainly consisted in analyzing the valuation approach and the data used: ▪ 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; ▪ through the expertise of our valuation specialists, we analyzed the main valuation inputs (discount rate and long-term growth rate and perpetuity growth rate), which we compared with the values provided by the main financial analysts for the Group and other companies in the same industry; ▪ we verified the correct calculation of the values in use assessed by the entity; ▪ we assessed the recoverability of the loans and advances to subsidiaries and affiliates considering the analysis performed on the investments; ▪ we analyzed the calculation of provisions for contingencies booked on the subsidiaries that have negative equity in the event that Valeo must bear the losses.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

Information given in the management report and in the other documents provided to shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to the shareholders with respect to the financial position and the financial statements.

We attest to the fair presentation and the consistency with the financial statements of the information relating to payment terms mentioned in Article D.441-4 of the French Commercial Code.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by Articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L.225-37-3 of the French Commercial Code (*Code de commerce*) relating to compensation and benefits received by the corporate officers 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 controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

With respect to the information given in accordance with the requirements of Article L.225-37-5 of the French Commercial Code relating to items that your company considered likely to have an impact in the event of a takeover or exchange offer, we have verified its consistency with the underlying documents that were disclosed to us. Based on our work, we have matters to report with regard to this information.

Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and 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 Shareholders' Meeting held on June 3, 2010.

At December 31, 2018, we were in the ninth consecutive year of our engagements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements giving a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for 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 expects 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, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to 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 of 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 taken by users on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their 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;
- obtain an understanding of the internal control procedures 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;
- assess 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 the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes, in particular, a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were the most significant for the audit of the financial statements and which constitute 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, as defined 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 any risks to our independence and the related safeguard measures with the Audit Committee.

Courbevoie and Paris-La Défense, March 22, 2019

The Statutory Auditors

Mazars		**Ernst & Young et Autres**	
Thierry Colin	Jean-Marc Deslandes	Jean-François Ginies	Philippe Berteaux

5.7 Statutory Auditors' special report on related party agreements and commitments

Annual General Meeting for the approval of the financial statements for the year ended December 31, 2018

This is a free 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 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 and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of those agreements and commitments 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 of their relevance or substance or identifying any undisclosed agreements or commitments. 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 and commitments 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 and commitments already approved by the Annual General 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 and commitments submitted for approval by the Shareholders' Meeting

Agreements and commitments authorized during the year

We were not informed of any agreement or commitment entered into during the year to be submitted for approval at the Shareholders' meeting pursuant to the provisions of Article L.225-38 of the French Commercial Code.

Agreements and authorized and entered into since the year-end

We were informed of the following agreements and commitments, authorized and entered into since the year-end, that had previously been approved by the Board of Directors.

Commitments with regard to Jacques Aschenbroich, Chairman and Chief Executive Officer

Non-competition compensation

Jacques Aschenbroich has benefited from a non-competition clause since February 24, 2010. The clause complied with the November 2016 version of the AFEP-MEDEF Code but not the June 2018 version, which provides that non-competition compensation cannot be paid once the officer has claimed his or her pension rights and, in any event, when he or she reaches the age of 65.

Given the new recommendations of the AFEP-MEDEF Code on non-competition agreements, Jacques Aschenbroich announced his decision to waive his right to non-competition compensation. The Board of Directors formally noted this decision at its meeting on February 21, 2019 and authorized the amendment of said commitment on March 21, 2019.

Interest for the Company in having such a commitment

The Board authorized the amendment in order to comply the AFEP-MEDEF Code.

Pension plan

Given that the duties of Jacques Aschenbroich expire at the close of this Shareholders' Meeting, the Board of Directors decided at its meeting of March 21, 2019 to authorize the renewal of the defined benefit pension plan pursuant to Article L.317-11 of the French Social Security Code (*Code la sécurité sociale*) of which Jacques Aschenbroich is a member and to submit the decision for approval at the Shareholders' Meeting. The renewal is subject to Jacques Aschenbroich's reappointment as Chairman and Chief Executive Officer at the first Board meeting following the Shareholders' Meeting.

The commitment given in favor of Jacques Aschenbroich applies to the Group's senior executives. The pension plan, which came into effect on January 1, 2010, was closed to new members as of July 1, 2017. The main features are as follows:

- the supplementary pension is capped because of the very nature of the plan at 1% of the reference salary per year of service, up to a maximum limit of 20%;
- the supplementary pension is capped with regard to the base used to calculate the entitlements: the supplementary pension, all plans combined, is capped at 55% of the reference salary;
- the reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation, received for working full time within the Group.
- since February 18, 2016, the vesting of conditional rights to this pension has been subject to a performance condition. The performance condition is deemed to have been achieved if the variable portion of the compensation of the executive corporate officer paid in year Y+1 for year Y corresponds to 100% of the fixed compensation payable for year Y. In the event that the variable portion amounted to less than 100% of the fixed portion, rights would accrue on a pro rata basis.

Interest for the Company in having such a commitment.

The Board wished to reauthorize it ahead of the executive corporate officer's reappointment following the Shareholders' Meeting to be held on May 23, 2019.

Agreements and commitments already authorized by the Shareholders' Meeting

Agreements and commitments authorized in previous years which were not implemented during the year

We have been advised that the following agreements and commitments, which were approved by the Shareholders' Meeting in previous years, were not implemented during the year.

Commitments with regard to Jacques Aschenbroich, Chairman and Chief Executive Officer

Non-competition compensation

The commitment granting Jacques Aschenbroich non-competition compensation if he were to leave your Company continued in 2018. This commitment authorized by the Board of Directors on February 24, 2010 and presented in the Statutory Auditors' special report on related party agreements and commitments to the Shareholders' Meeting on June 3, 2010, was amended by the Board of Directors on February 24, 2015 and presented in the Statutory Auditors' special report on related party agreements and commitments to the Shareholders' Meeting on May 26, 2015.

The main features are as follows:

- the amount of the non-competition compensation is calculated on the basis of the average compensation (fixed and variable) paid during the three financial years preceding the year in which the termination occurs;
- a prior decision of the Board of Directors is required to decide on whether or not the non-competition agreement will be upheld at the time of Jacques Aschenbroich's departure, in particular when he leaves your Company to claim or after having claimed his pension rights, on the understanding that your Company reserves the right not to implement the agreement and release the beneficiary from his obligation, in which case the compensation will not be due.

If this clause is adopted, Jacques Aschenbroich will receive non-competition compensation equal to 12 months of compensation. Jacques Aschenbroich would thereby be prohibited from working in any way for an automotive supplier or, more generally, for any of Valeo's competitors. The clause would apply for 12 months after the end of his term of office as Chief Executive Officer of Valeo regardless of the reason for termination.

The compensation will be paid in equal monthly installments over the entire period to which the non-competition clause applies.

This commitment had no impact in 2018.

Life insurance

The commitment authorized by the Board of Directors on April 9, 2009 granting Jacques Aschenbroich life insurance covering death, disability or any consequences of any accidents during business travel continued in 2018. In 2018, your Company paid a premium of 2,300 euros including VAT covering the period from April 30, 2018 to April 29, 2019.

Pension plan

At its meeting on October 20, 2009, the Board of Directors authorized the commitment to register Jacques Aschenbroich with the supplementary defined benefit pension plan for the Group's senior executives from January 1, 2010 (and closed to new members as of July 1, 2017) by according him five years' seniority. The main features of this plan are as follows:

- the supplementary pension is capped because of the very nature of the plan at 1% of the reference salary per year of service, up to a limit of 20%;
- the supplementary pension is capped with regard to the base used to calculate the entitlements: the supplementary pension, all plans combined, is capped at 55% of the reference salary;
- the reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation received for working full time within the Group.

At its meeting of February 18, 2016, and further to its decision to appoint Jacques Aschenbroich as Chairman and Chief Executive Officer, thereby combining the positions of Chairman of the Board of Directors and Chief Executive Officer, the Board of Directors decided to maintain this supplementary defined benefit plan in favor of Jacques Aschenbroich.

On February 18, 2016, and on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors also decided, in accordance with Article L.225-42-1 of the French Commercial Code, that the vesting of conditional supplementary pension benefits under the supplementary defined benefit pension plan will be subject to performance conditions. This will be deemed to have been achieved if the variable portion of the compensation of the Chairman and Chief Executive Officer paid in year Y+1 for year Y corresponds to 100% of the fixed compensation payable for year Y. In the event that the variable portion amounted to less than 100% of the fixed portion, rights would accrue on a prorata basis. Shareholders are reminded that the variable compensation that may be granted to Jacques Aschenbroich in respect of his position as Chairman and Chief Executive Officer for the year ending December 31, 2018 is calculated based on the following criteria:

- Quantitative criteria (excluding tax and regulatory impact):
  - operating margin rate,
  - free cash flow (assuming that the investment budget is respected),
  - net income (assuming a 20% tax rate for the Group),
  - return on capital employed (ROCE) rate,
  - consolidated order intake,

  The maximum amount of variable compensation as a percentage of the annual fixed compensation is 25% for each of the five abovementioned quantitative criteria (excluding the "net income" and "ROCE rate" criteria, which account for 20%), i.e., a maximum of 115%. The specific, predetermined targets underlying the quantifiable criteria have not been publicly disclosed for reasons of confidentiality, as provided for in Article 25.2 of the AFEP-MEDEF Code. However, the degree of achievement of each quantifiable criterion is made public. 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.
- Qualitative criteria:
  - strategic vision,
  - risk management,
  - corporate social responsibility.

  The maximum amount of variable compensation as a percentage of the annual fixed compensation is 20% for strategic vision, 15% for risk management, and 20% for corporate social responsibility, i.e., a maximum of 55%.

Courbevoie and Paris-La Défense, March 22, 2019

The Statutory Auditors

Mazars		Ernst & Young et Autres	
Thierry Colin	Jean-Marc Deslandes	Jean-François Ginies	Philippe Berteaux

5.8 Other financial and accounting information

5.8.1 Five-year financial summary

	2014	2015	2016	2017	2018
1. SHARE CAPITAL AT DECEMBER 31					
Share capital *(in millions of euros)*	238	238	239	240	240
Number of ordinary shares outstanding	238,387,620	238,387,620	239,143,131	239,653,121	240,253,100
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	247	233	85	232	240
Income tax	(23)	17	24	56	30
Employee profit-sharing	-	-	-	-	-
Net income	174	244	262	318	258
Net dividend	172	236	297	296	297
3. PER SHARE DATA *(in euros)*					
Net income after tax, but before depreciation, amortization and impairment losses	0.94	1.05	0.46	1.20	1.14
Net income	0.73	1.02	1.10	1.33	1.09
Net dividend	0.73	1.00	1.25	1.25	1.25
4. PERSONNEL					
Headcount at December 31	2	2	1	1	1
Wages and salaries *(in millions of euros)*	8	19	34	28	47(1)
Social security charges *(in millions of euros)*	1	1	1	1	1

(1) This amount includes an expense of 44 million euros relating to the delivery of free shares to non-French beneficiaries under the 2013 free share plan and to the delivery of free shares to French beneficiaries under the 2015 free share plan (see Note 3.2, page 383).

5.8.2 List of subsidiaries, affiliates and marketable securities

	Number of shares	Net carrying amount *(in millions of euros)*
Société de Participations Valeo	6,136,601	838
Valeo International Holding BV	2,845,120	436
Valeo Vision	620,572	377
Valeo Systèmes Thermiques	1,151,133	216
Valeo Systèmes de Contrôle Moteur	5,500,000	164
Valeo Matériaux de Friction	4,002,550	60
Valeo Otomotiv Sanayi ve Ticaret AS	121,513,059	40
Valeo Embrayages	9,335,883	31
Valeo Service	860,000	29
Valeo Pyeong Hwa Co. Ltd	1,471,838	13
Valeo Auto-Electric GmbH	1,305	10
Amalgamations Valeo Clutch Private Ltd	17,331,502	9
Valeo Service Benelux BV	400	8
Other investments with a net carrying amount below 2 million euros		6
Investments in subsidiaries and affiliates		**2,237**
Other securities		1
Other investment securities		**1**
Amundi Treso Corporate		200
Natixis Deposit		200
Citi Fonds Repo		100
BNP Paribas Deposit		77
SGAM Monétaire Plus		16
Money market funds		**593**
Treasury stock		**138**
TOTAL		**2,969**

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

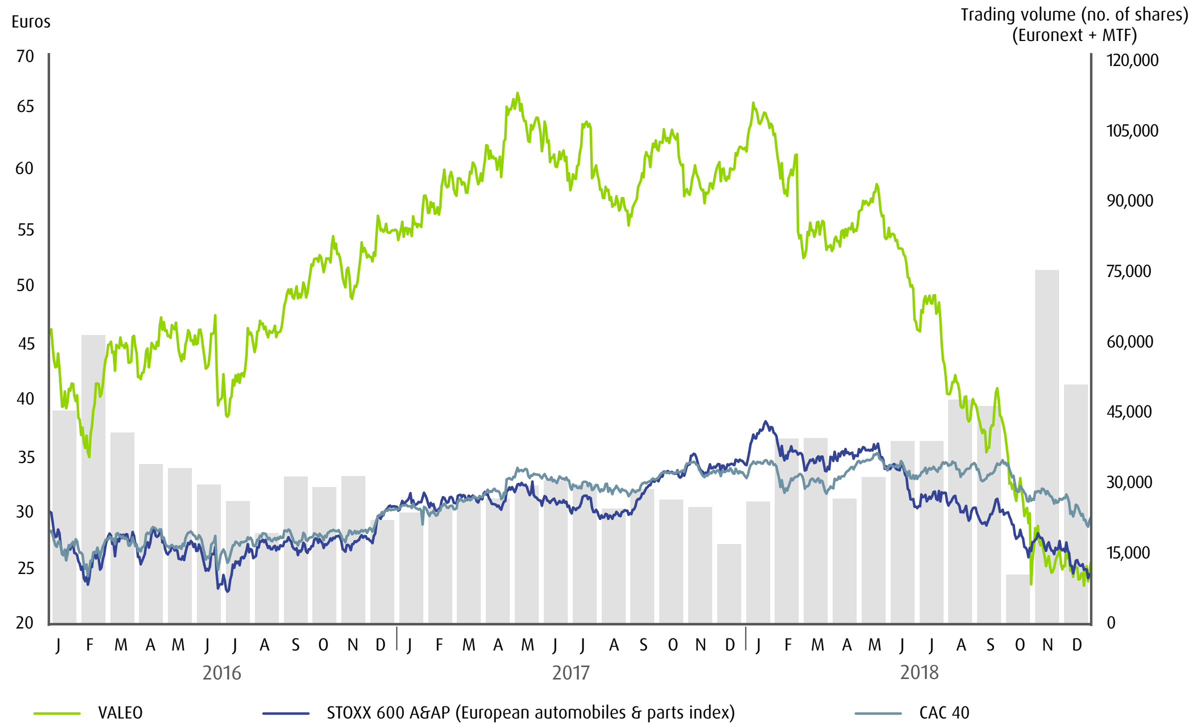
	2016	2017	2018
Market capitalization at year-end *(in billions of euros)*	13.06	14.92	6.13
Number of shares	239,143,131	239,653,121	240,253,100
Highest share price *(in euros)*	56.47	67.80	66.48
Lowest share price *(in euros)*	33.88	54.05	23.20
Average share price *(in euros)*	46.20	60.28	45.72
Share price at year-end *(in euros)*	54.61	62.27	25.51

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 2017	62.55	59.05	60.87	6,037,067	10,803,571	655.18
January 2018	66.48	60.62	64.52	10,678,442	15,206,255	982.75
February 2018	64.20	53.04	58.95	16,463,821	22,814,104	1,323.27
March 2018	55.98	52.00	54.44	16,323,858	23,098,316	1,255.61
April 2018	55.58	52.44	54.56	10,558,680	15,915,013	865.76
May 2018	59.60	53.42	56.99	14,207,094	16,890,910	957.15
June 2018	55.72	46.55	52.25	18,607,574	20,113,761	1,045.19
July 2018	49.60	41.73	47.18	16,782,565	26,288,951	1,215.56
August 2018	42.35	36.54	40.06	20,405,210	27,222,929	1,082.84
September 2018	41.82	35.06	37.88	17,818,302	28,448,605	1,090
October 2018	37.62	22.69	30.99	39,842,339	63,505,769	1,904.27
November 2018	30.18	23.83	26.05	28,623,530	46,617,730	1,228.40
December 2018	27.47	23.20	24.89	16,998,559	33,855,871	855.3

(1) MTF: includes the trading volumes on the ChiX, Turquoise, Bats and Equiduct platforms.
(2) Source: Euronext monthly statistics.

6.1.2 Share price and monthly trading volumes



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) and bond investors, 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 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 and the Half-Year Report;
- financial presentations and press releases ("Financial presentations & releases" section);
- information about Valeo's capital structure ("Stock market" section);
- information about Valeo's debt ("Bond investors" section);
- information for individual shareholders ("Individual shareholders" section);
- information about the Shareholders' Meeting ("Shareholders' Meeting" section).

6.2.1 Institutional investors

The Group's Investor Relations Department closely and consistently interacts with the financial community. 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 1,600 institutional investors and analysts at these events during 2018, 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 2018, the Group had the opportunity at several meetings and conferences to discuss its strategy in areas including corporate governance and social and environmental responsibility. Information on these subjects is available on the Group's website under "SRI" in the "Sustainability" section.

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 was renewed in 2017 and 2018 in 22 countries, with approximately 94,000 employees eligible to subscribe to shares. As in 2016 and 2017, numerous information sessions about the offering and the performance of the Valeo share in 2018 were held at each Group site.

Employee shareholders have access to the same communication tools as individual shareholders, as well as an information line managed by the banks in charge of the share ownership plans. They can call this telephone platform all year round with any questions they may have. For more information, see section 6.4.5 of this chapter, "Employee share ownership", page 418, and Chapter 4, section 4.4.2 "Non-financial employee-related risks", page 228.

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 2019 sales: April 25, 2019
- First-half 2019 results: July 24, 2019
- Third-quarter 2019 sales: October 24, 2019
- Full-year 2019 results: second half of February 2020

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)*
2015	1.00[(1)]	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	236
2016	1.25	Amount eligible for the 40% tax allowance provided for in Article 158,3-2° of the French Tax Code 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 for individuals who are tax residents in France	296

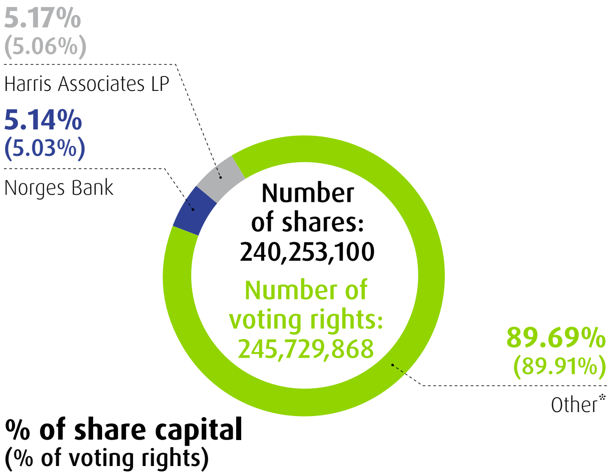
(1) *Amount adjusted to reflect the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date.*

At the Shareholders' Meeting to be held on May 23, 2019 to approve the financial statements for the year ended December 31, 2018, Valeo's Board of Directors will recommend the payment of a dividend of 1.25 euros per share eligible for dividends, representing a payout ratio of 54%.

6.4 Share ownership

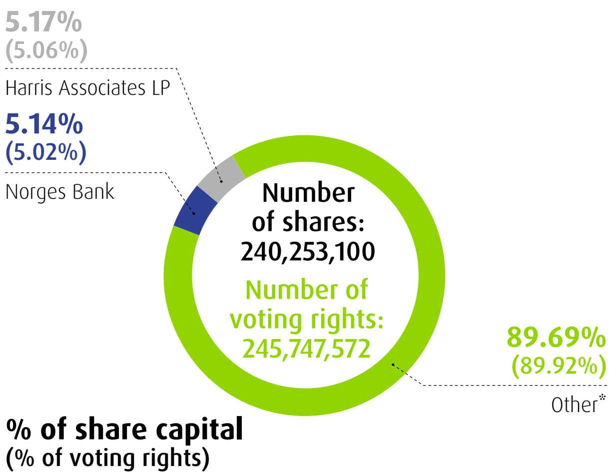
6.4.1 Ownership structure

▶ Ownership structure at December 31, 2018



* *Including 2,965,613 treasury shares (1.23% of the share capital).*

▶ Ownership structure at February 21, 2019



* *Including 2,967,714 treasury shares (1.24% of the share capital).*

6.4.2 Direct or indirect shareholdings in the Company brought to the Company's attention (Articles L.233-7 and L.233-12 of the French Commercial Code)

The following details on share capital and voting rights were prepared:

- based on data brought to the attention of the Company pursuant to Articles L.233-7 and L.233-12 of the French Commercial Code (*Code de commerce*) and, where applicable, on information provided voluntarily by Company shareholders concerning the number of shares and voting rights held by each shareholder;
- based on the Company's share capital and theoretical voting rights at December 31 of each of the three years under consideration (2016, 2017 and 2018), and at February 21, 2019.

At December 31, 2018, the Company's share capital comprised 240,253,100 shares, including 2,965,613 treasury shares, representing 245,729,868 theoretical voting rights.

	December 31, 2016				December 31, 2017			
	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	N/A	N/A	N/A	N/A	12,429,136	5.19	12,429,136	5.07
Lazard Asset Management LLC	12,063,564	5.04	12,063,564	4.92	12,063,564	5.03	12,063,564	4.92
BlackRock Inc.	12,488,899	5.22	12,488,899	5.10	N/A	N/A	N/A	N/A
Employee share ownership(2)	3,597,296	1.51	3,969,662	1.62	3,992,475	1.67	4,370,106	1.78
Treasury shares(3)	1,240,865	0.52	-	-	1,729,121	0.72	-	-
Other(4)	209,752,507	87.71	216,581,426(4)	88.36	209,438,825	87.39	216,177,738(4)	88.23
TOTAL	**239,143,131**	**100**	**245,103,551**	**100**	**239,653,121**	**100**	**245,040,544**	**100**

	December 31, 2018				February 21, 2019			
	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	5.17	12,429,136	5.06	12,429,136	5.17	12,429,136	5.06
Norges Bank	12,337,905	5.14	12,337,905	5.03	12,337,905	5.14	12,337,905	5.02
Employee share ownership(2)	5,004,024	2.08	5,604,243	2.28	5,004,024	2.08	5,604,243	2.28
Treasury shares(3)	2,965,613	1.23	-	-	2,967,714	1.24	-	-
Other	207,516,422	86.38	215,358,584(4)	87.63	207,514,321	86.37	215,376,288	87.64
TOTAL	**240,253,100**	**100**	**245,729,868**	**100**	**240,253,100**	**100**	**245,747,572**	**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 431). 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 418.
(3) For more information on treasury shares, see section 6.5.2 of this chapter, "Treasury shares", page 420.
(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, 2018, other than:

- Harris Associates LP, which, acting on behalf of funds and clients it manages, held 12,429,136 shares in the Company, i.e., 5.17% of the share capital and 5.06% of the voting rights;
- Norges Bank, which held, directly or indirectly, 12,337,905 shares in the Company, i.e., 5.14% of the share capital and 5.03% 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, 2019, other than:

- Harris Associates LP, which, acting on behalf of funds and clients it manages, held 12,429,136 shares in the Company, i.e., 5.17% of the share capital and 5.06% of the voting rights;
- Norges Bank, which held, directly or indirectly, 12,337,905 shares in the Company, i.e., 5.14% of the share capital and 5.02% of the voting rights.

Crossing of disclosure thresholds

Between January 1, 2018 and February 21, 2019, Valeo was notified of the following disclosure threshold crossings.

Shareholder	Date of notification(1)	Effective date(1)	Number of Valeo shares held(1)	Percentage of capital reported(1)	Number of voting rights held(1)
The Capital Group Companies Inc.(2)	01/15/2018	01/11/2018	12,160,254	5.07%	12,160,254
BlackRock Inc.(3)	01/26/2018	01/25/2018	12,075,585	5.04%	12,075,585
BlackRock Inc.(3)	01/31/2018	01/30/2018	11,876,100	4.96%	11,876,100
BlackRock Inc.(3)	02/02/2018	02/01/2018	12,037,351	5.02%	12,037,351
BlackRock Inc.(3)	02/05/2018	02/02/2018	11,892,279	4.96%	11,892,279
BlackRock Inc.(3)	02/07/2018	02/06/2018	12,016,789	5.01%	12,016,789
Lazard Asset Management LLC(3)	02/07/2018	10/22/2017	5,541,259	2.31%	5,541,259
The Capital Group Companies Inc.(2)	02/08/2018	02/07/2018	12,263,278	5.12%	12,263,278
BlackRock Inc.(3)	02/12/2018	02/09/2018	11,940,953	4.98%	11,940,953
BlackRock Inc.(3)	02/19/2018	02/16/2018	12,056,127	5.03%	12,056,127
BlackRock Inc.(3)	02/26/2018	02/23/2018	12,305,891	5.13%	12,305,891
BlackRock Inc.(3)	02/28/2018	02/27/2018	12,233,351	5.10%	12,233,351
BlackRock Inc.(3)	03/01/2018	02/28/2018	12,550,885	5.24%	12,550,885
BlackRock Inc.(3)	03/02/2018	03/01/2018	12,018,761	5.02%	12,018,761
BlackRock Inc.(3)	03/06/2018	03/05/2018	12,316,415	5.14%	12,316,415
BlackRock Inc.(3)	03/09/2018	03/08/2018	11,975,467	4.99%	11,975,467
BlackRock Inc.(3)	03/12/2018	03/09/2018	11,985,155	5.001%	11,985,155
BlackRock Inc.(3)	03/13/2018	03/12/2018	11,927,597	4.98%	11,927,597
BlackRock Inc.(3)	03/14/2018	03/13/2018	12,182,564	5.08%	12,182,564
BlackRock Inc.(3)	03/21/2018	03/20/2018	11,980,567	4.99%	11,980,567
BlackRock Inc.(3)	03/27/2018	03/26/2018	11,986,801	5.002%	11,986,801
The Capital Group Companies Inc.(2)	03/27/2018	03/23/2018	12,160,989	5.07%	12,160,989
BlackRock Inc.(3)	03/28/2018	03/27/2018	11,747,872	4.90%	11,747,872
BlackRock Inc.(3)	04/17/2018	04/16/2018	11,993,557	5.005%	11,993,557
BlackRock Inc.(3)	04/18/2018	04/17/2018	11,782,921	4.92%	11,782,921
BlackRock Inc.(3)	04/19/2018	04/18/2018	12,180,677	5.08%	12,180,677
BlackRock Inc.(3)	04/25/2018	04/24/2018	11,914,517	4.97%	11,914,517
BlackRock Inc.(3)	05/02/2018	04/30/2018	12,043,246	5.03%	12,043,246
BlackRock Inc.(3)	05/03/2018	05/02/2018	11,790,570	4.92%	11,790,570
The Capital Group Companies Inc.(2)	05/24/2018	05/23/2018	11,276,576	4.71%	11,276,576
BlackRock Inc.(3)	05/25/2018	05/24/2018	12,019,436	5.02%	12,019,436
BlackRock Inc.(3)	05/30/2018	05/29/2018	11,919,499	4.97%	11,919,499
Norges Bank	07/23/2018	07/20/2018	12,361,954	5.15%	12,361,954
Norges Bank	07/31/2018	07/30/2018	12,091,112	5.03%	12,091,112
Norges Bank	08/01/2018	07/30/2018	11,930,655	4.97%	11,930,655

(1) Information sourced from disclosure threshold crossing notifications published by the AMF.
(2) Acting as an investment advisor on behalf of the fund.
(3) Acting on behalf of funds and clients it manages.

Percentage of theoretical voting rights reported(1)	Threshold crossed/ Increase or decrease(1)	Reason for threshold crossing(1)
4.96%	5% of share capital/Increase	Purchase of shares on the market
4.93%	5% of share capital/Increase	Purchase of shares outside of and on the market and increase in the number of shares held as collateral
4.85%	5% of share capital/Decrease	Sale of shares on the market and decrease in the number of shares held as collateral
4.91%	5% of share capital/Increase	Purchase of shares outside of the market and increase in the number of shares held as collateral
4.85%	5% of share capital/Decrease	Sale of shares outside of the market and decrease in the number of shares held as collateral(2)
4.91%	5% of share capital/Increase	Purchase of shares on the market and increase in the number of shares held as collateral
2.26%	5% of share capital/Decrease	Sale of shares on the market (notification for regularization purposes)
5.01%	5% of voting rights/Increase	Purchase of shares on the market
4.88%	5% of share capital/Decrease	Sale of shares outside of and on the market and decrease in the number of shares held as collateral
4.92%	5% of share capital/Increase	Purchase of shares on the market and receipt of shares held as collateral
5.03%	5% of voting rights/Increase	Increase in the number of shares held as collateral
4.99%	5% of voting rights/Decrease	Decrease in the number of shares held as collateral
5.13%	5% of voting rights/Increase	Purchase of shares outside of and on the market and receipt of shares held as collateral
4.91%	5% of voting rights/Decrease	Sale of shares outside of and on the market and release of shares held as collateral
5.03%	5% of voting rights/Increase	Receipt of shares held as collateral
4.89%	5% of share capital and voting rights/Decrease	Release of shares held as collateral
4.89%	5% of share capital/Increase	Receipt of shares held as collateral
4.87%	5% of share capital/Decrease	Sale of shares outside of the market and release of shares held as collateral
4.98%	5% of share capital/Increase	Receipt of shares held as collateral
4.89%	5% of share capital/Decrease	Sale of shares outside of and on the market and release of shares held as collateral
4.90%	5% of share capital/Increase	Receipt of shares held as collateral
4.97%	5% of share capital and voting rights/Decrease	Sale of shares on the market
4.80%	5% of share capital/Decrease	Sale of shares outside of and on the market and release of shares held as collateral
4.90%	5% of share capital/Increase	Purchase of shares on the market and receipt of shares held as collateral
4.81%	5% of share capital/Decrease	Sale of shares outside of and on the market and release of shares held as collateral
4.97%	5% of share capital/Increase	Receipt of shares held as collateral
4.87%	5% of share capital/Decrease	Sale of shares outside of and on the market and release of shares held as collateral
4.92%	5% of share capital/Increase	Receipt of shares held as collateral
4.81%	5% of share capital/Decrease	Sale of shares outside of and on the market and release of shares held as collateral
4.61%	5% of share capital/Decrease	Sale of shares on the market
4.91%	5% of share capital/Increase	Receipt of shares held as collateral
4.87%	5% of share capital/Decrease	Release of shares held as collateral
5.04%	5% of share capital and voting rights/Increase	Purchase of shares on the market
4.93%	5% of voting rights/Decrease	Purchase of shares on the market
4.86%	5% of share capital and voting rights/Decrease	Release of shares held as collateral (in rectification of the notification of 07/31/2018)

Share ownership

Shareholder	Date of notification[1]	Effective date[1]	Number of Valeo shares held[1]	Percentage of capital reported[1]	Number of voting rights held[1]
Norges Bank	08/03/2018	08/02/2018	12,157,504	5.06%	12,157,504
Norges Bank	08/24/2018	08/23/2018	11,978,919	4.99%	11,978,919
Norges Bank	08/27/2018	08/24/2018	12,423,451	5.17%	12,423,451
Norges Bank	08/29/2018	08/28/2018	12,004,319	4.99%	12,004,319
Norges Bank	08/30/2018	08/29/2018	12,014,297	5.001%	12,014,297
Norges Bank	08/31/2018	08/30/2018	11,940,297	4.97%	11,940,297
Norges Bank	09/03/2018	08/31/2018	12,074,009	5.03%	12,074,009
Norges Bank	09/17/2018	09/14/2018	12,319,431	5.13%	12,319,431
Norges Bank	09/18/2018	09/17/2018	12,130,214	5.05%	12,130,214
Norges Bank	09/21/2018	09/20/2018	11,732,254	4.88%	11,732,254
Norges Bank	09/26/2018	09/24/2018	12,337,905	5.14%	12,337,905
BlackRock Inc.[3]	10/16/2018	10/15/2018	12,087,873	5.03%	12,087,873
BlackRock Inc.[3]	10/19/2018	10/18/2018	11,786,893	4.91%	11,786,893
BlackRock Inc.[3]	10/30/2018	10/29/2018	12,060,827	5.02%	12,060,827
BlackRock Inc.[3]	10/31/2018	10/30/2018	11,580,293	4.82%	11,580,293

(1) Information sourced from disclosure threshold crossing notifications published by the AMF.
(2) Acting as an investment advisor on behalf of the fund.
(3) Acting on behalf of funds and clients it manages.

Percentage of theoretical voting rights reported[1]	Threshold crossed/ Increase or decrease[1]	Reason for threshold crossing[1]
4.95%	5% of share capital/Increase	Receipt of shares held as collateral
4.88%	5% of share capital/Decrease	Release of shares held as collateral
5.06%	5% of share capital and voting rights/Increase	Receipt of shares held as collateral
4.89%	5% of share capital and voting rights/Decrease	Release of shares held as collateral
4.89%	5% of share capital/Increase	Receipt of shares held as collateral
4.86%	5% of share capital/Decrease	Release of shares held as collateral
4.92%	5% of share capital/Increase	Receipt of shares held as collateral
5.02%	5% of voting rights/Increase	Purchase of shares on the market
4.94%	5% of voting rights/Decrease	Release of shares held as collateral
4.78%	5% of share capital/Decrease	Sale of shares on the market
5.03%	5% of share capital and voting rights/Increase	Purchase of shares on the market
4.92%	5% of share capital/Increase	Purchase of shares on the market
4.80%	5% of share capital/Decrease	Sale of shares outside of and on the market and release of shares held as collateral
4.91%	5% of share capital/Increase	Purchase of shares on the market and receipt of shares held as collateral
4.71%	5% of share capital/Decrease	Release of shares held as collateral

6.4.3 Directors' interests in Valeo's share capital

At December 31, 2018, to the best of the Company's knowledge, Jacques Aschenbroich and other members of the Board of Directors held less than 1% of Valeo's share capital and voting rights in a personal capacity. The number of shares held by each member of the Board of Directors is given in Chapter 3, section 3.2.1, paragraphs "Composition of the Board of Directors at December 31, 2018 and changes during the year" and "Presentation of directors in 2018", pages 106 to 131.

6.4.4 Transactions carried out in the Company's shares by senior management and directors

Transactions carried out in 2018 by senior management and directors and by related persons, that have been reported to the French financial markets authority (*Autorité des marchés financiers* – AMF) and the Company pursuant to the applicable legal and regulatory provisions are presented below:

Name	Position	Type of security	Type of transaction	Date of transaction	Gross unit price	Number of shares	Gross amount
Bruno Bézard	Director	Share	Purchase(1)	January 9, 2018(2)	€65.26	230	€15,009.80
Bruno Bézard	Director	Share	Purchase(1)	February 28, 2018	€54.26	520	€28,215.20
Jacques Aschenbroich	Chairman and Chief Executive Officer	Share	Vesting of performance shares allotted by the Board of Directors on March 26, 2015	March 26, 2018	-	30,696	-
Gilles Michel	Director	Share	Purchase(1)	August 23, 2018	€38.1067	1,500	€57,160.05
Caroline Maury Devine	Director	American depositary receipt (ADR)(3)	Purchase	August 24, 2018	USD22.26	2,000	USD44,520
Caroline Maury Devine	Director	ADR(3)	Purchase	October 29, 2018	USD14.7465	2,000	USD29,493

(1) Purchased in order to comply with the provisions of the Board of Directors' Internal Procedures and the Company's articles of association, which stipulate that directors must hold 1,500 registered shares. Bruno Bézard's purchases supplement those carried out in October 2017 (250 shares purchased at a unit price of 58.59 euros), November 2017 (250 shares purchased at a unit price of 58.75 euros) and December 2017 (250 shares purchased at a unit price of 60.21 euros).

(2) Notification for information purposes.

(3) Two ADRs to one share.

To the best of the Company's knowledge, no other 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 2018 or (ii) between January 1, 2019 and the date of this Registration Document.

6.4.5 Employee share ownership

At December 31, 2018, Valeo employees held 5,004,024 shares under Group employee share ownership plans in France and abroad, directly or indirectly through the Valeorizon mutual fund, representing 2.08% of the Company's share capital. At December 31, 2017, they held 3,992,475 shares, or 1.67% of the share capital.

The Valeorizon mutual fund is an effective way of involving employees in the Group's performance.

As in 2016 and 2017, a share subscription offering reserved for employees was launched in 2018 in 22 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, 2018 to May 16, 2018, employees had subscribed to 599,979 new shares at a unit price of 43.58 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, 2018

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, 2018, in its eleventh resolution, granted the Board of Directors (with power to subdelegate) an authorization to carry out transactions in the shares issued by the Company, for the following purposes:

- the implementation of any stock option plan under which shares may be purchased 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 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.

The program is also intended to allow for the implementation of any market practices that are permitted or that may subsequently be permitted by market authorities and, more generally, to carry out any 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 100 euros per share and the maximum amount allotted to the share buyback program is set at 2,396,531,200 euros. Based on the per-share price of 100 euros, a maximum of 23,965,312 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, 2018 and canceled, as of the same date, the unused portion, as at the Shareholders' Meeting of May 23, 2018, of the authorization granted by the Shareholders' Meeting of May 23, 2017 in its eleventh resolution.

A description of the 2018 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 2018, 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, 2017 (see section 6.5.2 of this chapter, "Treasury shares", page 420).

6.5.2 Treasury shares

At December 31, 2018, the Company held, directly or indirectly, 2,965,613 treasury shares (i.e., 1.23% of the share capital) with a unit value based on the purchase price of 48.92 euros and a par value of 1 euro. At December 31, 2017, Valeo held 1,729,121 treasury shares, i.e., 0.72% of the share capital.

The shares purchased in 2018 were to be used in respect of:

- stock purchase options and free share plans;
- the implementation of a liquidity agreement.

The share purchases were carried out in accordance with authorizations granted by the Shareholders' Meetings of May 23, 2017 and May 23, 2018 to the Board of Directors to buy back Company shares, it being specified that the eleventh resolution of the Shareholders' Meeting of May 23, 2018 terminated and superseded the authorization granted by the Shareholders' Meeting of May 23, 2017.

The eleventh resolution of the Shareholders' Meeting of May 23, 2017 authorized the Board of Directors (with the power to subdelegate) to purchase, or arrange for the purchase of, the Company's shares 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, 2018 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, 2018", page 419.

Shares to be allotted to stock purchase option and free share plans

On March 7, 2018, Valeo announced that, in accordance with the objectives set out in the eleventh resolution of the Shareholders' Meeting of May 23, 2017 and in the description of the related share buyback program, it had requested the assistance of and entered into an agreement with an investment services provider to buy back Valeo shares to cover the implementation of any stock option purchase plans or performance share plans, the allotment of shares to employees and the implementation of any company savings plan. On May 31, 2018 Valeo announced that, under the terms of the agreement entered into with the investment services provider on March 7, 2018, on May 29, 2018 it had bought back 1,837,417 shares at an average price of 54.42 euros.

At December 31, 2018, the number of treasury shares to be allocated to stock purchase option and free share (including performance share) plans stood at 2,374,113 compared with 1,654,121 at December 31, 2017.

Shares for use under a liquidity agreement

At December 31, 2018, under the liquidity agreement signed with an investment services provider on April 22, 2004, Valeo acquired 2,086,868 shares at an average price of 47.18 euros and sold 1,570,368 shares at an average First-In-First-Out price of 52.49 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, 2018, 591,500 shares and 997,522.68 euros in cash had been allocated to the liquidity agreement, compared with 75,000 shares and 22,400,662.13 euros in cash at December 31, 2017.

6.5.3 Share buyback program submitted to the Shareholders' Meeting of May 23, 2019

The Ordinary and Extraordinary Shareholders' Meeting to be held on May 23, 2019 will be asked to renew the authorization granted by the eleventh resolution approved by the Shareholders' Meeting of May 23, 2018, 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 May 23, 2019, 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, 2019, Valeo directly or indirectly held 2,967,714 shares, representing 1.24% of the Company's share capital.

Breakdown of shares owned by Valeo by purpose

At January 31, 2019:

- 2,374,214 shares were allotted to stock purchase option plans;
- 593,500 shares were allotted under the liquidity agreement signed on April 22, 2004 with CA Cheuvreux 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. 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., 24,025,310 shares at January 31, 2019, 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., 2,967,714 shares at January 31, 2019 (1.24% 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 May 23, 2019, a total of 21,057,596 shares (8.76% of the Company's share capital at January 31, 2019) 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 1,922,024,800 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 for approval at the Ordinary and Extraordinary Shareholders' Meeting to be held on May 23, 2019, the new share buyback program may be authorized for an 18-month period as of the meeting, i.e., until November 23, 2020. It will supersede the eleventh resolution approved by the Shareholders' Meeting of May 23, 2018.

6.5.4 Cancelation of treasury shares

In the nineteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2017, the Company's shareholders gave the Board of Directors a 26-month authorization to reduce the Company's share capital by canceling treasury shares. Under this authorization, the number of shares canceled in any given 24-month period may not exceed 10% of the Company's share capital.

6.6 Additional disclosures concerning the share capital

6.6.1 Changes in share capital

Changes in the Company's capital during 2018 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, 2018**
2018	Capital increase reserved for employees	0	26	26	599,979	**240,253,100**

The share capital at December 31, 2018 therefore comprised 240,253,100 shares with a par value of 1 euro, fully paid-up and traded on the Euronext Paris regulated market.

At December 31, 2018, there were no plans in place pursuant to which shares could be issued on exercise of stock subscription options awarded to the Group's employees and corporate officers.

To the best of the Company's knowledge, none of these shares have been pledged.

6.6.2 Other securities giving access to the share capital – Stock purchase option and free share plans

Stock purchase option plans in force at December 31, 2018[1]

	2010 plan	2011 plan	2012 plan
Date of Board meeting	**06/24/2010**	**06/08/2011**	**03/27/2012**
Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011
TOTAL NUMBER OF SHARES THAT CAN BE PURCHASED	**3,000,000**	**878,520**	**1,101,480**
■ Total number of options allotted to corporate officers[2]	300,000	90,900	105,900
■ Total number of options allotted to employees	2,700,000	787,620	995,580
■ Number of corporate officer grantees[2]	1	1	1
■ Number of employee grantees	727	275	282
Start of exercise period	06/24/2012	06/08/2014	03/27/2015
Expiration date	06/23/2018	06/07/2019	03/26/2020
Purchase price	€8.02	€14.13	€13.59
PERFORMANCE CRITERIA[3]			
■ Chairman and Chief Executive Officer, Operations Committee	Operating margin rate	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA rate
■ Liaison Committee	Operating margin rate	Operating margin – ROCE rate	Operating margin – ROCE rate
■ Main direct reports of the Liaison Committee members	Operating margin rate	Operating margin – ROCE rate	Operating margin – ROCE rate
■ High-potential managers	Operating margin rate	-	-
■ All employees	-	-	-
PERFORMANCE CRITERIA – RATE OF ACHIEVEMENT			
■ Chairman and Chief Executive Officer, Operations Committee	100%	60%	100%
■ Liaison Committee and main direct reports of the Liaison Committee members	100%	50%	100%
■ High-potential managers	100%	75%	100%
■ All employees	-	-	-
Number of options exercised at Dec. 31, 2018	2,477,789	446,230	855,007
Number of stock options canceled or forfeited at Dec. 31, 2018 (cumulative)	522,211	381,900	118,650
Number of options outstanding at Dec. 31, 2018	**0**	**50,390**	**127,823**
Number of grantees at Dec. 31, 2018	0	30	51

(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 46.

Free share plans in force at December 31, 2018(1)

	2013 plan	2014 plan	2015 plan	2016 plan	2017 plan	2018 plan
Date of Board meeting	**03/27/2013**	**03/27/2014**	**03/26/2015**	**05/26/2016**	**03/22/2017**	**03/22/2018**
Date of Shareholders' Meeting	06/04/2012	06/04/2012	05/21/2014	05/26/2016	05/26/2016	05/26/2016
TOTAL NUMBER OF FREE SHARES ALLOTTED	**1,421,442**	**970,440**	**957,027**	**1,267,022**	**1,012,043**	**1,234,623**
▪ Total number of shares allotted to corporate officers(2)	76,902	31,515	30,696	70,974	51,030	55,026
▪ Total number of shares allotted to employees	1,344,540	938,925	926,331	622,158	538,731	661,237
▪ Total number of options allotted under employee share ownership plans	-	-	-	573,890	422,282	518,360
▪ Number of corporate officer grantees(2)	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)
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 Other countries: 03/22/2022	France: 03/22/2021 Other countries: 03/22/2023
▪ 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: 03/22/2020 Other countries: 03/22/2022	France: 03/22/2021 Other countries: 03/22/2023
▪ 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
▪ 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
▪ Employee share ownership plans		-	-	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

(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) Chairman and Chief Executive Officer.

(3) Excluding shares allotted under employee share ownership plans.

(4) For definitions of operating margin, ROCE and ROA, see Financial Glossary, page 46.

(5) Given the demanding target rate for the performance criteria, the achievement rate 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.

	2013 plan	2014 plan	2015 plan	2016 plan	2017 plan	2018 plan
Date of Board meeting	**03/27/2013**	**03/27/2014**	**03/26/2015**	**05/26/2016**	**03/22/2017**	**03/22/2018**
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	03/22/2023
▪ Liaison Committee and main direct reports of the Liaison Committee members	03/27/2018	03/27/2019	03/27/2020	06/08/2021	03/22/2022	02/22/2023
▪ High-potential managers	-	-	03/27/2020	06/08/2021	03/22/2022	03/22/2023
▪ 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
▪ 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
PERFORMANCE CRITERIA[(4)]						
▪ Chairman and Chief Executive Officer, Operations Committee	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA rate	Operating margin – ROCE – ROA rate
▪ 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
▪ High-potential managers	-	-	-	-	-	
▪ All employees	-	-	-	-	-	
PERFORMANCE CRITERIA – RATE OF ACHIEVEMENT	-					
▪ Chairman and Chief Executive Officer, Operations Committee	100%	100%	100%	0%[(5)]		
▪ Liaison Committee and main direct reports of the Liaison Committee members	100%	100%	100%	0%[(5)]		
▪ High-potential managers	-	-	-			
▪ All employees	-	-	-			
Number of shares vested at Dec. 31, 2017 (cumulative)	1,210,098	419,112	380,553	1,235	707	174
Number of shares canceled or forfeited at Dec. 31, 2017 (cumulative)	211,227	214,947	181,851	95,372	64,272	29,392
Number of shares outstanding at Dec. 31, 2017	**117**	**336,381**	**394,623**	**819,794**	**707,593**	**933,327**
Number of grantees at Dec. 31, 2018	13	25,029	32,681	25,256	30,299	38,376

(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) Chairman and Chief Executive Officer.

(3) Excluding shares allotted under employee share ownership plans.

(4) For definitions of operating margin, ROCE and ROA, see Financial Glossary, page 46.

(5) Given the demanding target rate for the performance criteria, the achievement rate 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.

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 338 to 340.

6.6.4 Other information on the share capital

Change in control

At the date of this Registration Document and to the best of the Company's knowledge, there are no shareholder agreements or other agreements in force that could lead to a change in control of the Company in the future.

Capital under option of any member of the Group

At the date of this Registration Document, no capital of any member of the Group was under option or conditional or unconditional agreement to be put under option.

Disclosure thresholds

In accordance with Article L.233-7 of the French Commercial Code, any individual or legal entity, acting alone or in concert, that holds a number of shares representing over 5%, 10%, 15%, 20%, 25%, 30%, 33.33%, 50%, 66.66%, 90% or 95% of the Company's share capital or voting rights is required to disclose to the Company and the AMF by letter that the related disclosure threshold has been exceeded. Said disclosure must be made no later than the close of the fourth trading day from the date the threshold is exceeded and must also state the total number of shares and voting rights held by the shareholders concerned. The disclosures are subsequently published by the AMF. This disclosure obligation also applies when an interest in the Company's share capital and/or voting rights is reduced to below the 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.

Since the Shareholders' Meeting of March 31, 2003, Article 9 of the Valeo articles of association states that, in addition to the applicable statutory disclosure thresholds, any individual or legal entity, acting alone or in concert, that raises or reduces its interest in the Company's share capital or voting rights, directly or indirectly, to above or below 2% respectively (or any multiple thereof) is required to disclose to the Company by registered letter with return receipt requested that the relevant disclosure threshold has been crossed. Said disclosure must be made within 15 days of the date when the threshold is crossed and the shareholder concerned must state their own identity as well as that of any parties acting in concert with the shareholder. In accordance with the seventh paragraph of Article L.228-1 of the French Commercial Code, this disclosure requirement also applies to shares held through an intermediary.

Non-compliance with the above obligations is subject to the penalties set out in Article L.233-14 of the French Commercial Code, at the request of one or several shareholders together holding at least 2% of the Company's share capital or voting rights, as recorded in the minutes of the Shareholders' Meeting.

Shareholder identification

Registered and bearer shares are recorded in shareholders' accounts in accordance with applicable laws and regulations.

However, a bank, broker or other intermediary may register on behalf of shareholders who are domiciled outside France in accordance with Article 102 of the French Civil Code (*Code civil*). This registration may be made in the form of a joint account or several individual accounts, each corresponding to one shareholder. Any such intermediary must inform the Company or the intermediary managing the Company's account that it is holding the shares on behalf of another party.

The Company is entitled to identify all holders of shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, in accordance with the procedure provided for in Article L.228-2 *et seq.* of the French Commercial Code.

In order to identify holders of bearer shares, in accordance with the applicable laws and regulations, the Company is entitled to request, at any time, from the central depository responsible for its security issues account, in exchange for a fee, the name – or, in the case of corporate shareholders, the company name – nationality, year of birth – or, in the case of corporate shareholders, the year of incorporation – and address of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, together with details of the number of shares held by each such shareholder and of any restrictions applicable to the securities concerned.

Based on the list provided by the 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 104 to 175.

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 48 to 80.

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 1.5.2 "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 2018 consolidated financial statements, pages 361 to 369 (the list also shows the location of the companies). The position of Valeo's direct subsidiaries and interests is presented in the table included in Chapter 5, section 5.6.4, Note 11 "Subsidiaries and affiliates" to the parent company financial statements, page 397.

Main companies

(representing 80% of consolidated sales)
Direct and indirect interests by country *(% interest at December 31, 2018)*

European Union	France	DAV	100%	✓		
		Valeo Équipements Électriques Moteur	100%	✓		
		Valeo Service	100%			✓
		Valeo Systèmes de Contrôle Moteur	100%	✓	✓	
		Valeo Embrayages	100%	✓	✓	
		Valeo Systèmes Thermiques	100%	✓	✓	
		Valeo Vision	100%	✓	✓	
		Valeo Systèmes d'Essuyage	100%	✓		
	Ireland, Germany	Connaught Electronics Limited	100%	✓		
		peiker acustic GmbH	100%	✓		
		Valeo Klimasysteme GmbH	100%	✓	✓	
		Valeo Schalter und Sensoren GmbH	100%	✓		
		Valeo Wischersysteme GmbH	100%	✓		
		FTE automotive GmbH	100%	✓		
	Spain, Italy	Valeo Iluminación, S.A.U.	100%	✓	✓	
		Valeo, S.p.A	100%	✓	✓	
	Hungary, Poland, Czech Republic, Romania	Valeo Auto-Electric Hungary LLC	100%	✓		
		Valeo Autoklimatizace k.s.	100%	✓	✓	
		Valeo Autosystemy Sp.ZO.O	100%	✓		
		Valeo Compressor Europe S.r.o	100%	✓		
		Valeo Electric and Electronic Systems Sp.ZO.O	100%	✓		
		Valeo Lighting Injection S.A.	100%	✓		
Europe outside the EU	Turkey	Valeo Otomotiv Sanayi ve Ticaret A.S.	100%	✓		✓
North America	United States	Valeo North America, Inc.	100%	✓	✓	✓
		Valeo Radar Systems, Inc.	100%	✓		
	Mexico	Delmex de Juarez S de RL de CV	100%	✓		
		Valeo Sistemas Automotrices de México, SA de CV	100%			✓
		Valeo Sistemas Electricos, SA de CV	100%	✓		✓
		Valeo Sistemas Electronicos, S de RL de CV	100%	✓		
		Valeo-Kapec, SA de CV	100%	✓		
South America	Brazil	Valeo Sistemas Automotivos Ltda	100%	✓		
Asia	China	Valeo Automotive Air Conditioning Hubei Co. Ltd	100%	✓		
		Valeo Ichikoh (China) Auto Lighting Co., Ltd	93%	✓		✓
		Valeo Interior Controls (Shenzhen) Co. Ltd	100%	✓	✓	
	South Korea, Japan	Valeo Electrical Systems Korea, Ltd	100%	✓		
		Valeo Pyeong HWA Co. Ltd	50%	✓	✓	
		Valeo Kapec Co., Ltd	50%	✓		
		Valeo Japan Co. Ltd	100%	✓	✓	✓
		Ichikoh Industries Ltd	55%	✓	✓	

Plant   Research and Development center   Distribution platform

7.3 Material contracts

With the exception of the contracts mentioned below, neither Valeo nor any of the Group's companies signed any major contracts in the last two years other than those related to the ordinary course of their business.

7.3.1 In 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 option purchase 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, 2018 at an average price of 54.4242 euros. The shares will be allocated in full to cover the implementation of any stock option purchase plans and the allotment of shares to employees as part of their involvement in the performance of the Company or pursuant to a company savings plan;
- On 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.

7.3.2 In 2017

On January 13, 2017, Valeo took control of **Ichikoh**, Japan's leading automotive lighting company. Ichikoh has been consolidated by Valeo since February 1, 2017. The transaction was approved by the relevant antitrust authorities in December 2016.

On March 13, 2017, Valeo announced it had acquired the entire share capital of **gestigon**, a German start-up specialized in developing 3D image processing software for the vehicle cabin. This acquisition mainly provided a solution to the need to develop simple, intuitive and effective human-machine interfaces (HMIs) in a hyper-connected world.

On October 31, 2017, Valeo announced that it had acquired **FTE automotive**, a leading producer of actuators, after deciding to sell its passive hydraulic actuator business (see Chapter 5, section 5.4.6, Note 2.2 "Sale of the Passive Hydraulic Actuator business" and "Acquisition of FTE automotive" to the consolidated financial statements, pages 296 to 298) and receiving clearance from the European Commission and Turkish antitrust authorities. FTE automotive's product portfolio and customer base are highly complementary to those of Valeo. The acquisition enabled Valeo to expand its offering of active hydraulic actuators, a strategic and fast-growing market driven by the rise of hybrid vehicles.

On February 6, 2017, Valeo and its longstanding South Korean partner PHC Group announced that they had signed an agreement to create **Valeo-Kapec Co. Ltd**, which aims to become the world leader in torque converters for automatic and continuously variable transmissions. The operation was finalized on November 30, 2017, after the necessary regulatory clearance had been obtained.

On June 15, 2017, Valeo announced that it had signed a cooperation agreement with **Cisco** to develop strategic innovations in smart mobility services. Thanks to the combination of the power of Valeo's automatic parking technologies, onboard telematics and secure key technology and Cisco's Parking Controller technologies, which equip car parks with Wi-Fi, video sensors and artificial intelligence-based technology, the Cyber Valet Services smart parking service has already been launched.

Lastly, on December 11, 2017, Valeo confirmed it had invested 375 million Chinese renminbi (around 50 million euros) in the **Cathay CarTech** fund – the first renminbi-denominated fund launched by Cathay Capital – with a view to investing in China's highly dynamic automotive and mobility ecosystem. Together with another cornerstone investor, Yangtze River Industry Fund, and other investors, Cathay CarTech will focus on China and expects to invest up to 1.5 billion Chinese renminbi (around 200 million euros) in innovative companies and start-ups.

Valeo also announced:

- on January 4, 2017, the placement of 500 million euros' worth of new bonds, with a coupon of 0.625% maturing on January 11, 2023. BNP Paribas, Citi, CM-CIC, Natixis and Mizuho were joint bookrunners on this transaction;
- on March 6, 2017, the signature of an agreement with an Investment Services Provider to buy back Valeo shares. The shares were fully allocated to cover the implementation of stock option purchase plans and the allotment of shares to employees as part of their involvement in the performance of the Company or pursuant to a company savings plan. On May 12, 2017, in order to achieve certain goals under the Share Buyback Program authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016, Valeo acquired 1,228,009 shares at an average price of 61.0745 euros;
- on September 5, 2017, the placement of 600 million euros' worth of new bonds with a coupon of 0.375% maturing on September 12, 2022. BNP Paribas, HSBC, JP Morgan, MUFG, Natixis and Société Générale were joint bookrunners on this transaction.

7.4 Documents on display

The Company's press releases and annual Registration Documents filed with the French financial markets authority (*Autorité des marchés financiers* – AMF), including historical financial information relating to the Company and the Group, as well as any updates thereto can be accessed on the Company's website at: www.valeo.com.

In accordance with Article 221-3 of the AMF's General Regulations, the regulated information defined in Article 221-1 of these Regulations is posted on the Company's website (www.valeo.com) for five years, as well as on the website of the French Directorate of Legal and Administrative Information (www.info-financiere.fr), the French officially appointed mechanism for the storage of regulated information. It remains on the Company's website for at least five years after the related documents are issued, with the exception of Registration Documents, and annual and interim financial reports, which remain online for at least 10 years.

In accordance with the AMF's General Regulations, the Company's Internal Procedures and the articles of association are available on the Company's website. Together with the minutes of Shareholders' Meetings, Statutory Auditors' reports and all other corporate documents, these documents are also available at Valeo's headquarters in accordance with the conditions set out by law and the Company's articles of association.

Notifications of disclosure thresholds crossed are also published on the AMF's website (www.amf-france.org).

Accordingly, in respect of the period March 29, 2018 to March 22, 2019, the following documents are on display:

Full-year and half-year financial reports, quarterly financial information, share buy-back programs and other information (www.valeo.com)

January 9, 2019	Half-year update on the liquidity agreement at December 31, 2018
January 9, 2019	Monthly share buyback information – December 2018
December 7, 2018	Monthly share buyback information – November 2018
November 8, 2018	Monthly share buyback information – October 2018
October 25, 2018	Presentation – Q3 2018 sales
October 25, 2018	Press release – Q3 2018 sales
October 4, 2018	Monthly share buyback information – September 2018
October 4, 2018	Monthly share buyback information – August 2018
August 3, 2018	Monthly share buyback information – July 2018
July 26, 2018	Presentation – H1 2018 results
July 25, 2018	2018 half-year financial report
July 25, 2018	Press release – H1 2018 results
July 5, 2018	Half-year update on the liquidity agreement at June 30, 2018
July 5, 2018	Monthly share buyback information – June 2018
June 5, 2018	Monthly share buyback information – May 2018
May 23, 2018	2017 Activity and Sustainable Development Report
May 7, 2018	Monthly share buyback information – April 2018
April 25, 2018	Presentation – Q1 2018 sales
April 25, 2018	Press release – Q1 2018 sales
April 9, 2018	Monthly share buyback information – March 2018
March 30, 2018	Filing of 2017 Registration Document
March 30, 2018	2017 Registration Document
March 30, 2018	2017 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 412.

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 29, 2018 to March 22, 2019 are available on Valeo's website under Investors & Shareholders/ Regulated Information: https://www.valeo.com/en/regulated-information/

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)

June 15, 2018	Approval of the 2017 financial statements by the Shareholders' Meeting of May 23, 2018
April 27, 2018	Notice of Shareholders' Meeting of May 23, 2018
March 30, 2018	Initial notice of Shareholders' Meeting of May 23, 2018

Information published by Valeo in financial media

February 21, 2019	Press release announcing second-half and full-year 2018 results published on InPublic
October 25, 2018	Press release announcing third-quarter 2018 sales published on InPublic
July 25, 2018	Press release announcing first-half 2018 results published on InPublic
April 25, 2018	Press release announcing first-quarter 2018 sales published on InPublic

Press releases published on Valeo's website (www.valeo.com)

January 2019	
January 10, 2019	Valeo and Cree demonstrate the first complete high definition (LED array solution for automotive lighting systems at the Consumer Electronics Show (CES) 2019
January 9, 2018	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 the Consumer Electronics Show (CES) 2019
October 2018	
October 25, 2018	Q3 2018 sales
October 11, 2018	Kenya takes top honors in the 2018 Valeo Innovation Challenge
October 4, 2018	Valeo awarded the CAC Large 60 Grand Prix for transparency in financial regulatory information
October 2, 2018	2018 Paris Motor Show: Valeo reveals its innovations at the epicenter of the three revolutions shaping the automotive industry
September 2018	
September 23, 2018	Valeo Egypt expands its offices in Cairo
September 19, 2018	Valeo and WABCO join forces to bring the latest active safety technologies to the commercial vehicles market
September 19, 2018	IAA Commercial Vehicles 2018: Valeo's latest innovations at the epicenter of three transportation revolutions
September 11, 2018	Automechanika 2018: Valeo presents its latest automotive aftermarket innovations
July 2018	
July 25, 2018	H1 2018 results
July 17, 2018	Valeo reports the impacts of the application of IFRS 15 and IFRS 9 on 2017 comparative information
July 4, 2018	Valeo joins Baidu's driving partner ecosystem, Apollo
June 2018	
June 17, 2018	2018 Valeo Innovation Challenge: nine teams headed to the final round
June 12, 2018	Valeo announces outcome of its a 600 million euro bond issue with maturity in 2025
May 2018	
May 31, 2018	Acquisition of shares
May 23, 2018	Valeo's 2018 Annual Shareholders' Meeting
May 22, 2018	Valeo at Viva Technology: innovations, challenges and job opportunities in the fields of electric, autonomous and connected vehicles
May 2, 2018	Valeo announces an employee share offering
April 2018	
April 25, 2018	Q1 2018 sales
April 25, 2018	Auto China 2018: Valeo presents its economical low-voltage all-electric solution
April 12, 2018	Docomo et Valeo sign a partnership agreement for the connected car
April 10, 2018	Valeo wins two 2018 Automotive News PACE awards for its innovations
April 3, 2018	Valeo Innovation Challenge: more international than ever in 2018, with 3,575 students from 107 countries in the running
March 2018	
March 30, 2018	Valeo files its 2017 Registration Document
March 28, 2018	Valeo ranks as France's leading patent filer for the second year running

7.5 Information related to the Statutory Auditors

7.5.1 Principal Statutory Auditors and alternate Statutory Auditors

Principal Statutory Auditors

- **Ernst & Young et Autres,** represented by Jean-François Ginies and Philippe Berteaux – 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 ended 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 ended December 31, 2021.

Alternate Statutory Auditors

- **Auditex** – 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 ended 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)	2018	2017	2018	2017	2018	2017	2018	2017
AUDIT								
Statutory audit, certification and review of the individual and consolidated financial statements	5.1	4.9	94%	94%	3.6	3.1	97%	94%
Non-audit services	0.3	0.3	6%	6%	0.1	0.2	3%	6%
TOTAL FEES	**5.4**	**5.2**	**100%**	**100%**	**3.7**	**3.3**	**100%**	**100%**

7.6 Person responsible for the Registration Document

7.6.1 Name of the person responsible for the Registration Document containing the Annual Financial Report

Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo.

7.6.2 Declaration by the person responsible for the Registration Document containing the Annual Financial Report AFR

"I hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omissions likely to affect its import.

I further declare that, to the best of my knowledge, the accounts have been prepared in accordance with applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position, and results of the Company and of all the companies included in the consolidation scope, and that the information provided in the Management Report and listed in the cross-reference table in Chapter 8, section 8.1.3 fairly presents the activity, results and financial position of the Company and of all the companies in the consolidation scope, and the main risks and uncertainties to which they are exposed.

I obtained a statement from the Statutory Auditors at the end of their engagement in which they affirm that they have read the entire Registration Document, of which this document is a free translation from the original, and examined the information about the financial position and the accounts contained therein."

Paris, March 29, 2019

Jacques Aschenbroich,
Chairman and Chief Executive Officer

8 APPENDIX

8.1 Cross-reference tables

8.1.1 Cross-reference table for the Registration Document

This cross-reference table lists the main headings provided for by European Regulation No. 809/2004 of April 29, 2004 (the "Regulation") and gives reference to the sections and, when appropriate, the chapters in this document where information can be found regarding each of these headings. It also refers to the Registration Document sections and chapters of the fiscal year ended December 31, 2017, registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2018, under number D.18-0208 ("2017 RD") and, where necessary, to the Registration Document sections and chapters for the fiscal year ended December 31, 2016, registered with the AMF on March 24, 2017 under number D.17-0226 ("2016 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	439
1.2	Declaration by persons responsible	7.6.2	439
2.	**Statutory Auditors**		
2.1	Name and address of the Statutory Auditors	7.5.1	438
2.2	Information on the resignation of the Statutory Auditors	N/A	N/A
3.	**Selected financial information**		
3.1	Historical financial information	5.8.1	6-9; 405
3.2	Interim financial information	N/A	N/A
4.	**Risk factors**	2.1	82-94
5.	**Information about the issuer**		
5.1	History and development of the issuer	1.1	48
5.1.1	Legal and commercial name of the issuer	7.1.1	430
5.1.2	Place of registration of the issuer and its registration number	7.1.6	430
5.1.3	Date of incorporation and length of life of the issuer	7.1.4	430
5.1.4	Domicile and legal form of the issuer, legislation under which the issuer operates, its country of incorporation, and the address and telephone number of its registered office	7.1.1; 7.1.2	430
5.1.5	Important events in the development of the issuer's business	Integrated Report – Trends and Strategy; 1.1; 1.3	48-50
5.2	Investments		
5.2.1	Principal investments made	5.1.4	275-279
5.2.2	Principal investments in progress	5.1.4	278
5.2.3	Principal future investments	N/A	N/A
6.	**Business overview**		
6.1	Principal activities		
6.1.1	Nature of the issuer's operations and its principal activities	Integrated Report – Strategy; 1.3	50-69
6.1.2	New products	Integrated Report – Trends and Strategy; 1.3	50-69
6.2	Principal markets	Integrated Report – Strategy; 1.3	50-69 16-35
6.3	Exceptional factors	N/A	N/A
6.4	Dependence on patents, licenses, contracts and manufacturing processes	Integrated Report; 2.1.2	90
6.5	The basis for any statements made by the issuer regarding its competitive position	1.3	50-69
7.	**Organizational structure**		
7.1	Brief description of the Group	1.2; 7.2	48; 432
7.2	List of significant subsidiaries	5.4.6 (Note 13); 5.6.4 (Note 11); 7.2	361-369; 397; 432-433

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
8.	**Property, plant and equipment**		
8.1	Material property, plant and equipment	1.4; 5.4.6 (Note 6.3)	70; 327-329
8.2	Environmental issues that may affect the issuer's utilization of property, plant and equipment	1.4; 2.1.1; 4.3	70; 82-88; 202-218
9.	**Operating and financial review**		
9.1	Financial position	5.1.4 Section 5.1.4 of the 2017 and 2016 Registration Documents	275-279
9.2	Operating results	5.1.1; 5.1.2; 5.1.3 Sections 5.1.1; 5.1.2; 5.1.3 of the 2017 and 2016 Registration Documents	268-280
9.2.1	Significant factors materially affecting the issuer's income from operations	2.1; 5.1	82-94; 268-279
9.2.2	Explanation of material changes in net sales or revenues	5.1	268-279
9.2.3	Any policies or factors that have materially affected or could materially affect, directly or indirectly, the issuer's operations	Integrated Report; 2.1; 5.1	16-35; 82-94; 268-279
10.	**Capital resources**		
10.1	Issuer's capital resources	5.1.4; 5.4.5; 5.4.6 (Notes 8.1; 10.1); 5.6.4 (Note 9); 6.6	275-279; 285 335-351; 356-357 294-295; 422-427
10.2	Sources and amounts of cash flows	5.1.4; 5.4.4; 5.4.6 (Note 11); 5.6.3	275-279; 284; 358-360; 378
10.3	Information on the borrowing requirements and funding structure	5.1.4; 5.4.6 (Note 8)	275-279; 325-352
10.4	Restrictions on the use of capital resources	2.1.3; 5.4.6 (Note 8.1.3.2); 5.6.4 (Note 6.2.5)	93-94; 342-343
10.5	Anticipated sources of funds	5.4.6 (Note 8.1.2)	337-341
11.	**Research and development, patents and licenses**	1.5.1; 4.2; 5.4.6 (Notes 4.5.1; 6.2) Sections 1.6.1; 4.2; 5.4.6 (Notes 4.5.1; 6.2) of the 2017 and 2016 Registration Documents	71-72; 192-201; 306-307; 324-326
12.	**Trend information**		
12.1	Most significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last fiscal year	5.2; 5.6.4 (Note 12)	280
12.2	Known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects	Integrated Report – Trends and Strategy; 5.3	16-35; 280
13.	**Profit forecasts or estimates**		
13.1	Statement setting out the principal assumptions upon which the issuer has based its forecast or estimate	N/A	N/A
13.2	Report prepared by the Statutory Auditors	N/A	N/A
13.3	Preparation of the profit forecast or estimate	N/A	N/A
13.4	Statement on the validity of a forecast previously included in a prospectus	N/A	N/A
14.	**Administrative, management and supervisory bodies, and senior management**		
14.1	Members – statements	3.1; 3.2.1; 3.2.2; 3.2.3	104-105; 106-131; 132-143; 144-145
14.2	Conflicts of interest	3.2.3	144-145
15.	**Compensation and benefits**		
15.1	Compensation and benefits in kind	3.3; 5.4.6 (Notes 5.3; 5.4; 5.5)	152-175; 314-320; 321-323; 323
15.2	Retirement and similar benefits	3.3; 5.4.6 (Notes 5.3; 5.5)	152-175; 314-320; 323

Cross-reference tables

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
16.	**Board practices**		
16.1	Terms of office of members of the Board of Directors	3.1; 3.2.1	104-105; 106-131
16.2	Service contracts between the members of the Board of Directors and the Company	3.2.3	144-145
16.3	Information about the Audit Committee and Compensation Committee	3.2.2	132-143
16.4	Statement regarding corporate governance	3.2.4; 7.1.3	145; 430
17.	**Employees**		
17.1	Number of employees	1.4; 4.4.1; 1.5; 4.4 of the 2017 Registration Document 1.2.4; 4.4.1 of the 2016 Registration Document	70; 219-221
17.2	Shareholdings and stock options	3.3; 6.4.5	152-175; 418
17.3	Arrangements for involving employees in the capital of the issuer	4.4.2; 6.4.5	221-229; 418
18.	**Major shareholders**		
18.1	Identification of major shareholders	6.4	411-418
18.2	Existence of differing voting rights	6.4.2; 7.1.11	412-417; 431
18.3	Control of the issuer	6.4.2	412-417
18.4	Arrangements which may result in a change in control of the issuer	6.6.4	426-427
19.	**Related party transactions**	5.4.6 (Notes 4.5.3.4; 5.5); 3.2.7; 3.2.8; 5.7 5.4.6 (Notes 4.5.3.4; 5.5); 5.7; 3.2.11 of the 2017 Registration Document 5.4.6 (Notes 4.5.3.4; 5.5); 5.7; 6.6.6 of the 2016 Registration Document	147; 148; 311; 323; 402-404
20.	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
20.1	Historical financial information	5.4	321-323
20.2	Pro forma financial information	Section 5.4 of the 2017 and 2016 Registration Documents	N/A
20.3	Financial statements	5.4.6 (Note 1.2)	291-292
20.4	Auditing of historical annual financial information		
20.4.1	Statement that the historical financial information has been audited	5.4.7; 5.6.5 of the 2017 and 2016 Registration Documents	370-373; 398-401
20.4.2	Other information audited by the Statutory Auditors	5.4.7; 5.6.5 of the 2017 Registration Document 5.4.7; 2.4 of the 2016 Registration Document	370-373; 398-401
20.4.3	Source of financial data not extracted from the issuer's audited financial statements and therefore not audited	N/A	N/A
20.5	Age of latest financial information	Dec. 31, 2018	
20.6	Interim and other financial information		
20.6.1	Half-yearly or quarterly financial information	N/A	N/A
20.6.2	Interim financial information	N/A	N/A
20.7	Dividend policy	7.1.8	430-431
20.7.1	Amount of dividends	6.3	411
20.8	Legal and arbitration proceedings	2.1.2; 5.4.6 (Notes 4.6.2; 7)	90; 312-313; 333-335
20.9	Significant change in the financial or trading position	5.2	280

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
21.	**Additional information**		
21.1	Share capital		
21.1.1	Amount of issued capital	5.4.6 (Note 10.1); 6.4.1; 6.4.2; 6.6.1	356-357; 411; 412-417; 422
21.1.2	Shares not representing capital	6.6.3	426
21.1.3	Shares held by or on behalf of the issuer itself or by its subsidiaries	6.5.2	420
21.1.4	Convertible securities, exchangeable securities and securities with warrants	6.6.2	423-425
21.1.5	Information about the terms and conditions of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital	3.2.12	150-151
21.1.6	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	426-427
21.1.7	Share capital history	6.6.1	422
21.2	Memorandum and articles of association		
21.2.1	Description of the issuer's objects and purposes	7.1.5	430
21.2.2	Summary of any provisions of the issuer's articles of association, charter or bylaws with respect to the members of the administrative, management and supervisory bodies	3.2.1; 3.2.2; 3.2.6	106-131; 132-143; 146-147
21.2.3	Description of the rights, preferences and restrictions attached to each class of existing shares	7.1.8; 7.1.9; 7.1.11	430-431; 431; 431
21.2.4	Description of the actions necessary to amend the rights of the shareholders	7.1.12	431
21.2.5	Description of the conditions governing the manner in which Annual Shareholders' Meetings and Extraordinary Shareholders' Meetings are called	7.1.10	431
21.2.6	Description of any provision that would have an effect of delaying, deferring, or preventing a change in control	3.2.11	148-149
21.2.7	Indication of any provision governing the ownership threshold above which shareholder ownership must be disclosed	6.6.4	426-427
21.2.8	Description of the conditions governing changes in the capital, where such conditions are more stringent than is required by law	7.1.12	431
22.	**Material contracts**	7.3	434-435
23.	**Third party information, statement by experts and declarations of interest**		
23.1	Statement or report attributed to a person as an expert	N/A	N/A
23.2	Statement on third party information	N/A	N/A
24.	**Documents on display**	7.4	435-437
25.	**Information on holdings**	1.2; 5.4.6 (Notes 2.2; 4.5.3; 13); 5.6.4 (Note 11); 7.2	49-50; 296-298; 308-311; 361-369; 397; 432-433

8.1.2 Cross-reference table for the Annual Financial Report

	Annual Financial Report	Chapters/Sections	Pages
1.	**Parent company financial statements**	5.6	376-401
2.	**Consolidated financial statements**	5.4	281-373
3.	**Management Report (French Monetary and Financial Code)**		
3.1	Article L.225-100-1 of the French Commercial Code:		
3.1.1	▪ Analysis of business trends	5.1.1; 5.1.3	268-271; 273-274
3.1.2	▪ Analysis of results	5.1.2; 5.1.3; 5.5	272-273; 273-274; 374-375
3.1.3	▪ Analysis of financial position	5.1.4	275-279
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	4.7; 5.1	258-261; 268-279
3.1.5	▪ Principal risks and uncertainties	2.1	82-94
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; 4.1.1	82-89; 180-182
3.1.7	▪ Internal control and risk management procedures	2.3	95-101
3.1.8	▪ Company hedging objectives and policy, and exposure to price, credit, liquidity and cash flow risks	2.1.3; 5.4.6 (Notes 4.2; 4.3; 8.1)	93-94; 303-304; 304-305; 335-352
3.2	Article L.225-211 of the French Commercial Code:		
3.2.1	▪ Buyback by the Company of its own shares	6.5	419-422
4.	**Declaration by the person responsible for the Annual Financial Report**	7.6.2	439
5.	**Statutory Auditors' report on the parent company financial statements**	5.6.5	398-401
6.	**Statutory Auditors' report on the consolidated financial statements**	5.4.7	370-373
7.	**Fees paid to the Statutory Auditors**	5.4.6 (Note 12); 7.5.2	360; 432
8.	**Board of Directors' report on corporate governance, prepared in accordance with Article L.225-37 of the French Commercial Code**	See dedicated cross-reference table in section 8.1.4	
9.	**Statutory Auditors' report on the Corporate Governance Report**	5.6.5	398-401

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

	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; 5.5	268-27; 374-375
1.2	Results of operations of the Company and the Group	5.1; 5.5	268-279; 374-375
1.3	Review of the business, results of operations and financial position	5.1; 5.5	268-279; 374-375
1.4	Key financial and non-financial performance indicators	4.7; 5.1	258-261
1.5	Material events occurring between the end of the reporting period and the date the report was prepared	5.2; 5.6.4 (Note 12)	280
1.6	Company and Group outlook	5.3	280
1.7	Research and Development activity	1.51; 4.2; 4.7.1	71-72; 192-201; 258
1.8	Material investments or controlling interests taken during the past fiscal year in companies with registered offices in France	5.1.4; 5.4.6 (Note 2.2)	275-279; 296-298

	Management Report	Chapters/Sections	Pages
2.	**Share ownership structure and share capital**		
2.1	Share ownership structure and changes during the past fiscal year	6.4; 6.6.1	411-418
2.2	Status of employee share ownership plans	6.4.5	418
2.3	Trading by the Company in its own shares	6.5	419-422
2.4	Name of companies controlled and equity interest	5.4.6 (Note 13); 5.6.4 (Note 11)	361-369; 397
2.5	Share disposals to adjust reciprocal shareholdings	N/A	N/A
2.6	Amount of dividends and other distributed earnings paid during the past three fiscal years	6.3	411
2.7	Adjustments for the issuance of marketable securities giving access to the share capital	N/A	N/A
2.8	Adjustments for stock subscription or purchase options	3.3.1	152-171
2.9	Information on stock subscription and purchase option plans granted to corporate officers and employees	3.3.1; 3.3.4; 6.6.2	152-171; 175; 423-425
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; 6.6.2	152-171; 423-425
2.11	Information on free shares granted to corporate officers and employees	3.3.1; 3.3.3; 3.3.4; 6.6.2	152-171; 173-174; 175; 423-425
2.12	Obligation for executive corporate officers to hold free shares	3.3.1; 3.3.4; 6.6.2	152-171; 175; 423-425
3.	**Risk factors and internal control**		
3.1	Description of major risks and uncertainties	2.1	82-94
3.2	Financial risks relating to the impacts of climate change and measures taken by Company to reduce them by implementing a low-carbon strategy	2.1.1; 4.1.1	82-89; 180-182
3.3	Company hedging objectives and policy, and exposure to price, credit, liquidity and cash flow risks	2.1.3; 5.4.6 (Notes 4.2; 4.3; 8.1)	93-94; 303-304; 304-305; 351-352
3.4	Internal control and risk management procedures related to the preparation and processing of accounting and financial information	2.3.6	100-101
4.	**Environmental, social and employee information**		
4.1	Non-financial information statement	See dedicated cross-reference table in section 8.1.5	
4.2	Duty of care plan and report on its implementation	4.1.3	183-187
4.3	Information on facilities classified as high-threshold Seveso sites	N/A	N/A
5.	**Other disclosures**		
5.1	Supplier and customer payment cycles	5.4.6 (Notes 4.2; 8.1.5.2); 5.5	303-304; 374-375
5.2	Changes in the presentation of the annual parent company financial statements and methods of measurement	5.4.6 (Note 1.1.1; 1.1.2); 5.6.4 (Note 2)	288-289; 290-291; 293-299
5.3	Information on existing branches	N/A	N/A
5.4	Sumptuary expenses	5.5	374-375
5.5	Add back of excessive overheads	N/A	N/A
5.6	Injunctions or monetary penalties for anti-competitive practices	2.1.2; 5.4.6 (Note 7.2)	90-93; 334
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	
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	
A.2	Five-year financial summary	5.8.1	405
A.3	Opinion of the independent third party on the information given in the non-financial information statement	4.9	263-265
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

	Corporate Governance Report	Chapters/Sections	Pages
1.	**Compensation**		
1.1	Presentation of the compensation policy for executive corporate officers and the related draft resolutions	3.3.1	152-171
1.2	Total compensation and benefits package paid during the past fiscal year to each corporate officer of the Company and the entities controlled by or controlling the Company	3.3.1	152-171
1.3	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	152-171
1.4	Suspension of directors' fees for breach of parity rules	N/A	N/A
1.5	Reference to resolutions subject to an *ex ante* vote	3.3.1	152-171
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	106-131
2.2	Agreements between a corporate officer or a shareholder holding at least than 10% of the voting rights and a Company subsidiary	3.2.9	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	106-131; 132-143
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	106-131
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
2.9	Specific arrangements for attendance at Shareholders' Meetings	3.2.10; 7.1.10	148; 431
3.	**Information likely to have an impact in the event of a takeover or exchange offer**	**3.2.11**	**148-149**

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 and 1.3	16-35; 50-69
1.2	Organization		1.3; 1.5	50-69; 71-78
1.3	Business model		Integrated Report – Strategy	16-35
1.4	Strategy, outlook and objectives		Integrated Report – Strategy; 1.3; 5.3	16-35; 50-69; 280
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; 4.2.2 4.2.2 2.1.1; 4.2.2	82-89; 196-201 196-201 82-89; 196-201
2.2	Accidental pollution of water and soil	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1; 4.4.2 4.4.2 2.1.1; 4.4.2	82; 196-201 196-201 82; 196-201
2.3	Health and safety	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1; 4.4.2 4.4.2 2.1.1; 4.4.2	82; 196-201 196-201 82; 196-201
2.4	Attracting talent	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1; 4.4.2 4.4.2 2.1.1; 4.4.2	82; 196-201 196-201 82; 196-201
2.5	Developing and retaining talent	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1; 4.4.2 4.4.2 2.1.1; 4.4.2	82; 196-201 196-201 82; 196-201
2.6	Risk of individual corruption	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.2; 4.5.2 4.5.2 2.1.2; 4.5.2	82; 196-201 196-201 82; 196-201
2.7	Suppliers' sustainable development practices	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1; 4.5.2 4.5.2 2.1.1; 4.5.2	82; 196-201 196-201 82; 196-201
3.	**Other regulatory issues**			
3.1	Fight against tax evasion		4.1.4	188-191
3.2	Impacts on climate change of the Group's operations and the use of the goods and services it produces		2.1.1; 4.2.2; 4.3.3	82; 196-201; 209-218
3.3	Social commitments in support of sustainable development		4.5.3	245-249
3.4	Circular economy		4.1.3	183-187
3.5	Fight against food waste		4.1.1	180-182
3.6	Fight against food insecurity		4.1.1	180-182
3.7	Respect for animal welfare and responsible, fair and sustainable food		4.1.1	
3.8	Collective bargaining agreements entered into by the Company and their impact on the Company's financial performance and employee working conditions		4.4.3	230-235
3.9	Measures to combat discrimination, promote diversity and integrate people with disabilities		4.4.3	230-235

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 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 Registration Document, risks which relate to being a supplier in the automotive industry and to the development of new products and risks due to certain global and regional economic conditions. Also included are environmental and industrial risks as well as risks and uncertainties described or identified in the public documents submitted by Valeo to the French financial markets authority (*Autorité des marchés financiers* – AMF), including those set out in the "Risk Factors" section of this Registration Document. 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 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 28 of Commission Regulation (EC) No. 809/2004 dated April 29, 2004, the following information is incorporated by reference in this Registration Document:

1. 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.
2. in respect of the year ended December 31, 2016: 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 6 to 32 and 269 to 400 of the 2016 Registration Document registered with the French financial markets authority on March 24, 2017 under number D.17-0226.

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