2016 INTEGRATED REPORT

EXTRACT FROM THE 2016 REGISTRATION DOCUMENT

48 V hybrid technology

SMART TECHNOLOGY FOR SMATER CARS
GLOBAL FOOTPRINT

91,800 EMPLOYEES
155 PLANTS
32 COUNTRIES
38 DEVELOPMENT CENTERS
20 RESEARCH CENTERS
15 DISTRIBUTION PLATFORMS

GROUP PROFILE
Valeo is an automotive supplier, partner to all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO₂ emissions and to the development of intuitive driving.
In 2016, the Group generated sales of 16.5 billion euros and invested over 11% of its original equipment sales in Research and Development.

THE VALEO INTEGRATED REPORT

For the second year running, Valeo has elected to use integrated reporting to present its business model. From the vantage point of Group strategy, the report provides an overview of the mechanisms through which its financial and non-financial performance, governance and outlook within its eco-system contribute to short-, medium- and long-term value creation. The report is based on the International Integrated Reporting Framework published by the IIRC (International Integrated Reporting Council). It addresses all of the Group’s stakeholders, namely employees, the financial community, customers, suppliers, institutional and non-governmental organizations, and other local partners. The report covers the Group’s financial, sales and non-financial performance over the 2016 financial year, as well as its medium-term projections.

As in 2015, the Integrated Report is included in the Registration Document and is available on the Valeo website.
A new Valeo: more technologically focused, innovative, dynamic and profitable

Jacques Aschenbroich
INTERVIEW

JACQUES ASCHENBROICH
Chairman and Chief Executive Officer

What were the highlights for Valeo in 2016?

J.A. First of all, I would like to thank the Valeo teams for their commitment and professionalism. Our excellent results in 2016 reflect the work accomplished by our teams over the past few years to build a new Valeo: more technologically focused, innovative, dynamic and profitable.

During the year, our sales grew by 14%. Original equipment sales jumped 12% like for like, outpacing global automotive production by 8 percentage points. This growth was accompanied by increases of 17% in our gross margin, 20% in our operating margin\(^1\), 27% in our net income\(^2\), and 17% in our free cash flow generation\(^3\), to 661 million euros.

Driven by unprecedented Research and Development spend, which represented more than 11% of original equipment sales in 2016, our order intake hit another record at 23.6 billion euros.

Based on these results, at the next Shareholders’ Meeting, shareholders will be asked to vote on the payment of a dividend of 1.25 euros per share, corresponding to a payout ratio of 32% and an increase of 25% compared with the dividend paid in respect of 2015.

Also in 2016 we were delighted to welcome into the Valeo family teams from peiker, Spheros, and the Valeo Siemens eAutomotive GmbH joint venture and, in January this year, Ichikoh.

Thanks to these acquisitions and in line with our growth strategy, we are stepping up the development of our four Business Groups, with the primary aims of:

- diversifying our customer portfolio;
- enhancing our products’ technological positioning;
- strengthening the geographic alignment of our sales.

What are your expectations for 2017 and what is your medium-term outlook for the Group?

J.A. Based on the assumption that global automotive production grows by between 1.5% and 2% and raw material prices and exchange rates remain at current levels, we expect another year of sales growth, outperforming the market by more than 5 percentage points. This growth should allow us to slightly increase our operating margin\(^4\) (as a % of sales and before acquisitions).

On the back of this strong momentum, Valeo held an Investor Day in London on February 28, 2017, during which we presented our medium-term strategic plan. Building on the growth in our order intake\(^5\) due to the success of our innovations\(^6\) (half of the order intake\(^5\) in 2016), over the next five years we are aiming to accelerate our organic growth through higher content per vehicle and a better product mix, to improve our profitability and to increase our free cash flow generation\(^9\).

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

In line with the medium-term plan presented at our Investor Day, we have set the following financial objectives through 2021\(^5\):

- sales of over 27 billion euros, reflecting an average outperformance over the period of more than 7 percentage points compared to global automotive production, and average annual sales growth in excess of 10%;
- operating margin\(^1\) (as a percentage of sales) of around 9%;
- free cash flow generation\(^3\) of 3.7 billion euros over the 2017-2021 period, twice the level recorded over the 2012-2016 period of 2 billion euros.

March 22, 2017

\(^1\) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 449.
\(^2\) Attributable to the Group.
\(^3\) See Financial Glossary, page 449.
\(^4\) Products and technologies in series production for less than three years.
\(^5\) Including Ichikoh, Valeo-Kapek and FTE and assuming that (i) global automotive production increases by an annual average of 2.3% between end-2016 and end-2021, and (ii) raw material prices remain at early-2017 levels.
A PARADIGM SHIFT TOWARDS ELECTRIC, AUTONOMOUS, SHARED CARS
CONTENTS

THE VALEO INTEGRATED REPORT

1.1.1. KEY FIGURES IN 2016

1.1.2 IN A CHANGING WORLD, ELECTRIFICATION, AUTOMATION AND DIGITALIZATION ARE DISRUPTING THE AUTOMOTIVE INDUSTRY

A world of transformations

The transformation of the automotive market is coming into focus

1.1.3 A NEW VALEO: MORE TECHNOLOGICALLY FOCUSED, INNOVATIVE, DYNAMIC AND PROFITABLE

Valeo is positioned at the center of the revolutions taking place in the automotive industry and is strengthening its growth dynamic

Innovation, Valeo’s DNA

An organizational structure built on four market-leading, high-growth potential Business Groups

 Ahead of the schedule set out in March 2015, Valeo presented a new strategic plan in February 2017

1.1.4 VALEO MODEL

Value creation model

Creating value shared with our stakeholders

Valeo’s top sustainable development challenges

1.1.5 SOLID GOVERNANCE IN SUPPORT OF STRATEGY

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

The Operations Committee implements the Group’s strategy

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

Risk management, a key priority for Valeo

SAFE HARBOR STATEMENT

Page numbers in this document refer to the 2016 Registration Document filed with the French financial markets authority (Autorité des marchés financiers – AMF) on March 24, 2017 under number D.17-0226.
1.1.1. Key figures in 2016

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

- **GROSS RESEARCH AND DEVELOPMENT EXPENDITURE**
  In millions of euros and as a % of original equipment sales

- **ORDER INTAKE**
  In billions of euros and innovative products and systems as a % thereof

- **SALES**
  Total sales and sales by Business Group
  In millions of euros and as a % of sales

- **SALES BY DISTRIBUTION NETWORK**
  As a % of sales

- **OPERATING MARGIN**
  Including share in net earnings of equity-accounted companies
  In millions of euros and as a % of sales

In 2016, net Research and Development expenditure totaled €956 million euros, or 5.8% of total sales.
**Net Attributable Income**

In millions of euros and as a % of sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Attributable Income</th>
<th>As % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>562</td>
<td>4.4%</td>
</tr>
<tr>
<td>2015</td>
<td>729</td>
<td>5.0%</td>
</tr>
<tr>
<td>2016</td>
<td>925</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

**Basic Earnings Per Share and Dividend Per Share**

In euros

<table>
<thead>
<tr>
<th>Year</th>
<th>Basic Earnings Per Share</th>
<th>Dividend Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2.41</td>
<td>1.25</td>
</tr>
<tr>
<td>2015</td>
<td>0.73</td>
<td>1.00</td>
</tr>
<tr>
<td>2014</td>
<td>1.10</td>
<td></td>
</tr>
</tbody>
</table>

A 2016 dividend of 1.25 euros, up 25% compared with 2015, will be proposed at the Shareholders’ Meeting called to approve the financial statements for the year ended December 31, 2016. It represents a payout ratio of 32%.

**Cash Flow and Financial Structure**

- **Total EBITDA(2)** and EBITDA by Business Group

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.519</td>
<td>1.841</td>
<td>2.144</td>
</tr>
<tr>
<td></td>
<td>12.0%</td>
<td>12.7%</td>
<td>13.0%</td>
</tr>
</tbody>
</table>

- **Free Cash Flow(2)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Free Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>661</td>
</tr>
</tbody>
</table>

- **Investment Flows**

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,249</td>
</tr>
</tbody>
</table>

- **Net Debt**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>526</td>
</tr>
</tbody>
</table>

---

(1) The data shown above differs from that presented in the 2015 Registration Document published in March 2016 since it has been adjusted to reflect the impacts of Valeo’s three-for-one stock split, which was approved by the Shareholders’ Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

(2) See Financial Glossary, page 449.

(3) The amount shown under this item for 2014 and 2015 differs from that presented in the 2014 and 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the new definition of EBITDA(2).

(4) The amount of investments in property, plant and equipment and intangible assets shown for 2014 and 2015 differs from that presented in the 2014 and 2015 consolidated financial statements published in February 2016 since it has been adjusted to reflect the impacts of presenting government subsidies and grants on non-current assets within cash flows from investing activities.

(5) Note that Valeo acquired Spheros and peiker during the year.
Key figures in 2016

**Other profitability indicators**

- ROCE (Return on Capital Employed)\(^1\)
  - 2015: 30%
  - 2014: 33%
  - 2016: 34%

- ROA (Return on Assets)\(^1\)
  - 2015: 19%
  - 2014: 20%
  - 2016: 21%

**Non-financial indicators**

- **Corporate governance**
  - The Board of Directors met on eight occasions in 2016, i.e., twice as many meetings as the minimum stipulated in the internal procedures, with a 96% average effective attendance rate.
  - The directors held their annual strategy seminar in San Francisco.
  - 93% of the Board’s 14 directors are independent.
  - 42% of members of the Board of Directors are women.

- **Water consumption**
  - As a proportion of sales (MWh/€m)
  - 2014: 219
  - 2015: 198
  - 2016: 184

- **Breakdown of total headcount by geographic area**
  - 91,800 employees
  - 29% Western Europe
  - 18% Central and Eastern Europe
  - 3% Africa
  - 31% Asia
  - 16% North America
  - 3% South America

- **Products that directly or indirectly contribute to reducing CO₂ emissions**
  - accounted for more than 50% of Valeo’s original equipment sales in 2016.

\(^1\) See Financial Glossary, page 449
91,800 Employees

Research and Development Spending
1.6 Billion Euros

94% of Sites Certified ISO 14001

Code of Ethics
1.1.2 In a changing world, electrification, automation and digitalization are disrupting the automotive industry

New demographic, social, environmental and technological dynamics are drastically transforming the way we live, work, consume and travel, resulting in a new set of challenges that the automotive industry must work to address.1

A world of transformations

An evolving demographic characterized by a growing and aging population

By 2050, the world’s population is expected to reach 9.7 billion.2

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

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

Emergence of new middle classes

With fewer barriers to trade and market growth, especially in Asia, a new middle class is emerging – particularly in India and China – and is set to drive global economic growth.

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

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

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

Accelerating urbanization

As the world’s population grows, the proportion of people living in urban areas should also increase – particularly in Asia and Africa – from 54% in 2014 to 66% by 2050.

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

---

1 See Chapter 4, section 4.2.1 “From analysis of megatrends to the vehicle concept of tomorrow” pages 170 to 171.
Technological revolution and the digital society

Technological innovation is accelerating – nowhere is this more evident than in robotics, artificial intelligence, information systems and communications – while product development cycles are getting shorter.

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

More and more consumers are choosing usership and sharing as an alternative to ownership.

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

The transformation of the automotive market is coming into focus

Increasingly stringent regulations aimed at reducing air pollution

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

Towns and cities across the world are also taking action at unprecedented levels. In particular, they are adapting urban infrastructure and encouraging new mobility behaviors through coercive regulations and “nudges” intended to curb the number of road accidents as well as air (CO₂, nitrogen oxide [NOx] and fine particle emissions) and noise pollution.

 Market context – Regulatory impact analysis

Current CO₂ levels by region and targets

- Canada 2025: 93 g/km
- Mexico 2016: 173
- EU 2021: 95
- Japan 2020: 105
- South Korea 2015: 153
- Brazil 2017: 146
- China 2020: 117
- India 2021: 113
- US 2025: 93
- Canada 2025: 93

(1) Source: ICCT.
(2) US 2025: 103 g/km including light trucks.
In a changing world, electrification, automation and digitalization are disrupting the automotive industry.

High-power (over 60 V) electrification with electric vehicles and plug-in hybrids offering a significant reduction in CO₂ emissions as well as the option of travelling in zero-emissions mode, especially in urban areas.

Autonomous, connected and intuitive driving

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

To inform and reassure drivers, particularly when switching between automated and manual mode, the automotive industry needs to develop a seamless user experience with simple human-vehicle interfaces to make automation features easy to use.

Automated driving requires vehicles to become increasingly connected to their environment (other vehicles, urban infrastructure, the cloud, etc.). As was the case with the rise of mobile telephony, connectivity will lead to the emergence of new services, such as remote, secure maintenance and updates of onboard software.

New mobility-based services

Mobility requirements are growing, especially in urban areas.

As well as using their own vehicle, consumers are increasingly turning to new mobility services. Car-pooling is becoming more common and is now considered a mode of transportation in its own right. Car-sharing – an alternative to individual ownership – and ride-hailing services are seeing exponential growth. These new services are being rolled out on digital peer-to-peer platforms such as Uber and BlaBlaCar. Such technology offers the most efficient mobility possible by optimizing travel time, price and accessibility.
Asia continues to grow and is cementing its position as the leading global market

Global automotive production\(^{(1)}\) is shifting from the West to Asia, which has represented over 50%\(^{(2)}\) of vehicle production since 2012. With 27 million\(^{(2)}\) vehicles produced in 2016, representing 29% of global automotive production, China is unquestionably the world’s biggest producer of automobiles.

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

Strengthened global platform strategy

For a number of years, the expansion of global automotive production platforms – where vehicles from different segments that share parts and systems are assembled – has put greater onus on automotive suppliers to:

- drive new ideas in the area of Research and Development\(^{(3)}\);
- strengthen Research and Development resources across all continents in order to help automakers develop technical solutions that meet the specific needs of local consumers;
- build a worldwide industrial footprint that enables the same products to be delivered to identical standards of quality and reliability across the world;
- provide total quality for products and services in order to support automakers in the development of new technologies and applications.

GLOBAL AUTOMOTIVE PRODUCTION\(^{(1)}\) IS SHIFTING FROM THE WEST TO ASIA

\(^{(1)}\) See Chapter 5, section 5.1.1 “Global automotive production growth” page 271.
\(^{(2)}\) Source: LMC.
\(^{(3)}\) Automotive suppliers have been responsible for the development of new technologies for many years now, and according to the European Association of Automotive Suppliers (CLEPA), they deliver 75% of a vehicle’s value-added.
A new Valeo: more technologically focused, innovative, dynamic and profitable

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

The major technological and geographic changes described previously confirm the validity of Valeo’s growth strategy, built on the following drivers:
- its market-leading position and sustained Research and Development efforts focused on CO₂ emissions reduction and intuitive driving; and
- strengthening its presence in high-growth potential regions, especially in Asia and emerging countries.

Valeo is positioned at the center of the revolutions taking place in the automotive industry and is strengthening its growth dynamic

Driven by its technological and geographic positioning and the quality of its products, over the past few years Valeo has seen a sharp rise in its order intake, a key forward indicator of the Group’s sales. This confirms Valeo’s high growth potential and its structural capacity to outperform automotive production.

The faster growth in the order intake over the past few years is mainly attributable to Valeo’s ability to anticipate the automotive market’s new demands. The market trends described previously are being confirmed while change is accelerating. Today’s automotive market is at the center of three major revolutions: powertrain electrification, autonomous and connected vehicles, as well as new mobility services driven by digital technology, all of which offer new opportunities for value-added growth.

These major revolutions represent growth opportunities for Valeo:
- the need to reduce CO₂ emissions combined with the decline in diesel vehicle sales is accelerating vehicle electrification: Valeo is positioned as a provider of technologies for powertrain electrification. As the first supplier to offer its customers the Stop-Start system, Valeo has long specialized in the development and manufacture of low-voltage electric systems. In 2016, the Group recorded a strong order intake for 48 V mild-hybrid systems, establishing itself as the world leader in this area. In 2016,
Valeo also created a joint venture with Siemens, the world leader in high-voltage electric machines. The new partnership enables the Group to expand its product offering with respect to plug-in hybrid and electric vehicles. Powertrain electrification also creates a need for automated transmission systems and thermal management solutions for batteries. In addition, vehicle energy management features, such as lighting systems, are being optimized, in particular through the increasing take-up of 100% LED headlamps, which are five times more efficient than halogen (based on the ratio of illumination quality to energy consumption);

- the growing need for vehicle automation and connectivity brings with it an increase in the number of sensors per vehicle and the related software. Valeo boasts the widest portfolio of sensors on the market, from ultrasonic sensors, radars and cameras to laser scanners. As the world leader in driving assistance, with technologies that enable vehicles to park themselves or drive on the highway in automated mode, Valeo is addressing the needs of its customers and now offers a diverse range of technologies from vehicle automation to connected products and services such as Valeo InBlue™ (car-sharing) and Remote Clean4U™ (windshield cleaning system) to embrace the opportunities of this future-facing market. Vehicle complexity has also spurred a need to provide end consumers with more intuitive human-machine interfaces;

- the needs of new mobility in a digital society will lead to the creation of new services, the arrival of new customers and the need to build new technological partnerships. With this in mind, Valeo has opened a technical center in Silicon Valley to maintain constant ties with companies in the new economy in order to understand and meet their specific needs. Valeo has formed a number of technological partnerships, mainly with new mobility players such as Navya, a company specialized in the design of fully autonomous electric shuttles.

Valeo’s strategy is therefore perfectly aligned with the major revolutions currently taking place. These growth drivers will support the future development of each Business Group and respond to mobility’s paradigm shift towards electric, autonomous, shared cars.

Innovation, Valeo’s DNA

Valeo, a tech company

An efficient, tailor-made technological development process

To meet the requirements of its various customers and retain its technological advantage, Valeo constantly develops new products and systems that meet the demands of the different global markets. Valeo regularly analyzes its innovations portfolio and medium- and long-term market developments to ensure that it is offering and developing the products and solutions that will form the foundation of the vehicle of tomorrow – one that is ever more intuitive, autonomous, connected and environmentally friendly (see Chapter 4, section 4.2.1 “Valeo’s innovation policy”, pages 170 to 174).
Valeo reinvests over 11% of its original equipment sales in Research and Development. In 2016, gross Research and Development expenditure amounted to 1.6 billion euros, up 22% compared with 2015. Valeo protects its innovations with an active patent filing policy – 1,840 patents were filed in 2016, a 31% increase on 2015. This makes it the biggest patent filer in France and the top French company in terms of patents filed with the European Patent Office.

The Group’s R&D teams work to quickly bring mobility solutions to end customers worldwide. Aside from its 20 research centers – most of which are located in France, Germany, Ireland and Japan – and 38 development centers located across the world, Valeo has developed a network of 15 technical and commercial offices located close to its customers so that their needs can be better catered to.

Valeo also uses shared resource centers in cost-competitive countries to enhance synergies among the various Business Groups and optimize development costs.

Valeo’s innovation policy and its development methods are widely acknowledged by the Group’s customers, who increasingly look to Valeo to develop new technologies. In 2016, this was recognized with a place in the Thomson Reuters list of Top 100 Global Innovators.

Valeo’s growth is driven above all by innovative, high-growth products (growth of approximately 26% per year between 2015 and 2021). Innovative products accounted for 50% of order intake in 2016.

> **From open innovation to thinking like a start-up**

The connected, automated, eco-friendly car of tomorrow will have little in common with previous generations. To design and produce this vehicle, the automotive industry incorporates a wide range of skill sets. Valeo works with players of varying sizes and natures, including universities and start-ups as well as major groups. This ecosystem enables Valeo to speed up the product development cycle and thereby reduce the time-to-market for its products.

The Group actively diversifies its sources of inspiration and its ties with major innovators, in particular by (i) financing the IoT (Internet of Things) Chair with the ESCP Europe business school, (ii) partnering with Safran, (iii) acquiring a stake in Navya (see Chapter 4, section 4.2.4 “A partnership approach to Research and Development”, pages 181 to 184), and (iv) acquiring a direct stake in Cathay Innovation – an investment fund dedicated to venture capital financing for start-ups.

---

(1) Products and technologies in series production for less than three years.
(2) Growth engines are strategic products and services that are positioned on growth markets or generate a significant increase in the Group’s sales.
(3) See Sustainable Development Glossary, page 450.
An organizational structure built on four market-leading, high-growth potential Business Groups

Valeo is structured around four well-balanced, coherent Business Groups that offer innovative solutions to meet the major changes taking place in its markets aimed at reducing CO₂ emissions and developing intuitive driving. Valeo enjoys leading positions and growth potential in its main markets:

- **Visibility Systems**: designs high-performance and innovative lighting and wiper systems which support the driver and passengers in all weather, day and night, and in their various onboard activities. Growth in the Business Group is driven by three successive waves of innovation aimed at reduced CO₂ emissions and the development of intuitive driving:
  - generalization of LEDs
  - reinvention of wiper systems
  - experience of traveling
  (see section 1.3.4 of this chapter, “Visibility Systems”, pages 59 to 62)

- **Powertrain Systems**: develops innovative powertrain solutions aimed at reducing CO₂ emissions and fuel consumption without compromising on driving performance or pleasure. Growth in the Business Group is driven by three continuous waves of innovation:
  - smart engines and transmissions
  - electrification medium power
  - electrification high power
  (see section 1.3.2 of this chapter, “Powertrain Systems”, pages 50 to 53)

- **Thermal Systems**: develops systems to ensure thermal energy management of the powertrain and in-vehicle comfort during all phases of vehicle use and for all types of powertrain. Business Group growth is driven by successive waves of innovation in three main areas:
  - internal combustion engine emissions decrease
  - electric vehicle travel range and reliability
  - health and well-being
  (see section 1.3.3 of this chapter, “Thermal Systems”, pages 54 to 58)

- **Comfort & Driving Assistance Systems**: focuses on driver experience, developing solutions to make driving more intuitive. Growth in the Business Group is driven by three simultaneous waves of innovation:
  - more automated driving
  - more connected driving
  - more intuitive driving
  (see section 1.3.1 of this chapter, “Comfort & Driving Assistance Systems”, pages 46 to 49)

- **Aftermarket business**: supplies original equipment spares to automakers (OES market) and replacement parts to the independent aftermarket (IAM market). It offers all aftermarket channels worldwide a broad range of products and services to help boost the efficiency of repair services and to provide greater safety, comfort and driving pleasure.
  (see section 1.3.5 of this chapter, “Valeo Service”, pages 63 to 66)

Besides the promotion of innovative technologies, the Group’s marketing and manufacturing efforts are primarily focused on accompanying longstanding customers as well as attracting new customers and winning market share in high-growth potential regions – particularly in China, the world’s largest market – while continuing to grow in mature regions such as Western Europe and North America.

New production capacities are being built up locally to meet surging demand in these markets. Where possible, these new production units are being set up on multi-activity sites in order to optimize profitability. Since 2014, China has been the Group’s largest country by headcount(1).

In 2016, Europe accounted for 49% of original equipment sales(2), with Asia accounting for 27% and China accounting for 14%. By 2021, Asia should account for 37% of Valeo’s original equipment sales, with China alone accounting for 20% and Europe accounting for 42%.

---

(1) Including partnerships for which headcount is prorated based on the Group’s percentage interest.
(2) Original equipment sales by destination region.
Ahead of the schedule set out in March 2015, Valeo presented a new strategic plan in February 2017

2016 results, ahead of schedule on the medium-term plan unveiled on March 16, 2015

In 2016, Valeo demonstrated that it is capable of growing faster than the market, and that its profitability and free cash flow performance put it ahead of the schedule set out in the medium-term plan presented at the Investor Day on March 16, 2015 (see Chapter 5, section 5.1 “Analysis of 2016 consolidated results”, pages 270 to 282).

Growth

Valeo’s like-for-like original equipment sales growth was 6 and 8 percentage points higher than automotive production in 2015 and 2016, respectively, beating the average medium-term outperformance objective of 5 percentage points set for the 2015-2020 period.

In 2016, order intake reached another record at 23.6 billion euros, up 17% on 2015. This performance confirms the Group’s potential to achieve the medium-term average organic growth target of 8% over the 2015-2020 period.

Profitability

In 2016, Valeo recorded operating margin of 8.1%, ahead of its objective for operating margin of between 8% and 9% by 2020.

Return on capital employed

Valeo achieved a return on capital employed (ROCE) of 33% and 34% in 2015 and 2016, respectively, in line with its medium-term objective of ROCE above 35% by 2020.

Free cash flow generation

Valeo’s free cash flow to EBITDA ratio came in at 31% in 2016, ahead of its medium-term objective of more than 30% by 2020.

Valeo’s investments and financial position are discussed in Chapter 5, section 5.1.4 “Cash flow and financial position”, pages 277 to 282. The Group’s objectives for 2017 are set out in Chapter 5, section 5.3 “Trends and outlook”, page 283.

(1) See Financial Glossary, page 449
(2) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 449
An ambitious new strategic plan, presented on February 28, 2017

On the back of its results over the past two years, which put the Group ahead of schedule on its 2015-2020 strategic plan, Valeo organized another Investor Day in February 2017 during which it presented a new strategic plan and new financial objectives through 2021.

As the world leader in CO₂ emissions reduction and intuitive driving (particularly autonomous vehicles), Valeo is intent on continuing its R&D efforts in order to meet its customers’ needs and leverage new growth opportunities for electrification, autonomous and connected vehicles, as well as new forms of mobility driven by digital technology.

Valeo has solid fundamentals thanks to its diversified customer and geographic positioning with an increasing footprint in high-growth potential regions, notably in Asia. Accentuating this trend over the 2016-2021 period will help Valeo pursue its geographic repositioning, with around 37% of original equipment sales projected to be generated in Asia by 2021, versus 27% in 2016.

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

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

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

Accelerating growth(3) and boosting operational excellence

Leveraging the record level of its order intake(1) over the past few years, Valeo is aiming to achieve an average outperformance of more than 7 percentage points compared to global automotive production on the back of its innovation-fueled product mix. Assuming that global automotive production increases by an annual average of 2.3% over the 2016-2021 period, sales would therefore rise to more than 22.5 billion euros in 2019 and would exceed 27 billion euros by 2021 (versus 16.5 billion euros in 2016), representing average annual sales growth of over 10%.

Improving operating margin(3)(4)

Valeo is aiming to leverage this sales growth to improve profitability, and has set a target for operating margin(4) (as a percentage of sales) of around 8.5% and 9% for 2019 and 2021, respectively, versus 8.1% in 2016.

Doubling free cash flow(1)(3) generation

Valeo is aiming to double its free cash flow(1) generation to 3.7 billion euros over the 2017-2021 period, versus 2 billion euros over the 2012-2016 period.

Profitability indicators

Within the scope of its medium-term plan characterized by strong growth in production capacity, particularly in Asia, Valeo is aiming to achieve a return on capital employed (ROCE(1)) of around 30% and a return on assets (ROA(1)) of more than 20%.

---

(1) See Financial Glossary, page 449.
(2) Products and technologies in series production for less than three years.
(3) Including Ichikoh, Valeo-Kapec and FTE and assuming that (i) global automotive production increases by an annual average of 2.3% between end-2016 and end-2021, and (ii) raw material prices remain at early-2017 levels.
(4) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 449.
1.1.4 Valeo model

Value creation model

Our strengths

Customers
- Balanced customer portfolio and geographic alignment
- Global aftermarket presence
- Partner to all automakers

Employees
- 91,800 people in 32 countries
- 1,859,854 training hours

Product development
- 13,700 engineers
- 11.1% of OE sales dedicated to gross R&D expenditure
- Eco-design approach

Quality performance
- Customer return rate below 4 parts per million products delivered
- Total Quality mindset

Global production system
- 155 plants in 29 countries
- Standardized industrial and logistics methodology and tools

Supplier base
- 95% of Valeo’s direct purchases are handled by 1,225 suppliers
- Supplier integration process
- Valeo Business Partners Code of Conduct

Environment
- 94% of sites certified ISO 14001

Solid financial position
- Rated “Investment Grade” by Moody’s and Standard & Poor’s
- Gearing at 13%

Automotive market trends
- Stringent regulations aimed at reducing air pollution
- Three technological revolutions: electrification, automation and digitalization
- A growing Asian market
- Organization of automotive production into global platforms

2016 sustainable value creation

CUSTOMERS
- Order intake up 17% to 23.6 billion euros
- 2,700 customer projects managed

SUSTAINABLE DEVELOPMENT STAKEHOLDERS
- Aim of adding 10,000 employees each year up to 2021
- Well-being at Work program
- Top employer in 23 countries

Innovation
- Innovative products accounted for 50% of all order intake
- Products contributing to CO₂ emissions reduction accounted for over 50% of Valeo’s OE sales
- 1,840 patents filed
- “Top 100 Global Innovator”

Commitment to corporate citizenship
- Plants’ initiatives program

Environmental eco-efficiency
- 50% reduction in water consumption/Sales (cu.m/€m) over 8 years
- 31% reduction in energy consumption/Sales (MWh/€m) over 8 years

FINANCIAL COMMUNITY
- Operating margin of 8.1%
- Net debt of 0.25x EBITDA
- Free cash flow/EBITDA ratio of 31%

Shareholders
- ROCE of 34%
- Dividend payout ratio of 32%
- Total shareholder return of 17%

(1) At December 31, 2016.
(2) In 2016.
(3) Raising supplier awareness of compliance and ethics issues.
(4) Property, plant and equipment and intangible assets excluding capitalized development expenditure.
(5) Products and Technologies in series production for less than three years.
(6) 2008-2016.
(7) At the 2017 Annual Shareholders’ Meeting, Valeo will recommend paying a dividend of 1.25 euros per share, up 25% on 2015, representing a payout ratio of 32%.
(8) Total shareholder return (TSR) measures share profitability from December 31, 2015 to December 31, 2016 and includes dividends received and gains realized during that period.
Operational excellence in support of strategy

Valeo’s corporate culture is built on excellence in operations, best-in-class production quality standards, the values shared by all of the Group’s employees, and its strong commitment to corporate social responsibility (labor issues, corporate citizenship and the environment).

To maintain its competitive edge over other automotive suppliers, Valeo, automakers’ preferred partner, must continue to offer innovative technology and ensure total customer satisfaction in terms of quality, costs and delivery.

To this end, Valeo has developed the 5 Axes methodology, which is strictly applied by all sites.

The 5 Axes: a culture of operational excellence and continuous improvement

Total Quality
In order to meet customer expectations in terms of product and service quality, total quality is required throughout the Group and from its suppliers. The Group’s Quality process is presented in Chapter 4, section 4.5.1 “Total quality and product safety”, pages 236 to 238.

Product Development
Valeo’s products and systems are developed by highly qualified Research and Development teams within an optimal organizational structure that combines professional skills and product expertise with first-rate methodology and best-in-class project management tools aimed at ensuring product robustness and competitiveness.

Valeo’s Research & Development process is described in Chapter 4, section 4.2 “Research and Development at Valeo: from megatrends to innovation”, pages 170 to 185.

Valeo Production System (VPS)
Valeo has developed its own production system consisting of a set of methods, tools and state-of-the-art production processes within a working environment that promotes quality, performance and employee motivation.

The Group’s Industrial function is described in Chapter 1, section 1.2.3 “Industrial and Logistics”, pages 40 to 41.

Involvement of Personnel
Operational excellence cannot be achieved without the ongoing commitment of all of the Group’s employees. Valeo therefore implements processes aimed at creating a safe working environment that fosters employee well-being.

Valeo’s labor-related performance is set out in Chapter 4, section 4.4 “Valeo and its employees”, pages 212 to 236.

Supplier Integration
In order to deliver the highest quality products and services while remaining competitive, Valeo has set up a supplier base integrating the highest performing suppliers in terms of innovation, quality, cost, delivery and risk management.

The process for integrating suppliers is presented in Chapter 4, section 4.5.3 “Application of sustainable development principles in purchasing processes”, pages 240 to 244.
Creating value shared with our stakeholders

Valeo stakeholders

As a global industrial and technology group, Valeo has relationships with the different stakeholder groups throughout the product process, from design, to production and product sales (see Chapter 4, section 4.1.4 “A sustainable development policy based on strong relationships with stakeholders”, pages 168 to 169).

Valeo Stakeholders

Employees
- Valeo employees
- Professional organizations
- Administrative and governmental authorities
- Employer representative bodies
- Employee representative bodies and labor unions
- Social security organizations

Research and Development partners
- Research partners
- and subcontractors
- Start-ups and accelerators
- Venture capital firms
- Laboratories
- Universities
- Independent public organizations
- Certification and control bodies

Financial community and individual shareholders
- Institutional shareholders/investors
- Individual shareholders
- Credit and non-financial rating agencies
- Banks
- Insurers
- Statutory Auditors

Institutions
- Public authorities (governments)
- European Commission
- International organizations (UN, ITF, IFC, OECD, etc.)

Regions
- Local authorities
- Local government
- Associations
- Civil society

Customers
- Automakers
- Distributors

Partners and suppliers
- Lessors/tenants
- Suppliers
- Innovative SMEs
Breakdown of value creation

The following flow chart breaks down the value created by the Group with and for its stakeholders in 2016.

\[
\text{Sales} - \text{Suppliers and other expenses} = \text{Value generated by Valeo}^{(1)} = 100\%
\]

1. Net income for the year excluding share in net earnings of equity-accounted companies, personnel expenses and employee benefits, depreciation of property, plant and equipment and amortization of other intangible assets, income taxes and levies included in operating items, and cost of net debt.
2. Personnel expenses and employee benefits (of which pension costs and restructuring costs).
3. 2016 retained earnings plus depreciation of property, plant and equipment and amortization of other intangible assets.
4. Dividends, based on a payout ratio of 32%, to be proposed at the Shareholders’ Meeting called to approve the financial statements for the year ended December 31, 2016.
5. Income taxes and levies included in operating items.
6. Cost of net debt.
Valeo’s top sustainable development challenges

Valeo has rolled out a materiality matrix with the aim of improving the quality and relevance of the process by which its strategic, operational and sustainable development objectives are measured. The matrix presents the main sustainable development challenges for the Group in view of its business model and its stakeholders’ expectations (employees, automaker customers, research partners, suppliers, financial community, etc.). Feedback from stakeholders enabled Valeo to validate the materiality matrix in 2016. The Group closely monitors each challenge on a permanent basis using action plans and key indicators, which are set out throughout Chapter 4 on Sustainable Development, pages 159 to 268.

Valeo model
1.1.5 Solid governance in support of strategy

The Group’s growth model is based on a strong corporate governance structure, led by the Board of Directors, the Lead Director, the Board’s Committees, the Chief Executive Officer (who became the Chairman and Chief Executive Officer on February 18, 2016), as well as the Operations Committee, comprising the Chairman and Chief Executive Officer and the 14 Functional and Operational Directors.

Valeo’s governance structure (described in Chapter 3, “Corporate Governance”, pages 93 to 158) 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

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 had set up three committees – the Audit & Risks Committee, the Appointments, Compensation & Governance Committee and the Strategy Committee – in order to enhance its operating procedures and provide assistance with preparing its decisions by issuing recommendations and opinions. On January 26, 2017, the Appointments, Compensation & Governance Committee was split into two separate committees – the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee – in line with the Group’s aim of continuously improving its governance. The Board of Directors also organizes an annual strategy seminar for its members.

The Board of Directors’ 14 members have different backgrounds and enable the Group to benefit from their experience and skills in a variety of fields relating to economics, manufacturing and finance. Currently, 42% of the Board’s members are women. Seventy-nine percent of the Board’s members are under 70 and, except for the Chairman and Chief Executive Officer, all of them are considered independent according to the criteria set out in both the internal procedures and the AFEP-MEDEF Code to which Valeo refers.

At end-2015, Pascal Colombani, then Chairman of the Board of Directors, indicated to the Board of Directors that, having reached the age limit set out in Valeo’s articles of association, it would be the appropriate time for him to step down from his position in view of a change of governance. At a meeting held on February 18, 2016, the Board of Directors unanimously decided to combine the positions of Chairman of the Board of Directors and Chief Executive Officer and to appoint the Chief Executive Officer, Jacques Aschenbroich, as Chairman of the Board of Directors. Jacques Aschenbroich thus became Chairman of the Board of Directors and Chief Executive Officer. At the same meeting, Pascal Colombani was appointed as Honorary Chairman. The Board of Directors also unanimously decided to appoint Georges Pauget as Lead Director. Pursuant to the Board of Directors’ internal procedures, he has the broadest powers to carry out his duties. Georges Pauget is an independent director, the Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee, and a member of the Strategy Committee.
An assessment of the Board of Directors’ operation was conducted in late 2016 and early 2017 with the assistance of a specialist consulting firm. A summary of the assessment highlighted the directors’ very positive view of the Company’s governance. The directors noted the success of combining the position of Chairman of the Board of Directors with that of Chief Executive Officer. They were also satisfied with the newly created position of Lead Director and the role he plays, and praised the Board’s high quality, constantly improving operation along with the excellent trust-based working relationship between the Board of Directors and the Chairman and Chief Executive Officer. The strategy seminar held in Silicon Valley, California in November 2016 was considered a key moment for the Board of Directors, in view of the quality of its organization, the issues covered and the people in attendance.

Composition of the Board of Directors at December 31, 2016

<table>
<thead>
<tr>
<th>App</th>
<th>Gender</th>
<th>Nationality</th>
<th>Independent</th>
<th>Number of directorships held in companies other than Valeo</th>
<th>Appointments Committee</th>
<th>Compensation &amp; Governance Committee</th>
<th>Strategy Committee</th>
<th>Start of first term of office</th>
<th>End of current term of office</th>
<th>Number of years on the Board</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacques Aschenbroich</td>
<td>M</td>
<td>F</td>
<td>No</td>
<td>1</td>
<td>2009</td>
<td>2019</td>
<td>8</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gérard Blanc</td>
<td>M</td>
<td>F</td>
<td>Yes</td>
<td>1</td>
<td>•</td>
<td>2007</td>
<td>2017</td>
<td>10</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Daniel Camus</td>
<td>M</td>
<td>FC</td>
<td>Yes</td>
<td>2</td>
<td>• (Chair)</td>
<td>2006</td>
<td>2017</td>
<td>10</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pascal Colombani(2)</td>
<td>M</td>
<td>F</td>
<td>Yes</td>
<td>2</td>
<td>•</td>
<td>2007</td>
<td>2018</td>
<td>11</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jérôme Contamine</td>
<td>M</td>
<td>F</td>
<td>Yes</td>
<td>0</td>
<td>•</td>
<td>2006</td>
<td>2018</td>
<td>11</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caroline Maury Devine</td>
<td>F</td>
<td>Am</td>
<td>Yes</td>
<td>3</td>
<td>•</td>
<td>2015</td>
<td>2017</td>
<td>2</td>
<td>88%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sophie Dutordoir</td>
<td>F</td>
<td>B</td>
<td>Yes</td>
<td>1</td>
<td>•</td>
<td>2013</td>
<td>2017</td>
<td>4</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michel de Fabiani</td>
<td>M</td>
<td>F</td>
<td>Yes</td>
<td>0</td>
<td>•</td>
<td>2009</td>
<td>2019</td>
<td>8</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mari-Noëlle Jégo-Laveissière(3)</td>
<td>F</td>
<td>F</td>
<td>Yes</td>
<td>1</td>
<td>•</td>
<td>2016</td>
<td>2020</td>
<td>1</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noëlle Lenoir</td>
<td>F</td>
<td>F</td>
<td>Yes</td>
<td>1</td>
<td>•</td>
<td>2010</td>
<td>2018</td>
<td>7</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thierry Moulonguet</td>
<td>M</td>
<td>F</td>
<td>Yes</td>
<td>1</td>
<td>•</td>
<td>2011</td>
<td>2020</td>
<td>6</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Georges Paquet</td>
<td>M</td>
<td>F</td>
<td>Yes</td>
<td>2</td>
<td>(Chair)</td>
<td>2007</td>
<td>2020</td>
<td>10</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ulrike Steinhorst</td>
<td>F</td>
<td>G</td>
<td>Yes</td>
<td>1</td>
<td>•</td>
<td>2011</td>
<td>2020</td>
<td>6</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Véronique Weill(3)</td>
<td>F</td>
<td>F</td>
<td>Yes</td>
<td>2</td>
<td>•</td>
<td>2016</td>
<td>2020</td>
<td>1</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attendance rate</td>
<td>90%</td>
<td>92%</td>
<td>91%</td>
<td>96%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Rate of attendance at Board meetings (director present).
(2) At the Board of Directors’ meeting of January 26, 2017, Pascal Colombani was considered independent.
(3) Since she was appointed on May 26, 2016.

NATIONALITIES

For further information on the Board’s operation and composition, see Chapter 3, section 3.2 “Composition of the Board of Directors, and preparation and organization of its work”, pages 116 to 129.
## The three Committees created by the Board

At December 31, 2016:

<table>
<thead>
<tr>
<th>Audit &amp; Risks Committee</th>
<th>Appointments, Compensation &amp; Governance Committee</th>
<th>Strategy Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 independent members out of 5</td>
<td>6 independent members out of 6</td>
<td>7 independent members out of 7</td>
</tr>
<tr>
<td>5 meetings</td>
<td>7 meetings</td>
<td>4 meetings</td>
</tr>
<tr>
<td>90% attendance rate</td>
<td>92% attendance rate</td>
<td>91% attendance rate</td>
</tr>
<tr>
<td>- Review the parent company and consolidated financial statements, quarterly and half-yearly information, and half-year reports</td>
<td>- Study and make recommendations concerning the compensation paid to executive corporate officers, the aggregate amount of attendance fees and their allotment as well as the allotment of stock options, free shares and performance shares</td>
<td>- 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</td>
</tr>
<tr>
<td>- Regularly review the Group’s risk map</td>
<td>- Prepare the composition of the governing bodies, by making recommendations regarding the appointment of executive corporate officers, directors and committee members</td>
<td>- Issue opinions and recommendations on the analysis of the Group’s development projects, particularly external growth transactions, equity investments and other assets, and any investments or borrowings in excess of 50 million euros per transaction</td>
</tr>
<tr>
<td>- Monitor the Group’s risk management and compliance system along with its internal control system to ensure their effectiveness</td>
<td>- Draw up a succession plan for corporate officers in order to propose solutions in the event of an unforeseen vacancy</td>
<td></td>
</tr>
<tr>
<td>- Guarantee the independence of the Statutory Auditors</td>
<td>- Examine the independence of each director</td>
<td></td>
</tr>
<tr>
<td>- Supervise the procedure for selecting or renewing statutory audit engagements</td>
<td>- Select new directors for appointment</td>
<td></td>
</tr>
<tr>
<td>- Remain informed of the Group’s financial position and of the main thrusts of the Group’s financial strategy</td>
<td>- Assess and update corporate governance rules</td>
<td></td>
</tr>
<tr>
<td>- Review external communications prior to their publication</td>
<td>- Review the CSR and safety policies</td>
<td></td>
</tr>
</tbody>
</table>

On January 26, 2017, the Appointments, Compensation & Governance Committee was split into two separate committees – the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee.

The split is aimed at achieving continuous improvement in governance. Valeo is committed to a sustainable development strategy through a corporate social responsibility policy, aimed at aligning its economic, environmental and social objectives, and its governance and values are rooted in socially responsible principles. It therefore seemed appropriate for this competency to be placed within the remit of the Committee in charge of governance.
The Operations Committee implements the Group’s strategy

The Operations Committee coordinates the Group’s management and operations

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

The Operations Committee (described in Chapter 3, section 3.1 “Corporate governance bodies”, page 95) reflects the Group’s organizational structure:

- based on the four Business Groups and Valeo Service (see Chapter 1, section 1.3 “Businesses”, pages 45 to 66);
- supported by the functional networks (see Chapter 1, section 1.2.3 “Presentation of the functional networks”, pages 37 to 44).

Composition of the Operations Committee at March 22, 2017

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Position held since</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacques Aschenbroich</td>
<td>Chairman and Chief Executive Officer</td>
<td>2009</td>
</tr>
<tr>
<td>Geoffrey Bouquot</td>
<td>Vice-President, Corporate Strategy and External Relations</td>
<td>2016</td>
</tr>
<tr>
<td>Fabienne de Brébisson</td>
<td>Vice-President, Communications</td>
<td>2011</td>
</tr>
<tr>
<td>Robert Charvier</td>
<td>Chief Financial Officer</td>
<td>2010</td>
</tr>
<tr>
<td>Catherine Delhaye</td>
<td>Chief Ethics and Compliance Officer</td>
<td>2012</td>
</tr>
<tr>
<td>Xavier Dupont</td>
<td>President, Powertrain Systems Business Group</td>
<td>2015</td>
</tr>
<tr>
<td>Eric Antoine Fredette</td>
<td>General Counsel</td>
<td>2015</td>
</tr>
<tr>
<td>Bruno Guillemet</td>
<td>Senior Vice-President, Human Resources</td>
<td>2015</td>
</tr>
<tr>
<td>Maurizio Martinelli</td>
<td>President, Visibility Systems Business Group</td>
<td>2014</td>
</tr>
<tr>
<td>Axel Maschka</td>
<td>Senior Vice-President, Sales &amp; Business Development</td>
<td>2014</td>
</tr>
<tr>
<td>Francisco Moreno</td>
<td>President, Thermal Systems Business Group</td>
<td>2017(1)</td>
</tr>
<tr>
<td>Christophe Périllat</td>
<td>Chief Operating Officer</td>
<td>2011</td>
</tr>
<tr>
<td>Eric Schuler</td>
<td>President, Valeo Service Activity</td>
<td>2016</td>
</tr>
<tr>
<td>Jean-François Tarabba</td>
<td>Senior Vice-President, Research &amp; Development and Product Marketing</td>
<td>2013</td>
</tr>
<tr>
<td>Marc Vrecko</td>
<td>President, Comfort &amp; Driving Assistance Systems Business Group</td>
<td>2011</td>
</tr>
</tbody>
</table>

(1) January 16, 2017
Balanced compensation to support short-, medium- 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 – in the case of the Chairman and Chief Executive Officer – to strategy, risk management and financial communication (see Chapter 3, section 3.3 “Compensation of corporate officers, directors and other Group executive managers”, pages 138 to 158).

Components of compensation of executive managers and corporate officers

<table>
<thead>
<tr>
<th>Beneficiaries</th>
<th>Form of payment</th>
<th>Performance type</th>
<th>Performance period</th>
<th>Decision-maker</th>
<th>Performance metric</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman and CEO/members of the Operations Committee</td>
<td>Cash</td>
<td>Short-term</td>
<td>Continuous</td>
<td>Chairman and CEO: Board of Directors on recommendation of the Compensation Committee(1)</td>
<td>Not applicable</td>
</tr>
<tr>
<td></td>
<td>Variable portion</td>
<td>Short-term</td>
<td>1 year</td>
<td>Chairman and CEO: Board of Directors on recommendation of the Compensation Committee(1)</td>
<td>5 financial criteria (operating margin, ROCE, free cash flow, net income, order intake(2))</td>
</tr>
<tr>
<td></td>
<td>Performance shares</td>
<td>Long-term</td>
<td>3 years</td>
<td>Members of the Operations Committee: Chairman and CEO in liaison with the Compensation Committee(1)</td>
<td>Qualitative criteria (quality of financial communications, strategic vision, risk management)</td>
</tr>
<tr>
<td></td>
<td>Supplementary pension</td>
<td>Long-term</td>
<td>Continuous</td>
<td>Board of Directors on recommendation of the Compensation Committee(1)</td>
<td>Members of the Operations Committee: financial and non-financial criteria</td>
</tr>
<tr>
<td></td>
<td>Attendance fees</td>
<td>Short-term</td>
<td>Continuous</td>
<td>Board of Directors, based on the aggregate amount approved by the Shareholders’ Meeting</td>
<td>Chairman and CEO: indexed to variable compensation</td>
</tr>
</tbody>
</table>

(1) Committee set up following the division of the Appointments, Compensation & Governance Committee on January 26, 2017.
(2) Criteria applicable for 2016 compensation.
(3) See Financial Glossary, page 449.
Compensation awarded during the year to Jacques Aschenbroich, Chief Executive Officer until February 18, 2016 then Chairman and Chief Executive Officer as of February 18, 2016 (1)

**Performance criteria over 3 years:**
- ROA, operating margin and ROCE (3): the average ratio over three years (2016 to 2018) of the effective achievement rate in relation to the target rate set by the Board of Directors at the beginning of each fiscal year, which must be at least equal to the guidance for the year under review, is 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%)

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

---

**Performance shares**
70,974 shares
(€2,699,850) (2)

**Variable portion**
€1,627,738
(165% of fixed compensation)

**Quantitative criteria** (115% of fixed compensation)
- Operating margin (23% of fixed compensation)
- Operating free cash flow (23% of fixed compensation)
- Net income (23% of fixed compensation)
- ROCE (23% of fixed compensation)
- Consolidated order intake (23% of fixed compensation)

**Qualitative criteria** (50% of fixed compensation)
- Quality of financial communications (11% of fixed compensation)
- Strategic vision (22% of fixed compensation)
- Risk management (17% of fixed compensation)

**Fixed portion**
€986,508

Excluding benefits in kind and supplementary pension

---

(1) Subject to a say-on-pay vote at the Shareholders’ Meeting to be held on May 23, 2017.
(2) Performance shares measured in accordance with IFRS (Unit value of 38.04 euros at the allotment date).
(3) See Financial Glossary, page 449.
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, as follows:

For further information on the Group’s main risks, see Chapter 2, section 2.1 “Risk factors”, pages 70 to 84.

Main risks identified

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

For further information on the Group’s main risks, see Chapter 2, section 2.1 “Risk factors”, pages 70 to 84.
Strict adherence to ethics and compliance principles

Due to its global presence and its growing number of employees, Valeo has set up a specific and comprehensive Compliance Program to fight corruption and anti-competitive practices. The program is run by the Ethics and Compliance Department and is based on a comprehensive mechanism that comprises awareness-raising tools and a whistleblowing system aimed at prevention and continuous improvement.

For further information on the Group’s ethics and compliance principles, see Chapter 4, section 4.5.2 “Ethics and compliance”, pages 238 to 239.
SAFE HARBOR STATEMENT

Statements contained in this document, which are not historical fact, constitute “Forward-Looking Statements”. These statements include projections and estimates and their underlying assumptions, statements regarding projects, objectives, intentions and expectations with respect to future financial results, events, operations, services, product development and potential, and statements regarding future performance. Even though Valeo’s management feels that the Forward-Looking Statements are reasonable as at the date of the 2016 Registration 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 2016 Registration Document and risks relating to legal action resulting from such investigations, 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 Valeo’s 2016 Registration Document registered with the AMF on March 24, 2017 (under number D.17-0226).

Valeo has recognized an expense of 99 million euros in its consolidated financial statements to cover the main risks resulting from investigations currently being carried out by the antitrust authorities as identified in the 2016 Registration Document and risks relating to legal action resulting from such investigations.

The Company assumes no responsibility for analyses issued by analysts and any other information prepared by third parties which may be used in this document. Valeo does not intend or assume any obligation to review or to confirm the estimates of analysts or to update any Forward-Looking Statements to reflect events or circumstances which occur subsequent to the date of the 2016 Registration Document.
VALEO

Joint-stock company (société anonyme) with capital of 239,143,131 euros
552 030 967 RCS Paris
43, rue Bayen – 75848 Paris Cedex 17 – France
Tel: +33 (0)1 40 55 20 20
Fax: +33 (0)1 40 55 21 71
www.valeo.com

Institutional investor relations

Thierry Lacorre
Financial Relations Director
Valeo
43, rue Bayen – 75848 Paris Cedex 17 – France
Tel: +33 (0)1 40 55 37 93
Fax: +33 (0)1 40 55 20 40
Email: thierry.lacorre@valeo.com

Individual shareholder relations

Valeo
43, rue Bayen – 75848 Paris Cedex 17 – France
Tel: +33 (0)1 40 55 20 39
Fax: +33 (0)1 40 55 20 40
Email: valeo@relations-actionnaires.com

Scan for more information on Valeo investor relations