2017 INTEGRATED REPORT

EXTRACT FROM THE REGISTRATION DOCUMENT

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

SMART TECHNOLOGY FOR SMARTER CARS
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For the third 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 2017 financial year, as well as its medium-term projections.

The Integrated Report is included in the Registration Document and the standalone version is also available on the Valeo website (www.valeo.com).
111,600
EMPLOYEES

33
COUNTRIES

15
DISTRIBUTION PLATFORMS

20
RESEARCH CENTERS

35
DEVELOPMENT CENTERS

184
PLANTS

STRATEGIC OPERATIONS
IN 2017

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

2017 KEY FIGURES

€1.9bn
Gross R&D expenditure

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

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

€18.6bn
Sales
A paradigm shift towards: electric, autonomous, shared cars
MESSAGE FROM JACQUES ASCHENBROICH, Chairman and Chief Executive Officer

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

JACQUES ASCHENBROICH
— TECHNOLOGICAL INNOVATION, GROWTH AND FINANCIAL PERFORMANCE

2017, A SOLID YEAR IN A COMPLEX ECONOMIC ENVIRONMENT

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

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

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

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

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

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

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

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

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

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

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

March 29, 2018

(1) See Financial Glossary, page 36.
(2) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 36.
(3) Net attributable income (see Financial Glossary, page 36), excluding a 117 million euro non-recurring expense relating to the decline in value of deferred tax assets, proportional to the decrease in the US corporate income tax rate.
(4) See Financial Glossary, page 36, excluding Valeo Siemens eAutomotive.
(5) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.
(6) Assuming that global automotive production increases by 1.5% and raw material prices and exchange rates remain in line with current levels.
(7) Operating margin (as a % of sales) excluding share in net earnings of equity-accounted companies.
(8) Accordingly, the “Share in net earnings of equity-accounted companies” caption will have an impact of around -0.2 points on Valeo’s statement of income in 2018.
(9) EBITDA margin (as a % of sales), see Financial Glossary, page 36.
KEY FIGURES IN 2017

Business review and results

GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sales</th>
<th>Research &amp; Development</th>
<th>% of Total Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,307</td>
<td>1,596</td>
<td>10.4%</td>
</tr>
<tr>
<td>2017</td>
<td>1,895</td>
<td>1,596</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

ORDER INTAKE

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sales</th>
<th>Innovative Products</th>
<th>% of Total Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>20.1</td>
<td>23.6</td>
<td>11.1%</td>
</tr>
<tr>
<td>2017</td>
<td>27.6</td>
<td>27.6</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

SALES

TOTAL SALES AND SALES BY BUSINESS GROUP

In millions of euros and as a % of sales

<table>
<thead>
<tr>
<th>Business Group</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>% of Total Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMFORT &amp; DRIVING ASSISTANCE SYSTEMS</td>
<td>14,544</td>
<td>16,519</td>
<td>18,550</td>
<td>87%</td>
</tr>
<tr>
<td>POWERTRAIN SYSTEMS</td>
<td>1,116</td>
<td>1,334</td>
<td>1,477</td>
<td>7.7%</td>
</tr>
<tr>
<td>THERMAL SYSTEMS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VISIBILITY SYSTEMS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ORDER INTAKE

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

OPERATING MARGIN

Including share in net earnings of equity-accounted companies

In millions of euros and as a % of sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sales</th>
<th>Operating Margin</th>
<th>% of Total Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,116</td>
<td>1,334</td>
<td>11.1%</td>
</tr>
<tr>
<td>2017</td>
<td>1,477</td>
<td>1,596</td>
<td>11.8%</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>
<th>Payout Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3.11</td>
<td>1.00 (30%)</td>
<td>1.25 (34%)</td>
</tr>
<tr>
<td>2017</td>
<td>3.72</td>
<td>1.25 (34%)</td>
<td>1.25 (34%)</td>
</tr>
</tbody>
</table>

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

**ORIGINAL EQUIPMENT SALES GROWTH AND BREAKDOWN BY DESTINATION REGION**

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

- **NORTH AMERICA**
  - 20% of sales**
  - OE sales +16%
  - Outperformance 8 pts

- **SOUTH AMERICA**
  - 2% of sales**
  - OE sales +16%
  - Underperformance 6 pts

- **EUROPE**
  - (incl. Africa)
  - 47% of sales**
  - OE sales +6%
  - Outperformance 3 pts

- **CHINA**
  - 15% of sales**
  - OE sales +17%
  - Outperformance 15 pts

- **ASIA**
  - Excluding China (incl. the Middle East and Oceania)
  - 16% of sales**
  - OE sales +7%
  - Outperformance 0 pts

- **WORLD**
  - OE sales +7%
  - Outperformance 5 pts

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

**Sales growth**, page 273.

**Original equipment sales by destination.
Cash flow and financial structure

**TOTAL EBITDA(1) AND EBITDA BY BUSINESS GROUP**

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

<table>
<thead>
<tr>
<th>Business Group</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMFORT &amp; DRIVING ASSISTANCE SYSTEMS</td>
<td>1,841</td>
<td>2,144</td>
<td>2,436</td>
</tr>
<tr>
<td>POWERTRAIN SYSTEMS</td>
<td>1,086</td>
<td>1,249</td>
<td>1,745</td>
</tr>
<tr>
<td>THERMAL SYSTEMS</td>
<td>364</td>
<td>437</td>
<td>577</td>
</tr>
<tr>
<td>VISIBILITY SYSTEMS</td>
<td>124</td>
<td>132</td>
<td>149</td>
</tr>
</tbody>
</table>

**INVESTMENT FLOWS**

In millions of euros and as a % of sales

- Net payments for purchases of property, plant and equipment and intangible assets
- Capitalized development expenditure

**FREE CASH FLOW(1)**

In millions of euros

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>565</td>
</tr>
<tr>
<td>2016</td>
<td>661</td>
</tr>
<tr>
<td>2017</td>
<td>278</td>
</tr>
</tbody>
</table>

**NET DEBT**

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>124</td>
</tr>
<tr>
<td>2016</td>
<td>537(3)</td>
</tr>
<tr>
<td>2017</td>
<td>1,852(2)</td>
</tr>
</tbody>
</table>

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

ROCE\(^{(1)}\)
(return on capital employed)

ROA\(^{(1)}\)
(return on assets)

Non-financial performance recognized by the DJSI World and Europe indices

ENVIRONMENT - INNOVATION
CONTRIBUTION TO CO\(_2\) EMISSIONS REDUCTION
% of total 2017 original equipment sales, by Business Group, attributable to products that contribute to CO\(_2\) emissions reduction

SOCIAL - LABOR-RELATED
FREQUENCY RATE (FR\(^1\))
OF OCCUPATIONAL ACCIDENTS

GOVERNANCE

7
BOARD OF DIRECTORS
MEETINGS HELD IN 2017

92%
OF DIRECTORS ARE INDEPENDENT\(^{(4)}\)

93%
AVERAGE EFFECTIVE ATTENDANCE RATE

42%
OF THE BOARD OF DIRECTORS’ MEMBERS ARE WOMEN\(^{(5)}\)

(1) See Financial Glossary, page 36.


(3) Calculation of FR\(^1\): number of lost-time accidents x 1,000,000/number of hours worked during the year.

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

(5) In accordance with decree no. 2017-1781 of December 27, 2017 on equal access for women and men to the Boards of Directors of companies and organizations, this percentage excludes the director representing employees.
TRENDS

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

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

Increasingly stringent regulations aimed at reducing air pollution

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

Cities across the world are also lining up as new regulators, adapting urban infrastructure and encouraging new mobility behaviors through coercive regulations and “nudges” intended to curb noise and air (CO₂, nitrogen oxide [NOx] and fine particle emissions) pollution as well as the number of road accidents.

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

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

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

...........

(1) See Chapter 4 of the 2017 Registration Document, section 4.2.1 “From analysis of megatrends to the vehicle concept of tomorrow”, pages 181 to 184.
(3) Source: European Commission.
Evolving demographics characterized by a growing and aging population
By 2050, the world’s population is expected to reach 9.8 billion(2). Over the next few decades, much of this growth will take place in emerging countries such as India and nations in continental Africa where the mainly young population is seeking jobs and infrastructure as well as public and private services. Developed countries are likely to see limited economic growth coupled with an aging population. With, for the most part, their strong purchasing power, senior citizens are demanding personalized and adapted products and services.

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

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

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

Climate change and scarcity of resources (energy, food and water)
Global warming and its environmental impacts are a clear and present issue for the whole planet:
- due to their growing populations, emerging and high-growth countries will face a major need for water as well as energy and food resources;
- the more energy-intensive developed countries have committed to reducing their energy consumption.

Technological revolution and the digital society
Technological innovation is accelerating – nowhere is this more evident than in robotics, artificial intelligence, information systems and communications. The Internet and smartphones have become able to connect objects, and the take-up of mobility technology has increased. This is making it easier to provide near-unlimited, real-time access to information, thereby transforming the way people communicate, work and travel.
An increasing number of consumers are choosing usership and sharing as an alternative to ownership. This digital revolution is giving rise to new economic models, which are shaking up numerous sectors such as hospitality, private passenger transportation, transportation of goods, healthcare, insurance and finance, through the sharing economy.
The three technological revolutions taking place in the automotive market...

Regulatory pressure and the appeal of new technologies are promoting the development of innovations, particularly in the areas of reducing CO₂ emissions and improving road safety. The automotive industry is working to develop greener vehicles that offer greater comfort and safety for road users.

**Electrification of powertrains**
The decline in demand for diesel vehicles and the obligation for automakers to comply with increasingly stringent local, national and regional regulations on CO₂ emissions are leading to the development of new solutions in terms of powertrain electrification, such as:

- Optimization of internal combustion engines through transmission automation, particularly using dual-clutch transmissions;
- 48 V medium-power hybrid solutions enabling powertrain electrification at a competitive cost;
- High-power (over 60 V) electrification with electric vehicles and plug-in hybrids, offering a significant reduction in CO₂ emissions and the option of traveling in zero-emissions mode, especially in urban areas.

**The autonomous vehicle**
In addition to powertrain electrification, automated vehicles will become increasingly widespread.

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

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

**Digital mobility**
Mobility requirements are growing, especially in urban areas.

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

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

Digital mobility requires vehicles to be increasingly connected both to other vehicles and to infrastructure.
... are accelerating in Asia, the world’s largest market

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

Since 2012, more than 50%\(^{(1)}\) of vehicles have been manufactured in Asia. With 28 million vehicles\(^{(2)}\) produced in 2017, representing 29% of global automotive production, China is the world’s biggest producer of automobiles. South-East Asia and India have confirmed their strong medium-term growth potential and, in light of the economic growth outlook and low levels of car ownership in these regions, this trend is set to continue over the coming years.

Asia at the epicenter of the three technological revolutions

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

To speed up the development of the autonomous vehicle, a number of technology partnerships and consortiums have been formed in Asia, particularly in China, Japan and South Korea. Singapore and an increasing number of other cities in Asia have made mobility a central component of their economic development strategy, optimizing and combining public, private, shared and digital mobility solutions.

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Regional breakdown of global automotive production in 2017, in millions of vehicles\(^{(1)}\)

- **China**, world leader with 29% of automotive production
- **ASIA**: >50% of automotive production
- **EXCLUDING ASIA**: <50% of automotive production

---

Strengthened global platform strategy

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

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\(^{(1)}\) Information relating to automotive production is based on data provided by LMC.
A new Valeo: more technologically focused, innovative, dynamic and profitable

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

- sustained Research and Development efforts to maintain a leading position in CO₂ emissions reduction and intuitive driving; and
- strengthening its presence in high-growth potential regions, especially in Asia and emerging countries.

The three automotive revolutions, offering new growth opportunities for Valeo

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

- **Powertrain electrification** is gathering pace in response to the need to reduce CO₂ emissions and offset the decline in diesel vehicle sales. Valeo enjoys a longstanding presence in the electric technologies market:
  - as the first supplier to offer its customers the Stop-Start system, Valeo has long specialized in the development and manufacture of low-voltage electric systems. In recent years, the Group has recorded a strong order intake for 48 V mild-hybrid systems, cementing its status as a world leader(1) in this area;
  - in late 2016, Valeo also created the strategic Valeo Siemens eAutomotive joint venture with Siemens, a world leader in high-voltage (over 60 V) electric systems for plug-in hybrid and electric vehicles.

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

- **The growing demand for vehicle automation** brings with it an increase in the number of sensors and onboard software. Valeo is positioned as the global leader(1) in driving assistance. Boasting the widest portfolio of sensors on the market, from ultrasonic sensors, radars and cameras to laser scanners, the Group develops powerful onboard software.

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

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

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

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

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

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

**VALEO AT THE CENTER OF THE AUTOMOTIVE INDUSTRY’S THREE REVOLUTIONS**

- **DIGITAL MOBILITY**
  - **THE AUTONOMOUS VEHICLE**
  - **ELECTRIFICATION**

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14
Innovation, Valeo's DNA

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

**An efficient, tailor-made technological development process**

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

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

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

**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. Based in Paris, Valeo.ai aims to become a key player in the mobility industry by leveraging its close ties with a vast community of scientists and academics, particularly through strategic alliances with renowned partners such as the French National Institute of IT and Automation Research (INRA), Telecom ParisTech, Mines ParisTech and the French Alternative Energies and Atomic Energy Commission (CEA).

Similarly, Valeo is expanding its own start-up and open innovation ecosystem by investing in venture capital funds in Silicon Valley (United States), France, Germany, Israel and China and by acquiring direct stakes in innovative companies. This open innovation strategy notably allows Valeo to shorten development cycles for its products and time-to-market for its innovations (see Chapter 4 of the 2017 Registration Document, section 4.2.4 “A partnership approach to Research and Development”, pages 192 to 196).

**A recognized innovation strategy fueling organic growth**

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

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

**2017 KEY FIGURES**

**VALEO, A TECH COMPANY**

- **17,900 RESEARCH AND DEVELOPMENT EMPLOYEES**
  - +31% INCREASE IN RESEARCH AND DEVELOPMENT EMPLOYEES COMPARED TO 2016
- **11.8% OF ORIGINAL EQUIPMENT SALES DEDICATED TO GROSS RESEARCH AND DEVELOPMENT EXPENDITURE**
- **VALEO, FRANCE’S BIGGEST PATENT FILER**
  - **2,053 PATENTS FILED**
  - **50% INNOVATIVE PRODUCTS**
  - **2,800 DEVELOPMENT PROJECTS**

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

Accelerating order intake, driving Valeo’s future organic growth

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

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

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

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

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

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

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

- its portfolio of innovative technologies designed to reduce CO₂ emissions and develop intuitive driving; and
- its foothold in high-growth potential markets.

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

These external growth transactions are in line with the Group’s goal of maintaining its investment grade status with rating agencies Standard & Poor’s and Moody’s. They are described in detail in Chapter 5 of the 2017 Registration Document, section 5.4.6, Note 2.2 “Changes in the scope of consolidation” to the 2017 consolidated financial statements, pages 298 to 305.
## AN ORGANIZATIONAL STRUCTURE BUILT ON FOUR MARKET-LEADING, HIGH-GROWTH POTENTIAL BUSINESS GROUPS

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

<table>
<thead>
<tr>
<th>BUSINESS GROUP</th>
<th>PERFORMANCE</th>
<th></th>
</tr>
</thead>
</table>
| COMFORT & DRIVING ASSISTANCE | 19% | NO. 2 – COMFORT & DRIVING ASSISTANCE SYSTEMS**<br>NO. 1 – DRIVING ASSISTANCE SYSTEMS*<br><br>Tomorrow’s cars will be automated and connected. Innovative, intuitive interfaces will be needed to support this functional enhancement. The Comfort & Driving Assistance Systems Business Group focuses on driver experience, developing solutions to make mobility safer, more intuitive and more connected. Growth in the Business Group is driven by three simultaneous waves of innovation:  
* more automated driving  
* more connected driving  
* more intuitive driving  
(see Chapter 1 of the 2017 Registration Document, section 1.4.1 “Comfort & Driving Assistance Systems”, pages 43 to 46) |
| POWERTRAIN SYSTEMS | 23% | NO. 1 – ELECTRICAL SYSTEMS**<br>NO. 2 – TRANSMISSION SYSTEMS**<br><br>The Powertrain Systems Business Group develops innovative powertrain solutions to reduce 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 Chapter 1 of the 2017 Registration Document, section 1.4.2 “Powertrain Systems”, pages 47 to 50) |
| THERMAL SYSTEMS | 27% | NO. 1 – BUS THERMAL MANAGEMENT**<br>NO. 2 – THERMAL SYSTEMS**<br><br>To address the new challenges facing the automotive industry, the strategic objectives of the Thermal Systems Business Group are three-fold: reduce harmful emissions from vehicles with internal combustion engines, increase driving range and battery life for hybrid and electric vehicles, and promote passenger health and well-being. Business Group growth is driven by successive waves of innovation in three main areas:  
* internal combustion engine emissions decrease  
* electric vehicle driving range and reliability  
* health and well-being  
(see Chapter 1 of the 2017 Registration Document, section 1.4.3 “Thermal Systems”, pages 51 to 55) |
| VISIBILITY SYSTEMS | 31% | NO. 1 – WIPER SYSTEMS**<br>NO. 1 – LIGHTING SYSTEMS**<br><br>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 on-board 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 Chapter 1 of the 2017 Registration Document, section 1.4.4 “Visibility Systems”, pages 56 to 59) |

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**As a % of total 2017 sales (the share of each Business Group’s sales includes sales generated by the Valeo Service Activity).**  
**In global market share (based on Valeo estimates).**
A stronger presence in Asia and among Asian customers

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

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

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

As an illustration of this strategy, China has become the Group’s largest country in terms of order intake and headcount. China is already the world’s biggest market, representing 29%\(^1\) of global automotive production in 2017, and is expected to remain the fastest growing region for production until 2021. Valeo enjoys a strong foothold in China with 32 plants. It also has 7 Research and Development centers in the country, which employ some 3,000 engineers, including more than 100 technology experts. Thanks to this position, the Group has become a major local player not only for traditional international customers, but also for Chinese automakers, which accounted for 38% of the Group’s order intake in the country in 2017.

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

This Asia-oriented strategy should enable the Group to increase the share of sales\(^3\) generated in the region from 27% in 2016 to 37% in 2021. China will be the main driver behind this trend, with its contribution to total sales expected to rise by six percentage points\(^3\) over the period to 20% in 2021.

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\(^1\) Source: LMC.

\(^2\) Original equipment sales by destination region.

\(^3\) Based on the medium-term strategic plan presented on February 28, 2017.
A medium-term strategic plan based on innovation and organic growth


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 vehicles and new forms of mobility driven by digital technology.

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

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

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

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

SALES EXCEEDING 27 BILLION EUROS IN 2021

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

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

- **Doubling free cash flow**
  Against a backdrop of strong sales growth and improved profitability, Valeo is aiming to double its free cash flow 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 of around 30% and a return on assets of more than 20%.

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**MEDIUM-TERM GROWTH PLAN**

<table>
<thead>
<tr>
<th></th>
<th>2016 (REPORTED)</th>
<th>2017 (REPORTED)</th>
<th>2021 PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>sales</strong> (in billions of euros)</td>
<td>€16.5bn</td>
<td>€18.5bn</td>
<td>&gt;€27bn</td>
</tr>
<tr>
<td><strong>operating margin</strong> (as a % of sales)</td>
<td>8.1%</td>
<td>8.0%</td>
<td>~9.0%</td>
</tr>
<tr>
<td><strong>free cash flow</strong> (in billions of euros)</td>
<td>€0.7bn</td>
<td>€0.3bn</td>
<td>€3.7bn (1) between 2017 and 2021</td>
</tr>
<tr>
<td><strong>ROCE</strong> (3)</td>
<td>34%</td>
<td>30%</td>
<td>~30%</td>
</tr>
<tr>
<td><strong>ROA</strong> (3)</td>
<td>21%</td>
<td>19%</td>
<td>&gt;20%</td>
</tr>
</tbody>
</table>

---

(1) Including Ichikoh, Valeo-Kapec and FTE automotive and assuming that (i) global automotive production increases by an annual average of 2.3% between end-2016 and end-2021, and (ii) raw material prices remain at early-2017 levels.

(2) Including share in net earnings of equity-accounted companies, see Financial Glossary, page 36.

(3) See Financial Glossary, page 36.
Sustainable growth

Valeo has made sustainable development an integral part of its innovation strategy and operations management, with a core focus on reducing CO₂ emissions from vehicles and promoting autonomous and connected mobility. This commitment was built together with stakeholders and is carefully tracked using performance indicators.

Identifying key sustainable development challenges through stakeholder dialog

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

The Group closely monitors each challenge on a permanent basis using action plans and key indicators, which are set out throughout Chapter 4 “Sustainable Development” of the 2017 Registration Document, pages 167 to 270.
Continuously improving Valeo’s sustainable development initiatives

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The Group’s sustainable development initiatives are in line with the United Nations Sustainable Development Goals (SDGs), which include eradicating poverty, promoting development and protecting the planet. Given its host countries, Valeo has committed to quality education (SDG 4), gender equality (SDG 5), decent work and economic growth (SDG 8), industry, innovation and infrastructure (SDG 9) sustainable cities and communities (SDG 11), climate action (SDG 13) and life on land (SDG 15).

For more details on what Valeo is doing to achieve these goals, see Chapter 4 of the 2017 Registration Document, section 4.1.5 “Valeo and the United Nations Sustainable Development Goals”, pages 179 to 180.

GROUP NON-FINANCIAL PERFORMANCE CHART

<table>
<thead>
<tr>
<th>AXES</th>
<th>CHALLENGES</th>
<th>KEY INDICATORS</th>
<th>UNIT</th>
<th>2015 RESULTS</th>
<th>2016 RESULTS</th>
<th>2017 RESULTS</th>
<th>TARGETS (2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>INNOVATION</td>
<td>Low-carbon mobility solutions/Autonomous and connected vehicles</td>
<td>Share of innovative products in order intake (1)</td>
<td>% of order intake</td>
<td>37%</td>
<td>50%</td>
<td>50%</td>
<td>&gt;40%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Share of products contributing to the reduction of CO2 emissions (as a % of sales)</td>
<td>% of order intake</td>
<td>N/A</td>
<td>50%</td>
<td>50%</td>
<td>N/A</td>
</tr>
<tr>
<td>ENERGY AND CARBON EFFICIENCY</td>
<td>Energy consumption (divided by sales)</td>
<td>MWh/€m</td>
<td>143</td>
<td>137 (-4%(2))</td>
<td>134 (-6%(2))</td>
<td>132 (-8%(2))</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Direct (scope 1) and indirect (scope 2) emissions (divided by sales)</td>
<td>Mt CO2/€m</td>
<td>56.3</td>
<td>56.6 (+0.5%(2))</td>
<td>55.6 (-1%(2))</td>
<td>51.8 (-8%(2))</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ISO 50001 certification (energy management) of sites</td>
<td>% of sites</td>
<td>8%</td>
<td>12%</td>
<td>13%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>ENVIRONMENTAL</td>
<td>Discharges and waste</td>
<td>Production of hazardous and non-hazardous waste (divided by sales)</td>
<td>Mt/€m</td>
<td>16.4</td>
<td>170 (+4%(2))</td>
<td>16.6 (+1%(2))</td>
<td>15.6 (-5%(2))</td>
</tr>
<tr>
<td>ECO-EFFICIENCY</td>
<td>Water</td>
<td>Water consumption (divided by sales)</td>
<td>cu.m/€m</td>
<td>198</td>
<td>184 (-7%(2))</td>
<td>175 (-12%(2))</td>
<td>186 (-6%(2))</td>
</tr>
<tr>
<td>EMPLOYEES</td>
<td>Safety and working conditions</td>
<td>Frequency rate of occupational accidents with lost time (FRT)</td>
<td>number of lost-time accidents/million hours worked</td>
<td>2.4</td>
<td>2.3</td>
<td>2.0</td>
<td>&lt;2</td>
</tr>
<tr>
<td></td>
<td>Attracting and retaining talent</td>
<td>Voluntary turnover of managers and professionals</td>
<td>% of the M&amp;P workforce</td>
<td>6.7%</td>
<td>7.0%</td>
<td>7.3%</td>
<td>&lt;7%</td>
</tr>
<tr>
<td></td>
<td>Promoting and respecting fundamental rights</td>
<td>Share of employees who acknowledged receipt of the Code of Ethics and who were trained on its content</td>
<td>% of total workforce</td>
<td>N/A</td>
<td>95.0%</td>
<td>95.0%(3)</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Promoting diversity</td>
<td>Share of women in new hires during the year</td>
<td>% of new hires during the year</td>
<td>32.4%</td>
<td>31.2%</td>
<td>32.0%</td>
<td>&gt;33%</td>
</tr>
<tr>
<td>COMMITMENT TO CORPORATE CITIZENSHIP</td>
<td>Purchasing and sustainable development</td>
<td>Share of production purchases for which the suppliers’ sustainable development practices were assessed during the year</td>
<td>% of the amount of purchases</td>
<td>60%</td>
<td>63%</td>
<td>67%</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>Local integration</td>
<td>Organization of initiatives and events by the Valeo sites with the elementary and secondary schools in the regions where they operate</td>
<td>% of sites</td>
<td>N/A</td>
<td>N/A</td>
<td>48%</td>
<td>80%</td>
</tr>
</tbody>
</table>

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

(2) Change compared with 2015.

(3) 100% not yet achieved, mainly due to the integration phase following recent external growth transactions.

Recognition of Valeo’s commitment to sustainable development

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

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

**RESOURCES**

**Human capital**
- **111,600** employees spread across 33 countries\(^1\)
- 24h of training per employee on average\(^2\)
- 91% of sites have employee representative bodies\(^3\)

**Intellectual capital**
- **17,900** Research and Development employees\(^4\)
- €1.9bn in gross Research and Development expenditure\(^2\)

**Industrial capital**
- **184** plants\(^5\) in 33 countries
- €1.2bn in investment flows\(^6\)(\(^7\))

**Financial capital**
- A solid financial position recognized as investment grade by rating agencies Moody’s and Standard & Poor’s (net debt at 0.76x EBITDA\(^8\))

**Social capital**
- **1,069** suppliers representing 95% of Valeo’s direct manufacturing purchases\(^9\)
- A Code of Ethics and a Business Partner Code of Conduct\(^10\)

**Environmental capital**
- 95% of sites certified ISO 14001\(^11\)

**OPERATIONAL EXCELLENCE**

- The 5 Axes, a culture of excellence and continuous improvement

**STRATEGY**

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

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

Human capital
6,000 additional employees per year until 2022
Valeo is recognized as a Top Employer in
24 countries(1)

Intellectual capital
50% of order intake(2) for innovative
products(5)
2,053 patents filed(2)

Industrial capital
30% ROCE(1)
214% growth in order intake(6): from €8.8bn in
2008(7) to €27.6bn in 2017
Customer return rate of 3 parts per million
products delivered

Financial capital
8.0% operating margin(2)
11% of EBITDA converted into free cash flow(2)
34% dividend payout ratio(8)
19% ROA(1)

Social capital
Plants’ initiatives program
Inclusion in the DJSI World and Europe indices

Environmental capital
More than 50% of Valeo’s original equipment
sales(2) are for products that contribute to reducing
CO2 emissions

(6) Valeo Group order intake (see Financial Glossary, page 36), excluding Valeo Siemens
eAutomotive.
(8) At the 2018 Shareholders’ Meeting, Valeo will recommend paying a
dividend of 1.25 euros per share, representing a payout ratio of 34%, up
by 2 percentage points.
Creating value shared with our stakeholders

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

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

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

---

(1) Net income for the year excluding share in net earnings of equity-accounted companies, personnel expenses and employee benefits, depreciation of property, plant and equipment and amortization of other intangible assets, income taxes and levies included in operating items, and cost of net debt.

(2) Personnel expenses and benefits (of which pension costs and restructuring costs).

(3) 2017 retained earnings plus depreciation of property, plant and equipment and amortization of other intangible assets.

(4) Dividends, based on a payout ratio of 34%, to be proposed at the Shareholders’ Meeting called to approve the financial statements for the year ended December 31, 2017.

(5) Income taxes and levies included in operating items.

(6) Cost of net debt.
Solid governance in support of strategy

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

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

Operation of the Board of Directors

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

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

The Board of Directors’ 13 members at December 31, 2017 have different backgrounds and enable the Group to benefit from their experience and skills in a variety of fields relating to economics, manufacturing and finance. Currently, 42\%(2) of the Board’s members are women. Seventy-seven percent of the Board’s members are under 70 and, except for the Chairman and Chief Executive Officer and the director representing employees, all of them are considered independent according to the criteria set out in both the Internal Procedures and the AEPF-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.

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

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

\(^{(1)}\) See Chapter 3 of the 2017 Registration Document, “Corporate Governance”, pages 93 to 165.
\(^{(2)}\) In accordance with decree no. 2017-1781 of December 27, 2017 on equal access for women and men to the Boards of Directors of companies and organizations, this percentage excludes the director representing employees.
For further information on the Board’s operation and composition, see Chapter 3 of the 2017 Registration Document, section 3.2 “Composition of the Board of Directors, and preparation and organization of its work”, pages 94 to 141.
## ROLES OF THE BOARD OF DIRECTORS’ FOUR COMMITTEES AT DECEMBER 31, 2017

<table>
<thead>
<tr>
<th>AUDIT &amp; RISKS COMMITTEE</th>
<th>COMPENSATION COMMITTEE</th>
<th>GOVERNANCE, APPOINTMENTS &amp; CORPORATE SOCIAL RESPONSIBILITY COMMITTEE</th>
<th>STRATEGY COMMITTEE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5 independent members out of 5 6 meetings 93% attendance rate</strong></td>
<td><strong>6 independent members out of 6 7 meetings 95% attendance rate</strong></td>
<td><strong>5 independent members out of 5 6 meetings 93% attendance rate</strong></td>
<td><strong>5 independent members out of 5 4 meetings 88% attendance rate</strong></td>
</tr>
<tr>
<td>- Review the parent company and consolidated financial statements, quarterly and half-yearly information, and half-year reports</td>
<td>- 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</td>
<td>- Analyze how the Board of Directors and its committees operate</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>- Monitor the Group’s risk management and compliance mechanisms along with its internal control system to ensure their effectiveness</td>
<td>- Assess and update corporate governance rules</td>
<td>- 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</td>
</tr>
<tr>
<td>- Guarantee the independence of the Statutory Auditors</td>
<td>- Make recommendations to the Board on the rules for allocating attendance fees and the individual amounts to be paid</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></td>
</tr>
<tr>
<td>- Supervise the procedure for selecting or renewing statutory audit engagements</td>
<td>- Recommend to the Board an aggregate amount of attendance fees to be proposed at the Shareholders’ Meeting</td>
<td>- Draw up a succession plan for executives in order to propose solutions in the event of an unforeseen vacancy</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>- 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</td>
<td>- Examine the independence of each Board member</td>
<td></td>
</tr>
<tr>
<td>- Review external communications prior to their publication</td>
<td>- Remain informed about the compensation policy for the main executive managers (excluding corporate officers) of the Company and of other Group companies</td>
<td>- Select new Board members for appointment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Review any questions submitted to the committee by the Chairman about the above matters, as well as plans to issue shares exclusively for employees</td>
<td>- Review CSR and safety policy, determine CSR objectives and challenges, and ensure that previously defined objectives are met</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- 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</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- As required, issue opinions and recommendations to help the Board make informed decisions</td>
<td></td>
</tr>
</tbody>
</table>

Pages 130 to 133

Pages 128 to 129

Pages 126 to 128

Pages 133 to 134

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### GOVERNANCE

The Board of Directors’ four committees

The Board of Directors has set up committees to enhance its operating procedures and provide assistance with preparing its decisions by issuing recommendations and opinions.
An Operations Committee to implement the Group's strategy

The Operations Committee coordinates the Group’s management and operations

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

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

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

COMPOSITION OF THE OPERATIONS COMMITTEE AT DECEMBER 31, 2017

<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</td>
</tr>
<tr>
<td>Christophe Périeriat</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-Francois 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>
Balanced compensation to support short- and long-term value creation

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

COMPONENTS OF COMPENSATION OF EXECUTIVE MANAGERS AND CORPORATE OFFICERS

<table>
<thead>
<tr>
<th>BENEFICIARIES</th>
<th>FIXED PORTION</th>
<th>VARIABLE PORTION</th>
<th>PERFORMANCE SHARES</th>
<th>SUPPLEMENTARY PENSION</th>
<th>ATTENDANCE FEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman and CEO/members of the Operations Committee</td>
<td>Chairman and CEO: Board of Directors on recommendation of the Compensation Committee</td>
<td>Members of the Operations Committee: Chairman and CEO in liaison with the Compensation Committee and the Board of Directors</td>
<td>Board of Directors on recommendation of the Compensation Committee</td>
<td>Board of Directors, based on the aggregate amount approved by the Shareholders’ Meeting</td>
<td></td>
</tr>
<tr>
<td>FORM OF PAYMENT</td>
<td>Cash</td>
<td>Cash</td>
<td>Shares</td>
<td>Cash</td>
<td>Cash</td>
</tr>
<tr>
<td>PERFORMANCE TYPE</td>
<td>Short-term</td>
<td>Short-term</td>
<td>Long-term</td>
<td>Long-term</td>
<td>Short-term</td>
</tr>
<tr>
<td>PERFORMANCE PERIOD</td>
<td>Continuous</td>
<td>1 year</td>
<td>3 years</td>
<td>Continuous</td>
<td>Continuous</td>
</tr>
<tr>
<td>DECISION-MAKER</td>
<td>Chairman and CEO: Board of Directors on recommendation of the Compensation Committee</td>
<td>Members of the Operations Committee: Chairman and CEO in liaison with the Compensation Committee and the Board of Directors</td>
<td>Board of Directors on recommendation of the Compensation Committee</td>
<td>Board of Directors on recommendation of the Compensation Committee, which sets the eligibility criteria</td>
<td></td>
</tr>
<tr>
<td>PERFORMANCE METRIC</td>
<td>Not applicable</td>
<td>Chairman and CEO(1): 5 financial criteria (operating margin, ROCE, free cash flow, net income, order intake)</td>
<td>3 financial criteria (ROA, operating margin, ROCE(2))</td>
<td>Chairman and CEO: additional retirement benefits allotted based on variable compensation</td>
<td>Attendance</td>
</tr>
</tbody>
</table>

---

(1) Criteria applicable for 2017 compensation.
(2) See Financial Glossary, page 36.
COMPENSATION OF JACQUES ASCHENBROICH, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, IN 2017(1)

<table>
<thead>
<tr>
<th>TERM</th>
<th>QUANTITATIVE CRITERIA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Operating margin(3) (17.9% of fixed compensation versus max. 23%)</td>
</tr>
<tr>
<td></td>
<td>Free cash flow(3) (16.5% of fixed compensation versus max. 23%)</td>
</tr>
<tr>
<td></td>
<td>Net income(3) (0% of fixed compensation versus max. 23%)</td>
</tr>
<tr>
<td></td>
<td>ROCE(3) (23% of fixed compensation versus max. 23%)</td>
</tr>
<tr>
<td></td>
<td>Consolidated order intake(3) (23% of fixed compensation versus max. 23%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TERM</th>
<th>QUALITATIVE CRITERIA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial communications (2.5% of fixed compensation versus max. 5%)</td>
</tr>
<tr>
<td></td>
<td>Strategic vision (25% of fixed compensation versus max. 25%)</td>
</tr>
<tr>
<td></td>
<td>Risk management (20% of fixed compensation versus max. 25%)</td>
</tr>
</tbody>
</table>

**Performance shares**

- **51,030 shares**
- **€2,699,997 (2)**
- i.e., 270% of fixed compensation

**Performance conditions over 3 years:**

- ROA(3), operating margin(3) and ROCE(3): average over 3 years (2017-2019) of the ratio between the actual return achieved and the target return set by the Board of Directors at the beginning of each reference year, which must be at least equal to the guidance for the year under review, equal to or greater than one

**3-year vesting period:**

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

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

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

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

Organizational structure geared towards effective risk management
The Group’s risk control system can be illustrated with the three lines of defense model.
For further information on risk management, see Chapter 2 of the 2017 Registration Document, section 2.3 “Internal control and risk management”, pages 86 to 92.

Main risks identified
The main risks identified are rated using a matrix that takes into account their potential impact, likelihood of occurrence and associated level of control.
For further information on the Group’s main risks, see Chapter 2 of the 2017 Registration Document, section 2.1 “Risk factors”, pages 72 to 85.

<table>
<thead>
<tr>
<th>Operational risks</th>
<th>Legal risks</th>
<th>Financial risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risks related to the development and launch of new products</td>
<td>Risks related to products and services sold</td>
<td>Commodity risk</td>
</tr>
<tr>
<td>Risks related to attracting and retaining talent</td>
<td>Intellectual property risks (patents and trademarks)</td>
<td>Foreign currency risk</td>
</tr>
<tr>
<td>Industrial risks related to growth</td>
<td>Risks of non-compliance with the Code of Ethics or the law</td>
<td>Liquidity risk</td>
</tr>
<tr>
<td>Cybersecurity and IT systems failure risk</td>
<td></td>
<td>Interest rate risk</td>
</tr>
<tr>
<td>Supplier failure risk</td>
<td></td>
<td>Banking counterparty risk</td>
</tr>
<tr>
<td>Risks related to the automotive equipment industry</td>
<td></td>
<td>Equity risk</td>
</tr>
<tr>
<td>Environmental or accident risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geopolitical risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer credit risk</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

GOVERNANCE

Strict adherence to ethics and compliance principles

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

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

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

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

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

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

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

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

Valeo has a whistleblower hotline that is free of charge and open to all employees. It is run by a specialist third-party company and guarantees whistleblowers’ confidentiality and anonymity in accordance with regulations. Alert processing is coordinated by the Group’s Chief Ethics and Compliance Officer in liaison with the Internal Audit and Control Department’s Fraud Unit, and an Alerts Committee set up specifically for the whistleblower hotline. The Alerts Committee follows a standard procedure to decide on the appropriate action and penalties to be applied.

For further information on the Group’s ethics and compliance principles, see Chapter 4 of the 2017 Registration Document, section 4.5.2 “Ethics and compliance”, pages 240 to 243.
## FINANCIAL GLOSSARY

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

Statements contained in this document, which are not historical fact, constitute “forward-looking statements”. These statements include projections and estimates and their underlying assumptions, statements regarding projects, objectives, intentions and expectations with respect to future financial results, events, operations, services, product development and potential, and statements regarding future performance. Even though Valeo’s Management feels that the forward-looking statements are reasonable as at the date of this document, investors are put on notice that the forward-looking statements are subject to numerous factors, risks and uncertainties that are difficult to predict and generally beyond Valeo’s control, which could cause actual results and events to differ materially from those expressed or projected in the forward-looking statements. Such factors include, among others, the Company’s ability to generate cost savings or manufacturing efficiencies to offset or exceed contractually or competitively required price reductions. The risks and uncertainties to which Valeo is exposed mainly comprise the risks resulting from the investigations currently being carried out by the antitrust authorities as identified in the Registration Document, risks which relate to being a supplier in the automotive industry and to the development of new products and risks due to certain global and regional economic conditions. Also included are environmental and industrial risks as well as risks and uncertainties described or identified in the public documents submitted by Valeo to the French financial markets authority (Autorité des marchés financiers – AMF), including those set out in the “Risk factors” section of the 2017 Registration Document registered with the AMF on March 29, 2018 (under number D.18-0208).

The Company assumes no responsibility for any analyses issued by analysts and any other information prepared by third parties which may be used in this document. Valeo does not intend or assume any obligation to review or to confirm the estimates of analysts or to update any forward-looking statements to reflect events or circumstances which occur subsequent to the date of this document.
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Thierry Lacorre
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